| BUDGET CABINET | AGENDA ITEM No. 4 |
|---|---|
| **25 February 2020** | PUBLIC REPORT |

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

**MEDIUM TERM FINANCIAL STRATEGY 2020/21 TO 2022/23 - TRANCHE TWO**

| R E C O M M E N D A T I O N S | |
|---|---|
| **FROM: Cabinet Member for Finance** | **Deadline date: 11 March 2020** |

It is recommended that Cabinet approves and recommends to Council:

1. The Tranche Two service proposals outlined in Appendix C

2. The revised capital programme outlined in Section 8 and referencing Appendix H.

3. The Medium Term Financial Strategy 2020/21 – 2022/23-Tranche Two, as set out in the body of the report and the following appendices:
   - Appendix A – 2020/21-2022/23 MTFS Detailed Budget Position-Tranche Two
   - Appendix B – Budget Proposals Tranche One
   - Appendix C – Tranche Two Budget Proposal Detail
   - Appendix D – Grant Register
   - Appendix E – Council Tax Information
   - Appendix F – Business Rates- Discretionary Retail Relief
   - Appendix G – Fees and Charges
   - Appendix H – Capital Programme Schemes 2020/21- 2022/23
   - Appendix I – Financial Risk Register
   - Appendix J – Carbon Impact Assessments
   - Appendix K – Treasury Management Strategy
   - Appendix L – Capital Strategy
   - Appendix M – Asset Management Plan
   - Appendix N – Investment Acquisition Strategy

4. The use of local discretionary powers to ensure eligible business ratepayers receive retail relief, public houses discount and local newspaper office discount, in accordance with the ministerial statement of 27 January 2020 and the relevant government guidance as set out Appendix F.

It is recommended that Cabinet notes:

5. All the grant figures following the Local Government Final Finance Settlement, published on 6 February 2020 outlined in Section 4.4

6. The future strategic direction for the Council outlined in Section 5.6 of the report.

7. The statutory advice of the Chief Finance Officer outlined in Section 6, The Robustness Statement (Section 25). This is required to highlight the robustness of budget estimates and the adequacy of the reserves.

## 1. ORIGIN OF REPORT

1.1 This report comes to Cabinet as part of the Council's formal budget process as set out within the constitution and as per legislative requirements to set a balanced budget for 2020/21-2022/23.

## 2. PURPOSE AND REASON FOR REPORT

2.1 **Purpose**

The report to Cabinet forms part of the Council's formal Budget and Policy Framework. This requires Cabinet to initiate and propose service proposals and updated assumptions to set a balanced budget for the financial years 2020/21-2022/23. There is a legal requirement to set a balanced budget for 2020/21. The purpose of this report is to:

- Recommend that Cabinet approve the Tranche Two service 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 a sustainable and balanced budget for MTFS 2020/21-2022/23;
- Outline the strategic approach the Council is taking to close the budget gap over the three year budget planning horizon to deliver a sustainable budget.

Proposals will be agreed by Cabinet at this meeting, on 25 February 2020 and recommended to Council on 4 March 2020 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 deliver excellent services."

2.2 **Executive Summary**

At Council held on 15 January 2020, Tranche One of the 2020/21 MTFS was agreed with estimated deficits of £5.5m in 2020/21, £6.9m in 2021/22 and £5.4m in 2022/23. Accounted for within this were departmental savings targets, which were set as part of a budget re-profiling, overspend management plan which was carried out in summer 2019. These targets have not been fully achieved as ongoing savings, and have been added back to the position, to reflect a true and fair opening position for Tranche Two.

There have been additional budget proposals developed within Tranche Two of the 2020/21 MTFS. This includes the use of reserves to balance the position in 2020/21, with deficits of £14.2m in 2021/22 and £14.8m in 2022/23 remaining. The revised budget position is outlined in Table 1, with further detail shown in Tables 5 and 6 in this report.

**Table 1: Budget Position Summary**

| | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|
| | **£000** | **£000** | **£000** |
| Budget Gap as reported in the MTFS 2019/20 | 18,409 | 20,056 | 18,721 |
| Tranche One - MTFS 2020/21- 2022/23 budget changes* | (12,908) | (13,160) | (13,287) |
| **Budget Gap from 2019/20 MTFS Tranche One** | **5,501** | **6,896** | **5,434** |
| Add back unachieved savings targets as part of the budget re-profiling task | 4,003 | 4,265 | 5,855 |
| **Opening Budget Gap Tranche Two** | **9,504** | **11,161** | **11,289** |
| Tranche Two Budget changes | (7,994) | 3,084 | 3,519 |
| Use of Reserves | (1,510) | - | - |
| **Final Budget Gap** | **-** | **14,245** | **14,808** |

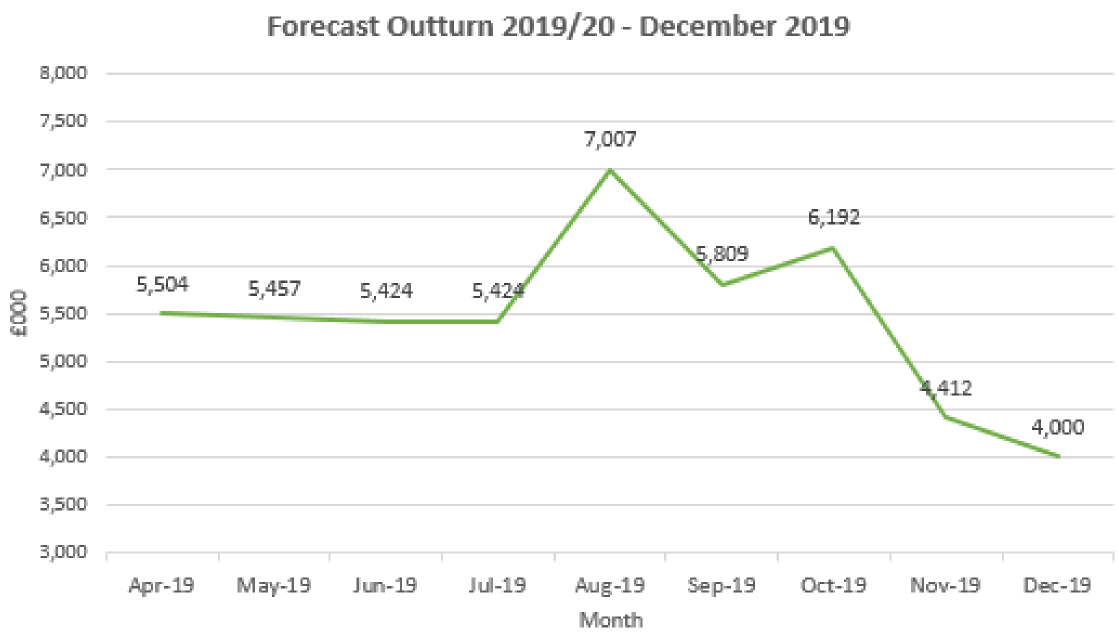
**- note that part of the budget changes represent departmental targets and proposals which were still subject to finalisation. These proposals have been updated, and are reflected within Tables 5 and 6.*

**Current Year Position**

In July 2019 the Corporate Management Team (CMT) implemented a series of financial management controls designed to reduce the £5.4m forecast overspend. This was done by enhancing the level of scrutiny applied to all expenditure activities to minimise non-essential spend. These controls include:

- a panel to review all recruitment and agency requests;
- business case requirement for all expenditure in excess of £10k;
- service based Heads of Finance providing additional scrutiny and challenge of the business cases in excess of £10k with regular review from the Chief Finance (section 151) Officer;
- more recently all expenditure over £1k requiring Chief Finance (section 151) Officer approval;
- a review of the effectiveness and operation of financial and human resource controls across the organisation;

At this time a thorough review of the appropriateness and robustness of all current budget assumptions was undertaken. This identified a 2019/20 budget pressure of £6.0m, with the ongoing underlying budget pressure of £9.8m. Departmental savings targets were established at the ongoing pressure value, in order to achieve financial sustainability for the Council's future year's budget, by contributing to £3.7m to reserves. CMT have identified £4.8m of specific savings against the departmental targets and have been reducing the overspend monthly, as outlined within the following graph:



The most recent forecast position for 2019/20 as per the December Budgetary Control Report, also reported to this Cabinet meeting, is a £4m projected overspend, which incorporates the achievement to date to meet the departmental savings targets, and the £3.7m reserves contribution which was agreed at Cabinet in September, as part of the plan to manage the current year overspend and rebuild resilience. Newly identified savings include:

- Additional Capital financing saving of £0.9 due to less borrowing being undertaken for the capital programme than budgeted for and lower interest rates obtained for new borrowing.
- An increase in the use of Capital Receipts of £0.7m, which is being used to repay debt.
- Additional income of £0.3m from the Empower loan due to a further extension to the arrangement.
- Highways Development - additional Section 278 and Section 38 income from developers and savings on professional services and contractors of £0.4m

There have also been the following newly identified pressures:

- Homelessness £0.5m –due to an increased demand for temporary accommodation;
- Home to School Transport £0.3m- where the forecast reflects the contract changes for academic year 2019/20;
- Energy for Waste Plant- £0.4m due to a reduction in wholesale electricity prices, therefore reducing the Councils income;
- Housing Benefit Subsidy- £0.5m due to a reduction in the level of rent allowance and housing subsidy payments, in line with the roll-out of Universal Credit.

**Capital Receipts and Non-repeatable One Off Savings**

The Council outlined plans in the previous financial years to move towards a truly sustainable budget, by reducing reliance on the one-offs funding solutions previously applied. A challenging financial environment remains with demand for services increasing and service costs rising, whilst funding from government reduces. In 2019/20 the Council budgeted to use £10.6m of capital receipts to balance the budget. However, as further budget pressures emerge alongside acknowledging the time required to implement new saving proposals, there is the need to ensure there is resilience with the level of reserves the Council holds, and therefore the Council plans to utilise the one off benefit of an additional £3m in 2019/20 and £4m in 2020/21, from the sale of further assets to redeem debt.

Although the Council faced a challenge in its application of capital receipts to redeem debt, in spring 2019, it has been agreed with the government that the Council did not act outside of the law in doing so. Therefore, whilst it is clear that MHCLG do not agree that this use is within the spirit of the legislation, there has been no updates or changes in legislation so far which prevents the Council from continuing this practice in future financial years if capital receipts are available.

In order to deliver ongoing savings from 2020/21 the Council launched a voluntary redundancy scheme in January 2020, as well as undergoing a process of structural organisational redesign. As part of this the council will need to pay significant one-off redundancy and transformation costs. In the past councils have been granted approval from government to use capital funding (borrowing) to fund revenue costs such as those associated with redundancy, known as a 'capitalisation direction'. With the support of MPs Shailesh Vara and Paul Bristow, the council has submitted an application for that power to be granted for 2019/20 and 2020/21. The government has not yet informed the council of its decision; however for the purposes of this report it is assumed that the Council will be successful in its application. This is outlined in further detail in Section 5.7 and Section 6, the Robustness Statement.

The following table outlines the one offs used in recent years, planned and unplanned. This also includes the cash revenue injection as a requested as part of the capitalisation direction to fund redundancy and transformation expenditure.

**Table 2: Non repeatable One Off Savings**

| | Prior Years | | Current Year | Years relating to this MTFS | | |
|---|---|---|---|---|---|---|
| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Capital Receipts | 12,738 | 2,922 | 10,639 | 3,930 | - | - |
| MRP Re-provision | - | 3,700 | - | - | - | - |
| Council Tax Collection Fund Surplus | 173 | 1,188 | 201 | 662 | - | - |
| Business Rates Pool and Provision Release | - | - | - | 3,231 | - | - |
| Capitalisation direction | | | 7,738 | 1,217 | | |
| Planned Use of Reserves | 7,194 | 4,231 | 3,084 | 1,510 | - | - |
| **Total** | **20,105** | **12,041** | **21,662** | **10,550** | **-** | **-** |
| In year Use of Reserves | - | 2,119 | 321 | - | - | - |
| In year increased Use of Capital Receipts | - | 3,298 | 3,056 | - | - | - |
| **Total** | **20,105** | **17,458** | **25,039** | **10,550** | **-** | **-** |

## 3. TIMESCALES

| | | | |
|---|---|---|---|
| Is this a Major Policy Item/Statutory Plan? | **YES** | If yes, date for Cabinet meeting | **25 FEBRUARY 2020** |
| Date for relevant Council meeting | **4 MARCH 2020** | Date for submission to Government Dept. | **N/A** |

## 4. BACKGROUND

4.1 This report forms tranche two of the revised budget process the Council previously agreed at Council on 24 July 2019 (Item 13), to aid the delivery of a three year Revenue Budget and Capital Programme from 2020/21 to 2022/23 for the Council.

4.2 **The 2020/21 to 2022/23 Budget Setting Process**

In July Council approved the process and timetable for the 2020/21 budget setting. Due to the Council's challenging financial position, an approach was approved which would facilitate additional time to develop saving proposals, ensuring they are deliverable, robust and collectively achieve financial sustainability.

Table 3 sets out the revised budget timetable. There will be no public consultation for tranche two of the MTFS, due to the nature of the proposals included.

**Table 3: Budget Timetable**

| Meeting | Date |
|---|---|
| Joint Scrutiny | 24/02/2020 |
| Cabinet | 25/02/2020 |
| Council | 04/03/2020 |

The MTFS process is being delivered over two tranches, a reduction to the previous year's process. This was due to the nature and scale of the challenge the proposals included within tranche one, which involved significant operational change and effect the way the Council delivers its services. The Council has been working collaboratively with Grant Thornton, on the development of these proposals within a Financial Implementation Programme, these were reported within tranche one. This report outlines revisions to some of these proposals following a further review and analysis. These are highlighted in Tables 5 and 6, alongside the proposals being brought forward within this tranche.

The parking charges proposal requires a Traffic Regulation Order (TRO), which has been obtained and a public notice, published on 13 February 2020 in advance of the 31 March 2020 enforcement date. Further detail on the parking charges is outlined in section 5.5.

**Local Context**

4.3

As outlined within section 2.2 this Council has an immediate and significant financial challenge, to build a bridge to long-term financial security and sustainability. The Council must identify £15.6m (£9.5m tranche two opening budget gap plus £6.1m of identified pressures) of savings to be able to deliver a balanced budget in 2020/21. The full breakdown of the budget position is outlined within Table 5.

The Council has had its Revenue Support Grant reduced by over 80%, from £55m in 2013/14 to £10.5m in 2020/21, whilst at the same time experiencing cost increases and rising demand for services. Over the years the council has delivered savings by redesigning services, reducing the workforce, driving income generation and being more efficient to keep the cost of service delivery in line with the reduced funding envelope. However, each year this has become more difficult and challenging for the Council to achieve.

Examples of the pressures that have put additional strain on the Councils finances include:

- The population is growing older and people are requiring more complex care, which in turn is significantly increasing the cost of care. For example, the number of people the Council provides paid for care packages has increased by 402 between 2015/16 and 2018/19 - rising from 3,468 to 3,870;
- A rise in residential placements for children in care over the recent years. As a result, the Council accounted for a budget pressure of £3.2m in 2019/20 and future years budgets, to meet additional placement costs;
- There is a growing demand in special educational needs. In the past four years the Council has experienced a 39% increase in pupils with Education, Health and Care Plan (EHCP) in Peterborough's mainstream schools;
- Significant pressure to provide enough school places as a result of extensive new housing developments and demographic changes resulting from increased birth rates. The mainstream school population in Peterborough has increased from 28,257 pupils on roll in January 2006 to 37,526 in October 2019, an increase of 33%;
- The need for additional school places, has meant that the council has had to build new schools or extend current schools. The schools capital programme has totalled £91.3m of expenditure in the past five years. Not only does this increase the Councils Capital Programme but it also has an ongoing impact on the revenue budget, due to the cost of borrowing;
- Increases to costs such as wages, in line with the national terms and conditions (NJC) and National Living Wage supporting the lower paid workers, energy prices and inflationary increases to contracts and every day products;
- In 2016/17 there was a 43% rise in the number of households needing assistance because they were homeless or threatened with homelessness, rising from 1,100 to 1,586. The Council still faces a significant demand for this provision with 357 families or single persons currently in temporary accommodation. The Homelessness Reduction Act has also placed new obligations on councils to provide support for certain categories of people at risk of homelessness and has led to increased spending on temporary accommodation;
- A high level of public health needs, with life expectancy significantly below the national average and early child development (school readiness) in the worst 10% of upper tier local authorities nationally. The ring-fenced public health grant to Peterborough City Council was benchmarked by the Department of Health in 2014/15 as being 20% below Peterborough's expected funding level, using the national Advisory Committee on Resource Allocation (ACRA) formula. The children's public health grant funding for health visiting was transferred from the NHS in 2015 and the funding per child aged 0-4 was 16% below the national average and 29% below the average for Peterborough's local authority deprivation decile. The current shortfall in the public

health grant to Peterborough City Council when judged against national benchmarks is at least £2.65m per annum;

- An increase in population over the last decade, 172,443 people lived in the city in 2007, in comparison to 198,914 in 2017 - a 15% increase in the amount of people requiring services;
- An average of 1,100 new homes built per year over the last five years, 1,104 were built in 2018/19. This attracts funding such as Council Tax and New Homes bonus, however this growth comes with extra service demands as stated above;

Although Peterborough is a high growth area, over 65% of Peterborough properties are in Council Tax Band A and B. If Peterborough properties were to average at a Band D, this could generate an additional £21m per year. In addition to the lower than average property banding, Peterborough also has a low Band D council tax charge, ranking as the 8th lowest when comparing its 2018/19 charge to other unitary authorities. If Peterborough moved to the average charge (9.65% higher), this would generate an additional £8m per year.

The Council is not alone, there are many other councils across the country facing similar challenges in demand led services, constrained budgets and increasing third party contract costs, to a greater or lesser extent. The uncertainty surrounding the future funding levels also adds further complexity for Councils setting a Medium Term Financial Strategy and planning for the future.

Despite the financial and service demand challenges stated above the Council has maintained good quality services and outcomes for its citizens. The following is the evidence to support its success

- Peterborough is the 5th fastest growing city (*Source: 2020 Centre for Cities report*), and over the last five years has seen average house prices increase by 31.2%;
- The Council has a “good” rating for its Children’s Services;
- The Council has one of the lowest hospital delayed discharge rates for adults with social care needs in the country. The Council is also a high performer in relation to the number of people in bed-based care with our quality of life scores confirming that the Council has good performance in promoting independence. This is a finding of a recent peer challenge.
- Whilst there has been a 39% increase in pupils with Education, Health and Care Plans in our schools, the Council has managed its response to this well with no deficit in its higher needs block of the dedicated schools grant unlike many other Councils;
- City College Peterborough (the Council’s Adult Skills services) has maintained an Ofsted good rating (achieved for the first time in 2011) and is about to be featured (for the second time) in Parliamentary Review – Best Practise Review. It has also won the apprenticeship provider of the year at the Peterborough Telegraph business awards and has been shortlisted for five ‘Times Educational Awards’, due to be announced in March.
- The Council’s leadership of its ambitious regeneration and growth strategy is set out in the recently published City Centre Investment Prospectus and through its roles in enabling major schemes to come forward. In addition to the establishment of the Peterborough Investment Partnership (PIP) and delivery of Fletton Quays and then Northminster, the Council has worked with Network Rail and LNER to agree a visionary masterplan for the station quarter; as a landowner working with the Combined Authority to secure a university partner and a university campus on the Embankment; and again as a landowner and partner with Peterborough United FC to enable the relocation of the football ground in the City. Driving forward these and other major schemes not only generates additional Business Rates and Council Tax income but strengthens the City’s offer, builds confidence with investors and developers and ensures a more vibrant and successful place.
- The Council’s highways service (a partnership with Skanska) achieved an annual performance score of 99.51% in 2018/19; ranked first in the East of England in the 2019 National Highways and Transport public satisfaction survey and was awarded ‘Project of the Year’ for the Nene Bridge in the regional Chartered Institute of Highways and Transportation awards.
- The Council was successful in its bid for a grant, as part of the “New Towns Fund” for 2020/21.

- The Council's spending on homelessness increased by 68% between 2016/17 and 2017/18 and 16.5% between 2017/18 and 2018/19. The number of families or single persons in temporary accommodation reached 416 households in December 2019. In May 2019, the number of families and single persons in Bed and Breakfast reached a peak of 110. Since the introduction of a specialist housing resource the number of Bed and Breakfast use has reduced by 67% to 36. This trajectory is expected to continue and should reduce the projected £1.3m overspend spend in 2019/20 to less than £0.1m in 2020/21.

**Council Priorities**

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

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

4.4 **<u>National Context</u>**

**General Election 2019**
The Conservative party won with a majority in December's General Election. Such a large majority gives the new government the scope to make bolder policy decisions in areas that affect local government (devolution, investment, social care), as well as the ability to implement primary legislation. The new government's instincts on the overall quantum of funding for local government, and how it is distributed, will take a little longer to emerge, as they progress Brexit. The Prime Minister has however, pledged to bring forward a plan for a solution to adult social care this year, which is much needed to address the crucial issue around funding for this service.

**Local Government Provisional and Final Finance Settlement 2020/21**
The Provisional Settlement, announced on 20 December was largely as expected, in comparison to the Spending Review 2019 (SR19), and the Final Settlement was also published on 6 February, confirming the same allocations. However this is still subject to parliamentary debate and vote in the house of commons, which has been postponed until 27 February, although no changes are expected as a result of this. The Key headlines funding changes were:

- Confirmed **Business Rates Pool** for Peterborough and Cambridgeshire which should retain more funding within the area, with an estimated benefit of **£1.3m** for Peterborough;
- **Council Tax –** As previously announced at SR19, the council tax referendum limit will be 1.99% and 2% social care precept, a total of 3.99%. This will generate **£3.9m** of Council Tax income for Peterborough;
- **Business Rates Retention –** Business Rates will increase by 1.6%, in line with the September 2019 CPI - in line with budgeted expectations.
- **Revenue Support Grant (RSG)** - increased by 1.63%, also in line with the September 2019 CPI- meaning an additional £0.166m for Peterborough taking the Councils total RSG grant up to £10.4m;

- **New Homes Bonus** - 2020/21 allocations will include legacy payments due from previous years (2017/18 to 2019/20) as well as an allocation for 2020/21, meaning Peterborough will receive an allocation of £4.7m. Funding in future years reduces significantly as the grant is phased out, with a sharp reduction in 2021/22 (Peterborough's loss stands at £2.2m), where the payment reduces to reflect two years housing growth, from four years. This is expected to be replaced with something more targeted, a consultation on this will be released by MHCLG in the spring;
- **Social Care Funding** – Local Government will receive an additional £1bn as announced at SR19, Peterborough will receive an additional £3.3m;
- **Homelessness-** The additional funding means that Peterborough would receive an allocation of £0.303m;
- **Negative RSG** will be paid to the applicable authorities, of which Peterborough does not benefit from this.

The Council has provided a response to the consultation in respect of the settlement, outlining:

- A disagreement with the allocation of negative RSG. For a second year now Councils which should have faced a negative RSG position under the previous funding formula have been fully compensated and received an additional £153m. The Council finds this allocation unfair and it has provided additional support to 168 local authorities (around half of local authorities). If the formula was distributed on a consistent basis across all authorities, based on the Settlement Funding Assessment (SFA) allocations Peterborough would have received £0.538m.
- The Council also expressed that it would like additional local Council Tax flexibility, and confirmation of referendum limits in advance to provide certainty and aid financial planning.

It should be noted that there has not been an announcement in relation to the NNDR Levy Account Surplus in 2019/20. In 2018/19 £180m of the £195m surplus on the levy account was distributed back to local authorities. It is estimated that there is now (2019/20) a balance of £58m which should be distributed back to local authorities, as per legislation. Peterborough could benefit by £0.159m, based on the same distribution method.

**Fairer Funding Review (A Review of Relative Needs and Resources)**

The new funding allocations as a result of the Fairer Funding Review (FFR) are expected to be in place in 2021/22. The technical working groups have been reconvened, with a consultation expected in summer 2020. Based on the evidence, and indications given to date Peterborough City Council is expecting to gain financially, although this is highly speculative at this stage. The following points summarise what the Council would like taken into consideration within the Fairer Funding Review:

- Use the latest population projections- 2018 projections
- Prioritise funding of children's services (social care and other children's services).
- Full Council Tax Equalisation

More detailed supporting analysis is outlined within the following paragraphs.

The following chart summarises the main changes in SFA from the detail available. within the current SFA, Peterborough is effectively paying into the damping pot for changes in SFA that were made back in 2013/14. It is estimated that by ending this damping (which has been frozen since 2013/14) Peterborough would gain £3.4m (the exact amount is uncertain because of the cuts in SFA since 2013/14). The modelling also indicates that the FFR itself could increase Peterborough's SFA by a further £5.4m (equivalent to a 10% increase in SFA).

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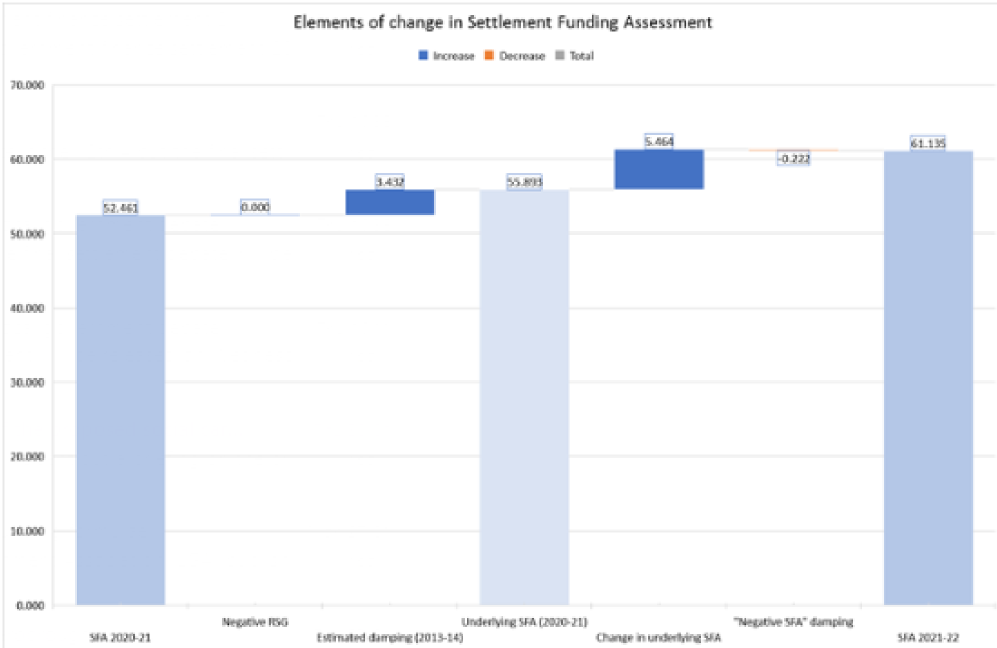


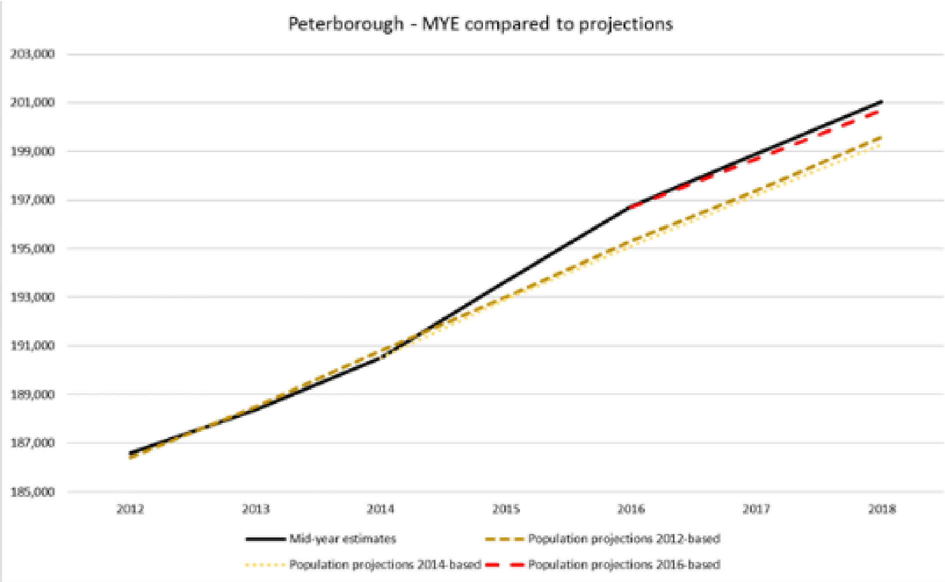

*ource: Pixel Financial Advisory*

The Council is average on most indicators included within the FFR model. As a result, making changes in key assumptions does not have a very large impact on the Council, in contrast to the way that such changes affect councils with more extreme characteristics. However, there are some issues on which the Council does benefit, and these are areas that the Council would raise with ministers as part of the ongoing consultation process:

- Children's and education functions- the Council receives a much larger share of funding for children's social care and the other funding blocks for children (see graph below). This could be because Peterborough has a relatively young population or possibly relatively high needs, but this needs further investigation. The Council would get a large share of any additional funding put into these blocks. These funding blocks also represent a large proportion of overall needs (20% of the Councils overall needs assessment);
- Full council tax equalisation. The Council would benefit from full council tax equalisation (and this is probably the reason why the Councils share of SFA increases in the modelling). Nationally, the ratio of needs to resources is 61%, but the Councils is only 54% (Peterborough is below average due to a low council tax base, therefore taking this in to account would be more beneficial to the Council);
- The Council could benefit from a deprivation factor in the Foundation Formula. Although at this stage it is difficult to be sure because the choice of deprivation factor is unclear.
- The Council has a growing population, but also one that is exceeding the population projections provided by the Office of National Statistics (ONS). It is essential that FFR uses the most recent population projections that are available, this would be the 2018-based projections. More fundamentally, Peterborough should be asking ONS why their population projections always understate actual mid-year estimates (MYE) population.

| Share of national SFA, RNF and total population for selected authority | | | |
|---|---|---|---|
| Underlying SFA (2020-21) | 55.893 | 14,690.784 | 0.38% |
| Younger Adults Social Care | 19.304 | 5,181.378 | 0.37% |
| Older People Social Care | 20.207 | 6,531.903 | 0.31% |
| Children's Social Care | 25.449 | 5,443.708 | 0.47% |
| Youth and Community | 3.103 | 660.292 | 0.47% |
| LA Central Education Functions | 7.862 | 1,858.926 | 0.42% |
| Highways Maintenance | 4.278 | 1,285.061 | 0.33% |
| Foundation Formula (upper tier) | 18.127 | 4,907.958 | 0.37% |
| Concessionary Travel | 0.000 | 0.000 | |
| Foundation Formula (lower tier) | 14.731 | 3,902.546 | 0.38% |
| Continuing EA Levies | 0.139 | 27.580 | 0.50% |
| Flood Defence | 0.561 | 60.024 | 0.93% |
| Fixed Costs | 0.000 | 0.000 | |
| Coast Protection | 0.000 | 9.943 | 0.00% |
| Fire | 0.000 | 1,507.045 | 0.00% |
| Capital Financing | 14.633 | 4,550.586 | 0.32% |
| GLA funding | 0.000 | 1,050.584 | 0.00% |
| Rolled-in Grants (from 2013-14) | 5.763 | 1,321.163 | 0.44% |
| Needs Allocation | 134.157 | 38,298.695 | 0.35% |
| Resources Deduction | -72.800 | -23,494.604 | 0.31% |
| Settlement Funding Assessment 2021-22 | 61.357 | 14,804.092 | 0.41% |
| **2016-based POP TOTAL** | **204,400** | **57,134,400** | **0.36%** |

*Source: Pixel Financial Advisory*




*Source: Pixel Financial Advisory*

*SFA explanation-The Settlement Funding Assessment consists of the local share of business rates, and Revenue Support Grant. The first Settlement Funding Assessment in 2013-14, which formed the starting point for setting Revenue Support Grant until 2020, was called the Start-Up Funding Assessment*

## 5 BUDGET DETAIL

### 5.1 Tranche One- Budget Summary Position

Table 4 Outlines the Tranche One position, detailing the amounts the council expects to receive from the key funding streams. It also highlights the departmental budgets and the budget gap for each of the three years at the end of Tranche One.

**Table 4: Tranche One Budget Summary Position**

| | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|
| | £000 | £000 | £000 |
| NNDR | (49,485) | (50,253) | (50,253) |
| Revenue Support Grant | (10,451) | (10,451) | (10,451) |
| Council Tax | (82,825) | (86,157) | (89,920) |
| New Homes Bonus | (4,191) | (4,301) | (4,301) |
| Improved Better Care Fund | (6,466) | (6,466) | (6,466) |
| Additional funding for Adult Social Care | (5,458) | (5,458) | (5,458) |
| **TOTAL CORPORATE FUNDING** | **(158,877)** | **(163,086)** | **(166,850)** |
| **PLANNED EXPENDITURE** | | | |
| Chief Executives | 1,240 | 1,046 | 1,066 |
| Governance | 4,496 | 4,558 | 4,624 |
| Place & Economy | 21,450 | 22,407 | 22,968 |
| People & Communities | 89,570 | 93,077 | 93,897 |
| Public Health | (204) | (224) | (224) |
| Resources | 14,481 | 13,983 | 14,605 |
| Customer & Digital Services | 7,694 | 7,892 | 8,083 |
| Business Improvement | 601 | 571 | 573 |
| **NET SERVICE EXPENDITURE** | **139,328** | **143,310** | **145,592** |
| Corporate Expenditure | 5,070 | 5,082 | 5,094 |
| To be Finalised in Tranche Two | (5,867) | (5,915) | (5,946) |
| Capital Financing Costs | 29,850 | 31,770 | 33,399 |
| **TOTAL PLANNED EXPENDITURE** | **168,381** | **174,247** | **178,139** |
| | | | |
| **REVISED DEFICIT/(SURPLUS)** | **9,504** | **11,161** | **11,289** |

A summary of proposals included within Tranche One are outlined within Appendix B.

5.2 **Tranche Two Budget Position 2020/21-2022/23**

Table 5 sets out the demand and savings proposals in Tranche Two of the 2020/21 budget process. The major items included within these proposals are:

- There are a number of revisions to the savings proposals included within tranche one of the MTFS. This is a result of further investigation and development of delivery plans. The revision to these savings, to more accurately reflect the robustness and deliverability of the proposals, means that the savings values from these would be reduced by £3.5m, within the tranche two proposals. This is outlined as a specific category within table 5;
- Housing- in previous years' budget rounds a prediction was made of what the likely spend would be on providing temporary accommodation in 2020/21, based on rising levels of demand, predominantly bed and breakfast type accommodation. The council has broadened its range of temporary accommodation by buying and leasing homes and building properties through its joint venture with Cross Keys Homes. As a result, the council has reduced its reliance on bed and breakfast accommodation which is more costly and can therefore reduce the expected budget in 2020/21 by £1.5m;
- The council has undertaken a review of all its assets and is proposing to sell a number of sites in 2020/21 generating capital receipts worth £3.9m;
- Additional Council Tax and Business Rates income totalling £4.4m;

In order to deliver ongoing savings from 2020/21 the council launched a voluntary redundancy scheme in January. As part of this the council will need to pay significant one-off redundancy and transformation costs. In the past councils have been granted approval from government to use capital funding (borrowing) to fund revenue costs such as those associated with redundancy, known as a 'capitalisation direction'. With the support of MPs Shailesh Vara and Paul Bristow, the council has asked for that power to be granted for 2019/20 and 2020/21. The government has not yet informed the council of its decision. Further detail around this is outlined in section 5.7. Table 5 includes 2019/20, the current year for the purposes of demonstrating the impact of the capitalisation direction.

**Table 5: Tranche Two Budget Summary Position 2019/20-2022/23**

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Budget Gap from Tranche One *** | **4,000** | **9,504** | **11,161** | **11,289** |
| Tranche One Budget Proposal Adjustments | 0 | 3,450 | 3,097 | 3,097 |
| Service Budget Pressures | 624 | 2,668 | 2,446 | 2,396 |
| **Revised Budget Gap** | **4,624** | **15,622** | **16,704** | **16,782** |
| Savings and Income | (553) | (12,895) | (2,459) | (1,974) |
| Capitalisation direction | (7,738) | (1,217) | - | - |
| **Budget Gap** | **(3,667)** | **1,510** | **14,245** | **14,808** |
| | | | | |
| **Contribution to / (from) reserves** | **3,667** | **(1,510)** | **-** | **-** |
| **Final Budget Gap** | | **-** | **14,245** | **14,808** |

**2019/20 opening gap is the December 2019 BCR position- included within the 2019/20 changes are items which the council expects to report within the January BCR and the Capitalisation Direction*

Table 6 details all of the proposals included within Tranche Two, and the financial implications for the MTFS three years covering 2020/2021- 2022/23.

**Table 6: 2020/21- 2022/23 Tranche Two Budget Proposals**

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
|---|---|---|---|
| **Savings and Income** | **(12,895)** | **(2,459)** | **(1,974)** |
| Additional Archaeological Services charges within Planning | (10) | (10) | (10) |
| Adult Social Care Demand and Better Care Fund | (106) | 473 | 509 |
| Business Rates Provision Review and forecast | (1,911) | - | - |
| Capital Financing Budget Review | 68 | 69 | (46) |
| Capital receipts - POSH deferred Receipt element | (372) | (372) | (372) |
| Capital Receipts- Asset Sales | (3,930) | - | - |
| ESPO Dividend | (73) | (73) | (73) |
| Fees and Charges and Inflation review | (135) | 75 | 3 |
| Food Waste Procurement | (150) | (150) | (150) |
| Freeze on planting budget | (25) | (25) | (25) |
| Housing | (1,520) | (1,520) | (1,520) |
| HR controls- Agency saving | - | (188) | (188) |
| Minor Grant changes- as a result of the settlement | (2) | (2) | (2) |
| New Homes Bonus | (510) | 2,235 | 2,840 |
| Parking Charges | (310) | (310) | (310) |
| Peterborough and Cambridgeshire Business Rates Pool | (1,320) | - | - |
| Property - maximising the use of Sand Martin House | (475) | (950) | (950) |
| Public Health- various small savings | (33) | (33) | (33) |
| Reduction in tree inspection & maintenance budget | (30) | (30) | (30) |
| Registration Income | (60) | (60) | (60) |
| Supplies and Services & Non-essential spend restrictions | (100) | (100) | (100) |

| | | | |
|---|---|---|---|
| Voluntary Redundancy Programme | (639) | (706) | (705) |
| Waste management- Material Recycling Facility | (130) | (60) | (60) |
| Council Tax- Collection Fund Surplus | (662) | - | - |
| Council Taxbase | (460) | (722) | (692) |
| **Service Budget Pressures** | **2,668** | **2,446** | **2,396** |
| Direct Revenue Funding (Schools Capitalisation) | 400 | 400 | 400 |
| Housing Benefit Subsidy Reduction | 500 | 500 | 500 |
| Income from sale of electricity from Energy from Waste plant | 250 | 250 | 250 |
| METAL- Recognition of two year grant extension | 50 | 50 | - |
| Place & Economy Shared Service | 39 | 39 | 39 |
| Property - Reduction in income from the Market and Northminster shops due to the demolition of the car park. | 187 | 187 | 187 |
| Property - Loss of rental income from the sale of the Allia Business Centre | 41 | 41 | 41 |
| Property - Additional Security | 60 | 60 | 60 |
| Property - Town Hall North delayed income | 288 | 0 | 0 |
| Capitalisation Direction- Cost of Borrowing | 566 | 632 | 632 |
| SEN and Home to School Transport - additional service pressure | 287 | 287 | 287 |
| **Capitalisation Direction** | **(1,217)** | | |
| Capitalisation Direction | (1,217) | - | - |
| **Tranche One Budget Proposal Adjustments** | **3,450** | **3,097** | **3,097** |
| Members Allowances - putting back the saving from Tranche One | 19 | 19 | 19 |
| Vivacity | 178 | 178 | 178 |
| SEN and Home to School Transport | 222 | 255 | 255 |
| HR Function | - | 121 | 121 |
| Reduction in facilities management services performed by Bouygues at schools | 168 | 168 | 168 |
| Serco | 1,702 | 1,702 | 1,702 |
| Business Support | 1,161 | 654 | 654 |
| **Grand Total** | **(7,994)** | **3,084** | **3,519** |

Further detail in respect of the budget proposals and the Councils departmental budget position are included within the following appendices:

- Appendix A - 20120/21-2022/23 Tranche Two MTFS Detailed Budget Position
- Appendix C - Tranche Two Budget Proposal Detail

5.3 **Grants**

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

The MHCLG published the Local Government Provisional Finance Settlement on 20 December and then the Final Finance Settlement on 6 February confirming these grant allocations, which have been set out within the grants register. However this is still subject to parliamentary debate and vote in the house of commons, which has been postponed until 27 February, although no changes are expected as a result of this

As outlined within the Spending Review 2019, RSG has been increased by a 1.6% uplift, New Homes bonus has been confirmed for 2020/21, but will reduce significantly in future years, and additional grants for social care and homelessness have been confirmed. Further funding assumptions and allocations are included within section 5.4

The Council is still awaiting the confirmation of Public Health grant allocations.

## 5.4 Funding Assumptions

Table 7 outlines the Councils forecast core funding for the period 2020/21- 2022/23. These allocations have now been confirmed within the Local Government Final Finance Settlement published on 6 February 2020, subject to parliamentary debate as outlined in Section 5.3.

**Table 7: The Councils funding Summary Position 2020/21- 2022/23**

| | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|
| | £000 | £000 | £000 |
| Business Rates (NNDR) | (51,396) | (50,253) | (50,253) |
| Revenue Support Grant | (10,413) | (10,413) | (10,413) |
| Council Tax | (83,972) | (86,904) | (90,638) |
| New Homes Bonus | (4,701) | (2,066) | (1,461) |
| Business Rate Pool | (1,320) | - | - |
| Improved Better Care Fund (IBCF) | (7,260) | (7,260) | (7,260) |
| Additional funding for Adult Social Care | (4,680) | (4,680) | (4,680) |
| | | | |
| **TOTAL CORPORATE FUNDING** | **(163,742)** | **(161,576)** | **(164,705)** |


### Council Tax

The forecast funding includes an assumption based on 1.99% general Council Tax, which is below the referendum limit and 2% Adult Social Care Precept as confirmed within the LG Provisional and final finance Settlement. The total proposed Council tax increase in 2020/21 is 3.99%, with a forecast increase of 2.99% thereafter. This means that the Councils band D council tax charge would rise from £1,344.37 to £1,398.00. Further details on the assumptions, the tax base and the individual band charges are outlined in Appendix E- Council Tax Information.

### Business Rates and the Cambridgeshire and Peterborough Business Rates Pool

Business Rates is a major source of income for the council providing some £51.4m, with additional income of £1.3m, expected in 2020/21 as a result of a successful Business Rates pool application, 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.

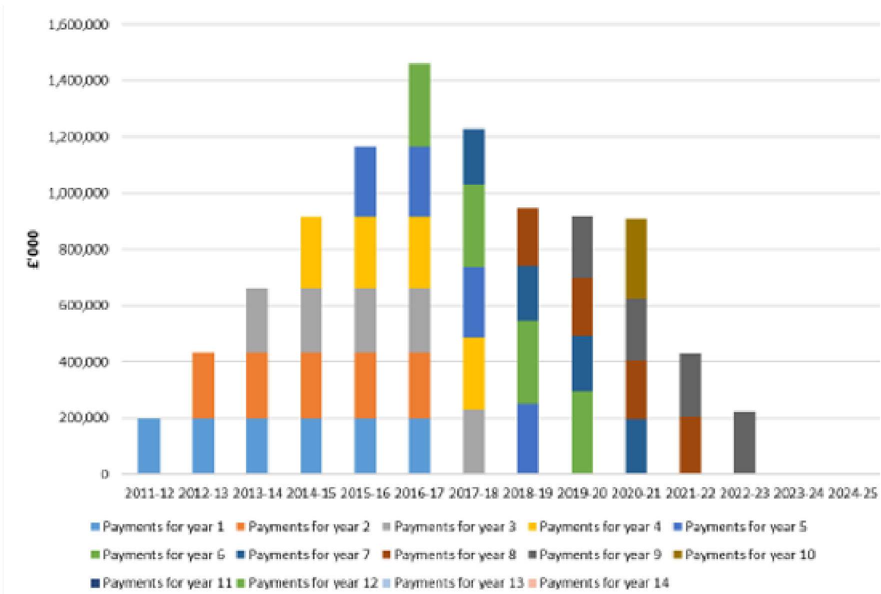
The Business rates forecast currently includes an increase of £2.4m in comparison to the 2019/20 budget. The forecast, takes account of anticipated growth and other adjustments including deferred timescales for schools converting to academies, therefore not attracting the charitable relief status. The council has reviewed the level of business rates provision it holds to mitigate the financial impact of valuation change and appeals. From this review the council has been able to release some of this, due to:

- An element being held in respect of the 2010 revaluation list, where a number of appeals have been withdrawn reducing the overall risk;
- A reduction in the overall provision % held in respect of the 2017 list. The national average was set at 4.7%, and the council has been contributing at a rate of 4%, but on review of this some of the items provided for have already taken place and been accounted for. This with a review of the overall balance and trend of appeals has meant that a reduction in the overall rate to 3.09% is appropriate at this stage.

In accordance with the ministerial statement of 27 January 2020, which outlined the use of local discretionary powers to ensure eligible business ratepayers receive retail relief, pubs discount and local newspaper office discount, the Council has set out local guidance, which is set out in Appendix F -Business Rates- Discretionary Retail Relief.

**Grants**

- Revenue Support Grant has been increased by 1.6%(CPI) in comparison to 2019/20 as outlined within Section 4.4
- The Adult Social Care and IBCF grant allocations have been confirmed in the Local Government Provisional and Final settlement, with the Council set to receive a combined £11.9m in 2020/21.
- New Homes Bonus (NHB) Grant allocation for 2020/21 was higher than originally forecast due to housing growth in the city exceeding expectations. This grant allocation is based on housing stock figures submitted to MHCLG in October 2019. Within the city there has been 1,310 of new housing, of which 197 were affordable, and 564 empty homes were brought back in to use. This contributes to the current year element of the payment, as shown in the following graph, the payments are based on new and legacy payments.
- As outlined in Section 4.4 MHCLG have confirmed that the NHB payment will now be phased out, which means there will be a sharp reduction in grant for local authorities in 2021/22. The following graph outlines the structure of the future NHB grant payments, throughout this period phasing, until the grant is completely removed in 2023/24. Within the LG final Finance Settlement, MHCLG have confirmed that there will be a consultation in spring on the replacement funding for NHB.




Source: Pixel Financial Advisory

As noted earlier in the report, the Council will only receive certainty over the level of funding for the next financial year, beyond that the position remains unconfirmed and subject to a number of different variables such as a further Spending Review, the Fairer Funding Review, Business Rates 75% Retention and the baseline reset.

5.5 **Fees, Charges and Inflation**

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

The council is expecting to generate additional income of £0.390m in relation to fees and charges changes. Table 8 outlines which service areas the additional income will come from. It is noticeable that the majority of this increase will be generated from increased parking charges. Table 9 summarises the specific increases relating to parking charges.

**Table 8: Summary of additional fees and charges income**

| Directorate | Area | Total £ |
|---|---|---:|
| Place and Economy | Archaeology Services | 10,000 |
| Place and Economy | City Centre Operations | 2,275 |
| People & Communities | Business Regulations - Hackney Carriages | 5,500 |
| People & Communities | Parking Charges- car parks | 202,000 |
| People & Communities | Parking Charges- Residential | 107,000 |
| People & Communities | Trading Standards | 300 |
| Resources | Citizenship Services | 71 |
| Resources | Citizenship Services | 1,332 |
| Resources | Peterborough Cemeteries - Interment Fees & rights of burial | 8,679 |
| Resources | Peterborough Crematorium - Cremation Fees | 43,684 |
| Resources | Peterborough Crematorium - Memorial Sales | 4,911 |
| Resources | Registration Services | 3,868 |
| | | **389,620** |

**Table 9: Parking Charges**

| Car Park | Increase 2020/2021 £000 | Tariff Change |
|---|---:|---|
| Car Haven | 111 | Increase all tariff bands by 50p |
| Riverside | 15 | |
| Bishops Road | 14 | |
| Wellington Street | 37 | |
| Trinity Street | 9 | |
| Fletton Quays Multi Storey and Railway Sidings | 16 | |

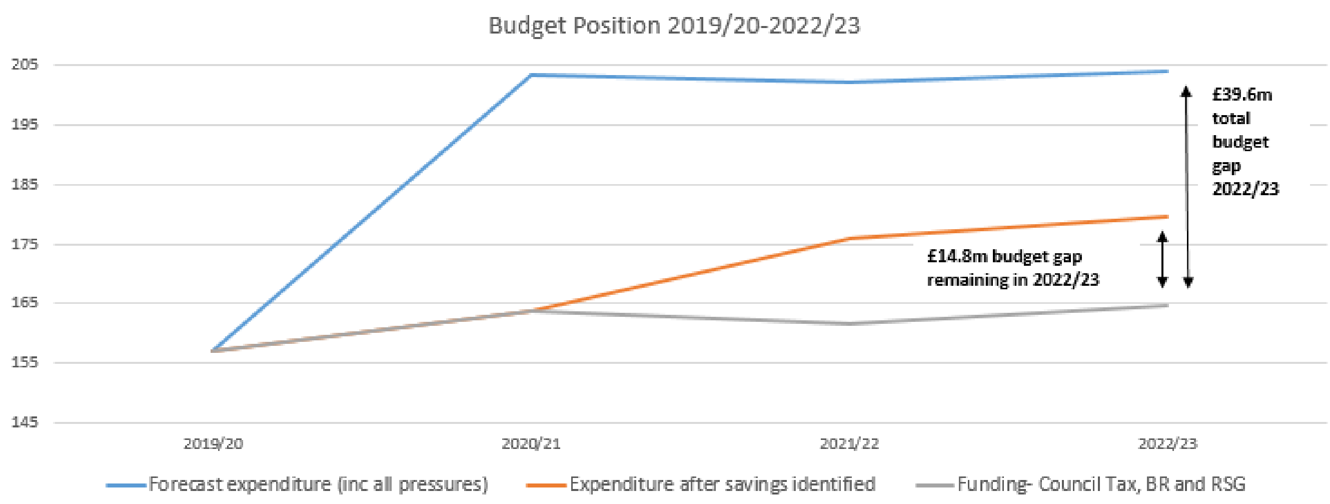
| | | |
|---|---:|---|
| **Car Park Tariff Total** | **202** | |
| **Residents Permits** | | |
| Residents Permits | 60 | Increase by £10 to £40 per annum |
| Visitor Permits | 39 | Increase by £10 to £40 per annum |
| Daily Visitor Permits | 8 | Increase from £12 per book of 10 to £20 |
| **Residents Permits Total** | **107** | |
| **Parking Total** | **309** | |

Further detail on the Councils fees and charges are set out in Appendix G and on the councils website.

5.6 **Strategic Approach to closing the Budget Gap**

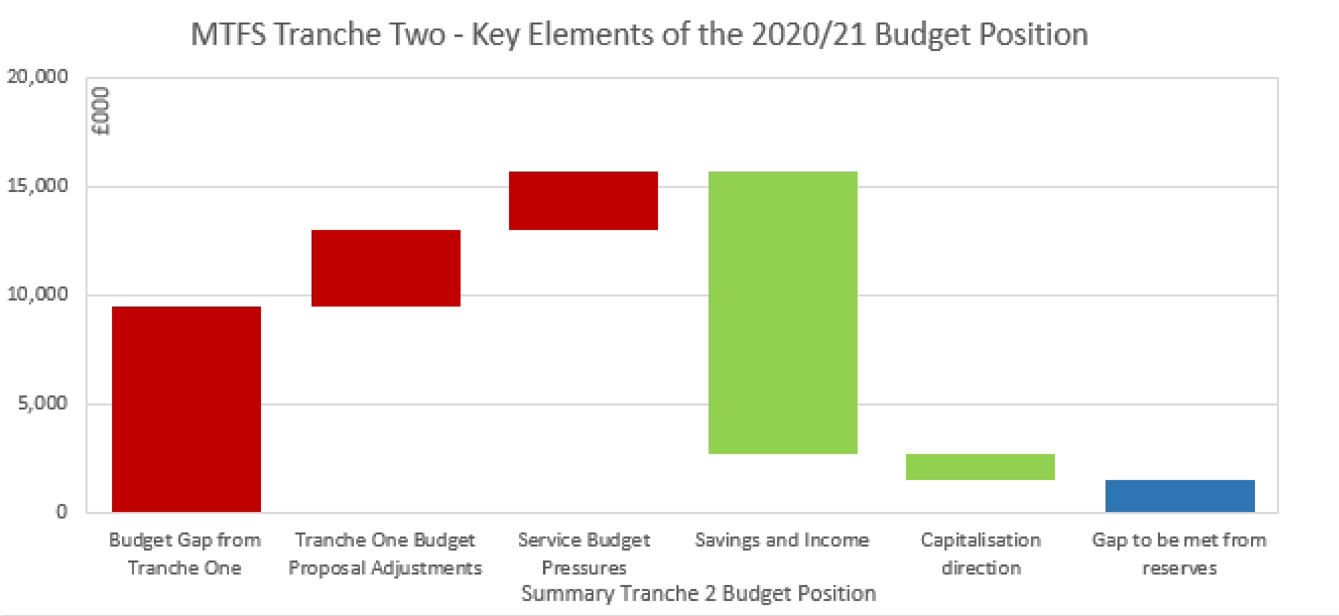
The Council has identified a total budget gap of £39.6m in 2020/21. This budget position is the result of the opening gap of £18.4m, as highlighted in the 2019/20-2021/22 MTFS and the additional identified pressures of £15.1m in Tranche One and £6.1m in Tranche Two.

The following graph highlights the financial challenge still facing the Council, and the progress, which is being made towards closing the gap. The Council still faces a budget gap of £14.2m in 2021/22 and £14.8m in 2022/23. The graph shows an increase in the budgeted expenditure in 2020/21, this is due to a number of factors including recognising where savings plans were undeliverable and accounting for the increasing costs outside of the councils control and additional demand for council services.




As shown in the graph funding is set to reduce by £2.2m in 2021/22. This is due to the reduction in New Homes Bonus grant, as outlined in section 5.4 and the reduction in business rates income, as the confirmation of the Cambridgeshire and Peterborough Business Rates Pool is for 2020/21 only.

The following graph outlines the key elements, which contribute to the final reported Tranche Two position. The Council has identified, £12.9m of new funding and budget savings, however will also be relying on £1.2m of capitalisation direction to cover redundancy and transformation costs and £1.5m from the reserves to balance the budget, for additional information see section 5.7.




<u>Strategic Approach</u>

The Council's strategic approach to managing the future years budget deficits and setting a balanced budget has been to consider how it can build on the following themes to generate a financial benefit which will enable the Council to provide the vital services to the residents and businesses within Peterborough:

- Building on successful transformation;
- Making its assets work even harder;
- Increasing commercial income and driving down the costs of contracts;
- Redesigning its services.

After it has exhausted all of the above, the Council will consider reducing non-statutory service provision, and even here wherever possible, only on a temporary basis. The council will only, as a last resort, make cuts to services. The Council will actively promote independence and improved outcomes for those adults with social care needs, providing better support for carers and promoting use of Tech Enabled Care, Equipment and short-term support.

The council has followed the above approach over recent years, and throughout the last year extended that by seeking external support and advise of Grant Thornton, to work collaboratively with the Council on the development and implementation of a savings programme. The Council has also implemented additional financial and recruitment and agency controls to strengthen processes and scrutinise expenditure. This has made a noticeable impact of the Councils in year position, contributing towards reducing the projected overspend position within the budgetary control reporting (as outlined in Section 2.2). However the Council has still placed reliance on using one off solutions (as set out in tables 2 and 11) such as capital receipts and reserves. With a short supply off these bridging solutions available and an ongoing deficit of £14.2m in 2021/22 and £14.8m in 2022/23 the Council needs to put in place structural organisational change, which will deliver the required level of expenditure reduction and secure sustainability for the Councils future.

The Corporate Management Team (CMT) have already started progressing the development of this structure, having held a briefing session with senior officers across the Council to engage their support the development off this programme. The Council will continue working with Grant Thornton and has secured expertise and support from the Local Government Association (LGA) to facilitate an intensive six week period of investigative and service review work, which will inform the development of a new operating model for the Council. The key aim of this work is to establish an operating model which operates within the Councils funding envelope and identify a series of actions and risks associated with implementation of the proposed model. It is expected that this initial piece of work will be completed by the end of March.

It is anticipated that the new operating model will result in a fundamental change in the way the Council currently operates. It is critical to the continuation of the Council beyond 2021/22, therefore all services are within the scope of this review. The operating model is likely to result from a combination of the following:

- Reduce contractual expenditure and tighter contract management;
- Redesign of delivery of services including:
    - Delivering services at a lower cost, value for money, more efficient manner;
    - Providing a lower level of services or make them much leaner;
    - Reducing services
- Cost reduction, sharing and integration.

As aforementioned, this work will be supported externally with the following specialist expertise being provided:

- Grant Thornton- providing a lead to support for each directorate, provide local government benchmarking to identify best practice authorities and target baselines and facilitate the process;
- LGA- providing financial and peer support, with extensive local government service knowledge;
- HR Director, LGSS- providing HR and organisational development support and challenge.

Change of this magnitude is likely to result in associated implementation costs as a result of programme management, transformation costs, system investment and redundancy. The scale of this is unknown at this stage. As mentioned throughout the report, more specifically in section 5.7, the Council has made an application to MHCLG to fund estimated and known costs of this nature through a capitalisation direction in order to ensure the Council has capacity to drive forward changes such as these and to ensure the council maintains an appropriate level of resilience, to manage risk and unforeseen events.

The Council are looking to have options to take to Cabinet in late spring, with a final model being recommended for approval in summer 2020. These timescales allow for full implementation for the start of the 2021/22, with earlier savings being achieved in 2020/21 where possible to generate early savings, to replenish the reserves, and thus contribute towards the cost of implementation and boosting the Councils resilience.

As highlighted the financial situation the Council finds itself in requires radical change to ensure future sustainability. As this stage the council has assumed that funding levels will remain unchanged from the Local Governments Fair Funding Review (FFR), however as outlined in section 4.4, the council will be making a case to MHCLG, within the upcoming consultations and via our MPs, to ensure that Peterborough City Council gets the right, fair deal for the city.

## 5.7 Capitalisation Direction Application

In January 2020 the council made an application to MHCLG to fund the costs of transformational activities, including expenditure incurred through acceptance of voluntary redundancies, through a Capitalisation Direction. Capitalisation is the means by which the Government, exceptionally, permits local authorities to treat revenue costs as capital costs. It is a relaxation of the accounting convention that revenue costs should be met from revenue resources.

Permission is given through capitalisation directions, which the Secretary of State has the power to issue under section 16(2)(b) of the Local Government Act 2003. The effect of a direction is that specified revenue expenditure becomes treated as capital expenditure, so that instead of having to be charged to revenue, it may be funded from capital sources e.g. borrowing, thereby increasing a local authority’s financial flexibility.

The application was made on best estimates of costs likely to be incurred through transformational activity of service provision and costs of voluntary redundancy. The assumptions used in the initial estimate have been refined and the Council currently anticipates costs of £9.0m against the original estimated £10.2m requested. The revised estimate is outlined in table 10:

**Table 10: Capitalisation Direction Costs**

| | Service Transformation £000 | Redundancy £000 | 2019/20 £000 | Service Transformation £000 | Redundancy £000 | 2020/21 £000 |
|---|---|---|---|---|---|---|
| Actual Costs | 1,795 | 529 | 2,324 | - | - | - |
| Estimated Costs | 592 | 4,822 | 5,414 | | 1,217 | 1,217 |
| **Total Costs** | **2,387** | **5,351** | **7,738** | **-** | **1,217** | **1,217** |
| | | | | | | |
| **Capitalisation Direction Total 2019/20 and 2020/21** | | | | | | **8,955** |

It is important to note for local authorities, capitalisation runs counter to the principles of prudent financial management. It can never permanently solve financial difficulties. For example, debt incurred to meet revenue costs will have to be serviced from revenue resources over many years and using capital resources for revenue expenditure tends to reduce long-term investment in capital assets.

At the time of drafting this MTFS the granting of the Capitalisation Direction has not been received nor has an assessment of the impact of any conditions placed upon the Capitalisation Direction been factored into the estimates being used.

The MTFS has been drafted on the assumption that the Capitalisation Direction will be approved by government before 31 March 2020. Should this Direction be approved in 2020/21 it is assumed that this funding will either be retrospectively applied, or expenditure deferred to 2020/21 as per the 'Code of Practice on Local Government Accounting'.

# 6 ROBUSTNESS (SECTION 25) STATEMENT

## 6.1 Background

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

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

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

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

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

This report has been prepared by the CFO to fulfil this duty and gives the required advice relating to the 2020/21 financial year including a consideration of the budget proposal as a whole and all the financial risks facing the Council. It identifies the Council's approach to budget risk management and assesses the particular risks associated with the 2020/21 budget to inform the advice on robustness.

### 6.2 Overall Budget and Medium Term Financial Strategy 2020/21- 2022/23

In line with the Robustness Statement from the previous year, the Council continues to operate in difficult financial circumstances. It remains true that unless immediate decisions on how it can plan to reduce the costs of its operations markedly in the medium term, 2020/21 to 2022/23, expenditure is estimated to exceed income with extremely limited recourse to reserves.

In the opinion of the CFO the 2020/21 estimates are robust, however the proposed level of financial reserves are dependent upon the outcome of the MHCLG decision of granting the council a Capitalisation Direction. If approval from MHCLG is not received the council's reserves will be left at a perilously low level going into 2020/21 with very little recourse available to the council if savings are not delivered as planned, or unforeseen events, such as the closure of Northminster carpark that happened in 2019/20, take place.

Looking beyond 2020/21, It is with upmost importance that the council designs and implements a solution which addresses the ongoing deficit position of £14.8m, as disclosed in section 5.6. Without this, there will be significant concern over the sustainability of the Councils budget position. This solution is required to be approved through Full Council by July 2020 in order for a full year implementation to occur in 2021/22. This timeframe will also enable a partial implementation to occur in 2020/21 which would enable contributions to reserves to be made helping to increase the resilience of a fragile reserves position. Throughout this period the CFO will be monitoring the situation closely to ensure the solution has robust plans for delivery, timely implementation of actions, whilst making assessments that the council has the resources in order to continue to operate.

The council has always sought efficiency savings as its preferred solution, and this will continue, however the scale of the task facing the council means it can only be achieved if the council fundamentally evaluates the three ways to close the gap, alongside mitigation and control of service demand pressures and expanding alternative income streams:

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

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

### 6.3 Robustness of the 2020/21 budget estimates

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

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

For 2020/21 a balanced financial position is possible but there are inherent risks and dependencies in delivery of the financial strategy. The position for 2021/22 onwards is dependent upon the development of deliverable saving plans being produced during 2020/21 for delivery by July 2020.

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

The Medium Term Financial Strategy (MTFS) highlights that the current financial position is untenable. Whilst a balanced budget for 2020/21 has been achieved, it has made use of £10.6m of non-repeatable savings, as summarised in table 11.

**Table 11: non-repeatable savings**

| | Prior Years | | Current Year | Years relating to this MTFS | | |
|---|---|---|---|---|---|---|
| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
| Capital Receipts | 12,738 | 2,922 | 10,639 | 3,930 | - | - |
| MRP Re-provision | - | 3,700 | - | - | - | - |
| Council Tax Surplus | 173 | 1,188 | 201 | 662 | - | - |
| Business Rates Pool and Provision Release | - | - | - | 3,231 | - | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| Capitalisation direction | | | 7,738 | 1,217 | | |
| Planned Use of Reserves | 7,194 | 4,231 | 3,084 | 1,510 | - | - |
| **Total** | **20,105** | **12,041** | **21,662** | **10,550** | **-** | **-** |
| In year Use of Reserves | - | 2,119 | 321 | - | - | - |
| In year increased Use of Capital Receipts | - | 3,298 | 3,056 | - | - | - |
| **Total** | **20,105** | **17,458** | **25,039** | **10,550** | **-** | **-** |

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

The MTFS position has been subject to reviews with the Council's Corporate Management Team, other officers and Members, including Cabinet, Budget Working Group and Scrutiny Committees. To further enhance the robustness of the financial strategy, external third parties, the Local Government Association and Grant Thornton, have commented and input to the approach being taken to service delivery design and wider opportunities available to the council that may not have been previously considered.

The Council's General Fund remains at a £6m minimum balance. There is an additional £12.2m of Change Programme Funds which will facilitate the investment in major transformational change to service delivery. However these reserves balances assume that the Capitalisation Direction application will be approved by government by 31 March 2020. The remaining amount of £5m in reserves is ring-fenced for specific purposes such as insurance and so is not available for use.

In summary, the 2020/21 budget is balanced, through use of £10.6m of non-repeatable savings, including £1.5m utilisation of reserves, and the assumption that government will approve the Capitalisation Direction by March 2020. In order to balance future years budgets, 2021/22 and 2022/23, there continues to be the need to implement the new operating model, as referenced throughout this report. This model needs to be implemented as soon as possible and no later than July 2020 in order to fully develop a sustainable future budget position.

The CFO will need to consider the production of a Section 114 report:

- if the Capitalisation Direction approval is not confirmed by 31 March 2020
- if realistic transformational plans, for reducing the cost of service delivery required to deliver a balanced and sustainable budget for future years, are not developed, and implementation commenced by July 2020

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

## 6.4 Adequacy of Reserves

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

The council broadly categorised reserves as follows:

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

The Council's General Fund working balance stands at £5.1m and ring-fenced reserves at £5.1m. They include the actuarial assessed £3.8m insurance reserve and £0.5m of reserves held on behalf of schools for capital expenditure.

### The General Fund

The General Fund is usually held at a balance of £6m, however as reported within the May Budgetary Control Report a cash flow risk in respect of Business Rates had been identified, which will mean the 2019/20 income from Section 31 grants will be £0.9m lower than budgeted. This income will be received in 2020/21 instead; this represents a cash flow timing impact only. It was agreed that the General Fund is used in 2019/20 and fully replenished in 2020/21 to mitigate the impact of this timing change.

### The Change Programme Fund

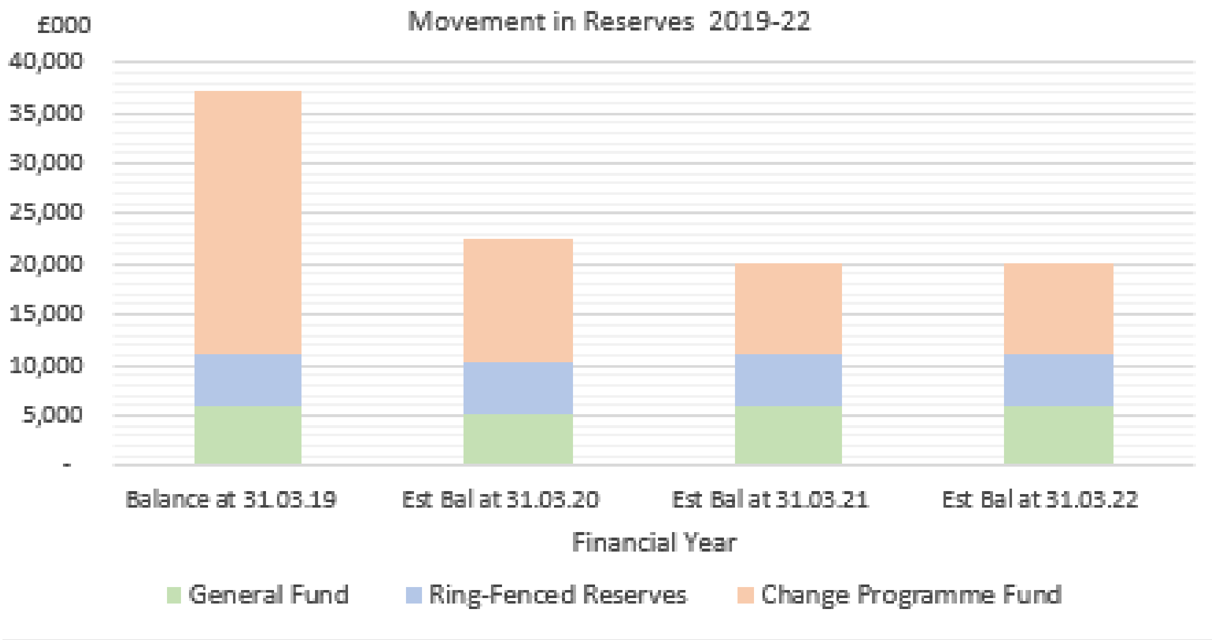
It is crucial to bear in mind that the reserves are the only source of financing to which the council has access to fund risks and one-off pressures. Reserves can only be spent once and the possibility of creating new reserves, in an era where budgets are tight and can become overspent, is now very limited.

The balance shown for the Capacity Building Reserve includes an element for investment required to enable transformational change and implementation of the service proposals. The Capacity Building Reserve also has a commitment to cover the cost of demolishing Northminster car park. In July 2019 the Council received a structural review report of the Northminster car park. The report highlighted significant concerns for the structural integrity of the car park, which could pose a risk to the general public. The Council has considered the options available and has concluded to demolish the carpark with the carpark closing to the public immediately, with the cost expected to reach up to £2.3m. The Council has sought approval for this action via the Cabinet Member Decision Notice published in August and has since published further information on the website including the structural review reports. At the time of drafting this report a review is being undertaken as to the nature of the expenditure being undertaken and funding options with regards to revenue or capital streams to be applied.

The Departmental Reserves are amounts set aside by departments, during the preparation of the accounts and is in accordance with financial guidance to minimise risk exposure to the Council in the following financial year. These reserves reduce significantly in 2019/20 due to a number of specific grants being used to fund expenditure which have been received for specific projects covering multiple years, this includes:

- Family Safeguarding Innovation Programme Pilot £2.0m
- Integrated communities £1.8m
- Controlled Migration Fund £0.7m

The following chart outlines the estimated reduction in reserves balances, including the assumption that the council will be granted the capitalisation direction. It is forecast that the reserves balances will reduce by a further 46% in 2020/21, in comparison to 2018/19.




The table 12 and graph show the impact on the usable reserves balances of both receiving approval for the capitalisation direction, and the position if the Council were not successful with their application. Without the capitalisation direction the reserves balances are perilously low, with limited financial resilience, and no opportunity for transformational investment.

**Table 12: Capitalisation Direction impact on the Useable Reserves Balances**

| | Capitalisation Direction | | No Capitalisation Direction | |
|---|---|---|---|---|
| **Summary of Usable Reserves** | **2019/20** | **2020/21** | **2019/20** | **2020/21** |
| | **£000** | **£000** | **£000** | **£000** |
| General Fund | 5,111 | 6,000 | 5,111 | 6,000 |
| Change Programme Fund | 12,178 | 8,980 | 4,440 | 25 |
| **Total Earmarked and General Fund Balance** | **17,289** | **14,980** | **9,551** | **6,025** |

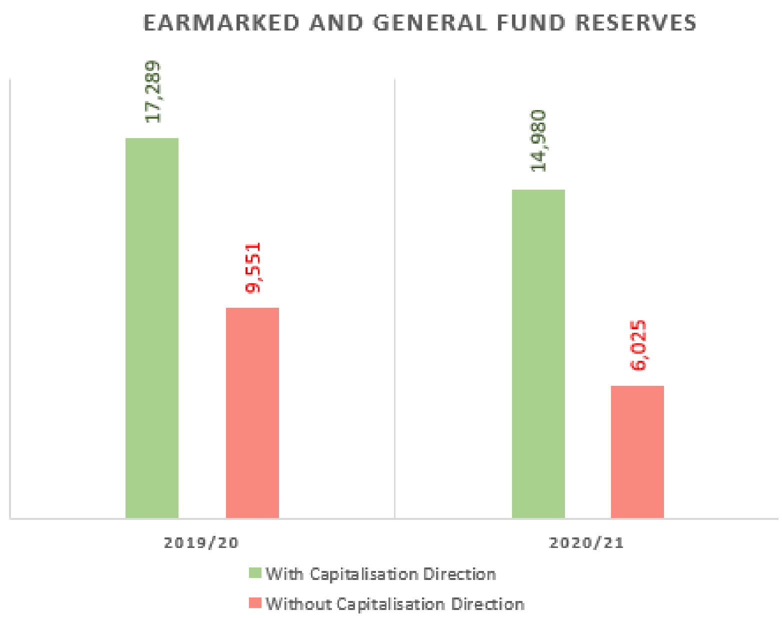


Table 13 outlines the forecast position on the General Fund (unallocated Reserves), the Change Programme and ring-fenced reserves (earmarked reserves), this assumes that the Capitalisation Direction is approved.

**Table 13: The Reserves Position 2018/19-2022/23**

| | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|---|---|
| **Summary of Reserves** | **Balance at 31.03.19** | **Est Bal at 31.03.20** | **Est Bal at 31.03.21** | **Est Bal at 31.03.22** | **Est Bal at 31.03.23** |
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| **General Fund** | **6,000** | **5,111** | **6,000** | **6,000** | **6,000** |
| | | | | | |
| **Change Programme Funds:** | | | | | |
| Capacity Building Reserve | 14,973 | 11,031 | 7,832 | 7,832 | 7,832 |
| Grant Equalisation Reserve | 4,214 | - | - | - | - |
| Departmental Reserve | 6,890 | 1,147 | 1,147 | 1,147 | 1,147 |
| **Change Programme Fund** | **26,076** | **12,178** | **8,980** | **8,980** | **8,980** |
| **Ring-Fenced Reserves:** | | | | | |
| Insurance Reserve | 3,398 | 3,775 | 3,775 | 3,775 | 3,775 |
| Schools Capital Expenditure Reserve | 482 | 482 | 482 | 482 | 482 |
| Parish Council Burial Ground Reserve | 54 | 54 | 54 | 54 | 54 |
| Hackney Carriage Reserve | 226 | 226 | 226 | 226 | 226 |
| School Leases Reserve | 615 | 574 | 495 | 495 | 495 |
| Public Health Reserve | 364 | - | - | - | - |
| **Ring-Fenced Reserves** | **5,140** | **5,111** | **5,032** | **5,032** | **5,032** |
| | | | | | |
| **Total Earmarked and General Fund Balance** | **37,217** | **22,400** | **20,012** | **20,012** | **20,012** |

In summary it remains crucial that the Council addresses the budget gap and replenishes reserves. Building the reserves level back up will increase the Councils financial resilience and will enable the Council to adequately cope with an emergency or further budget volatility. The current financial position will be reliant on reserves and the Capitalisation Direction to deliver a balanced budget.

## 7 RISKS

### 7.1 Approach to Risk

The Council assesses financial risk within its budget and MTFS as part of its annual budget setting process and regular Budgetary Control process. Council Officers have put actions in place to review and mitigate exposure to identified risks, these are outlined in Appendix I- Financial Risk Register.

The Risk Management Board is led by the Acting Corporate Director of Resources. The purpose of the board is to challenge and support risk management across the Council and partner organisations. The last meeting of this group was held on 27/01/2020, and the output from this Board is considered regularly at Audit Committee.

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

The most current substantial risks have been identified and considered as part of the budget process. Reasonable mitigating actions have been made where possible. Appendix I- Financial Risk Register, details the budget risks that Cabinet and Council should consider when reviewing the Tranche Two budget proposals.

## 8 Capital Programme

The Council's Capital Programme is viewed over a three year period to ensure correct stewardship of assets and efficient use of budgets, with the first three years forming part of the MTFS. The council is proactive in attracting external funding for as many schemes as possible. An officer-led Capital Review Group oversees the council's capital requirements.

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

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, for example acquisition of investment properties, loans to strategic partners. Business cases for future proposals are required to demonstrate how the cost of borrowing will be covered, e.g. through income generation, 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.

Work has been undertaken to reduce the capital programme to £80m per year. However, this excludes Invest to Save schemes and the IFRS16 Transition. The inherent nature of the Invest to Save projects means that the expenditure is less likely to suffer from the same constraints as the Council not having the project officer capacity to deliver a programme over £80m and reducing the budget on these projects does not lead to revenue savings.

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 which 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 brings these leases (unless under a year in duration or for assets below a de minimus 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 2020.

The Capitalisation Direction is also shown separately as these are revenue costs allowed to be funded by borrowing, see section 5.7 for further details.

Additional investment schemes that have been added to the previous MTFS for approval are summarised in Table 14.

**Table 14: New Capital budgets for approval within Tranche Two**

| **Directorate** | **Project and Funding Source** | **2019/20 £000** | **2020/21 £000** | **2021/22 £000** |
|---|---|---|---|---|
| Corporate | Capitalisation Direction (Borrowing) | 8,182 | 1,217 | - |
| Corporate | IFRS 16 Transition (Borrowing) | - | 22,000 | - |
| Corporate | Estimate for small grants (Third Party) | 50 | 500 | |
| Customer and Digital Services | ICT Projects – increase cost estimate (borrowing – funded by removal of £8.142m Ken Stimpson Expansion budget) | - | 1,000 | - |
| People and Communities | Hampton Waters Primary (Third Party) | 20 | 1,000 | 11,700 |
| People and Communities | Future Secondary School Provision – increased cost estimate (borrowing – funded by removal of £8.142m Ken Stimpson Expansion budget) | - | 1,000 | - |
| Place and Economy | London Road Stadium lease obligations – increased cost estimate (Borrowing). Total budget of £1.47m to change to Capital grant to Peterborough United for Community Outreach following completion of disposal of stadium | 470 | - | - |
| Place and Economy | Aragon Direct Services Fleet Renewal (Invest to Save borrowing) | - | 10,000 | 4,000 |
| Place and Economy | Town Hall North works – increased cost estimate (borrowing) | - | 800 | - |
| Place and Economy | Peterborough Integrated Renewables Infrastructure (borrowing) | 70 | 80 | |
| Place and Economy | Angus Court Play Area (borrowing) | - | 100 | - |
| Resources | Crematorium relines – increased cost estimate (borrowing) | - | 7 | 15 |

Table 15 provides a summary of the capital programme over the MTFS period. The full list of schemes is detailed in Appendix H - Capital Programme Schemes 2020/21- 2022/23. These tables includes the changes to the programme listed above and those agreed by 23 September Cabinet and as part of the Tranche One budget proposals.

**Table 15: Capital Programme Summary**

| Capital Programme | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
|---|---|---|---|
| Customer & Digital Services | 4,920 | 5,000 | 3,500 |
| People & Communities | 23,214 | 39,089 | 22,247 |
| Place & Economy | 29,275 | 21,413 | 27,483 |
| Resources | 14,927 | 5,701 | 2,056 |
| **Total Capital Programme** | **72,336** | **71,203** | **55,286** |
| Grants & Third Party Contributions | 26,778 | 46,980 | 33,220 |
| Capital Receipts repayment of loans | - | - | 15,000 |
| Borrowing | 45,558 | 24,223 | 7,066 |
| **Total Capital Financing** | **72,336** | **71,203** | **55,286** |
| Invest to Save / Commercial Activities | 50,800 | 24,799 | 10,000 |
| IFRS16 Transition | 22,000 | - | - |
| Capitalisation Direction | 1,217 | - | - |
| **Invest to Save and Other Borrowing** | **74,017** | **24,799** | **10,000** |

## 9 BUDGET VIREMENT LIMITS

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

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

9.3 The virement limits for 2020/21 are as follows:

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

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

- Reflecting organisational structure changes e.g. changes in reporting line;
- Allocating corporate budgets or savings to departments agreed in the MTFS;
- Allocating budgets to individual schemes e.g. from school places capital programme or local transport plan projects.

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

- 3.13.2 The Chief Executive is authorised:
- (d) to take any action, including the incurring of expenditure, where emergency action is required;

9.6 In the event that this applies to virements, it will be reported to the next relevant meeting in line with the limits in 9.3 above.

## 10 CONSULTATION

10.1 Cabinet have presented the budget proposals in a meeting with the Cross-Party Budget Working Group to seek views, including the opportunity to make alternative suggestions.

There will be no formal public consultation for this Tranche of the budget, due to the nature of the proposals, as there is no impact on service users. Section 14 gives more details about consultation requirements.

## 11 ANTICIPATED OUTCOMES OR IMPACT

11.1 Following the release of Tranche Two 2020/21 MTFS, which includes budget proposals to set a balanced budget, within the Councils financial resources. Cabinet will review the MTFS and the feedback received from the Joint Meeting of the Scrutiny Committee (held on 24 February) at this meeting, and make a recommendation to Council on 4 March 2020.

## 12 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 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 4 March 2020, 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 consultation required under s65 of the Local Government Finance Act 1992 and more generally as proposed here, which operates as a set of rules of law. These rules are that:

- Consultation must be at a time when proposals are still at a formative stage;
- The proposer must give sufficient reasons for any proposal to permit intelligent consideration and response;
- Adequate time must be given for consideration and response; and
- The product of consultation must be conscientiously taken into account in finalising any statutory proposals.

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 a public consultation would not be undertaken for Tranche Two due to the nature of the proposals, as there is no impact on service users.

It is deemed that only the parking charges requires additional action, and a Traffic Regulation Order (TRO) has been obtained and a public notice published.

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.

14.10 **Human Resources – Voluntary Redundancy Scheme**

Tranche one of the budget highlighted that, as a result of some of the proposals, headcount may be affected across the council which could see a reduction of up to 75 roles from a total workforce of 1,244. Within this headcount reduction figure, up to 23 posts could still be affected as restructure design work remains ongoing and 6 vacant posts have been removed and will not be filled. However, from the detailed restructure work which has taken place, it is known that the impact is a headcount reduction of 44. Of these, there are 30 voluntary redundancy requests and 12 staff redeployed to other roles. There are a further 2 roles which are currently in the process of consultation (*see table 16 below*).

**Table 16: Staffing Changes**

| | |
|---|---|
| Redeployment of staff | 12 |
| Voluntary redundancy | 30 |
| Ongoing consultation | 2 |
| **Total** | **44** |

In order to provide additional support to affected employees, the council organised a recruitment fair which saw a number of organisations attend to support employees in seeking redeployment opportunities; CV writing skills; retirement advice and interview skills and techniques. This was well received and will be repeated later in the Spring by way of further support.

From tranche one and continuing as part of tranche two, concentrated efforts have taken place on the restrictions of recruitment (*taking into account service delivery*), natural wastage / turnover and reducing or eliminating overtime and limited reliance on agency use (*providing service delivery is not compromised*). The Council continues to make difficult challenging decisions in order to create a balanced budget and in January a council wide voluntary redundancy scheme was launched which has seen the reduction of a further 18 posts.

The aim of the council is to minimise compulsory redundancies and the impact on service delivery and as part of that, further work has seen the deletion of 9 vacant posts which will not be filled going forward, this will deliver a £0.3m, this has been factored in to the budget for 2020/21 and future years.

14.11 **Equality Impact Assessments**

All budget proposals published in Tranche Two of the budget process have been considered with regards to equalities issues and due to the nature of the included proposals there are no corresponding equality impact assessments required.

14.12 **Carbon Impact Assessments**

All budget proposals published in Tranche Two of the budget process have been considered with regards to the carbon impact and where appropriate carbon impact assessments have been completed. At this stage these are initial drafts and will be finalised ahead of Council on 4 March 2020. The draft Carbon Impact assessments have been collated in tabular form, and included within Appendix J.

## 15 BACKGROUND DOCUMENTS

15.1 Budget Book Tranche One 2020/21-2022/23
Budget Book 2019/20-2021/22
Budget Monitoring Report- Final Outturn 2018/19 (item 14)
Budgetary Control Report- April 2019- 17 June Cabinet (item 13)
Budgetary Control Report- May 2019- 15 July Cabinet (item 7)
Budget Process Report- Council 24 July 2019
Budget Process Report Appendix- Council 24 July
Budgetary Control Report- June 2019- 23 September Cabinet (item 9)
Budgetary Control Report- September 2019- 4 November Cabinet
Budgetary Control Report- November 2019- 3 February Cabinet (item 6)
Budgetary Control Report December 2019- 25 February Cabinet
Council Taxbase 2020/21 and Collection Fund Declaration

## 16 APPENDICES

16.1
- Appendix A – 2020/21-2022/23 MTFS Detailed Budget Position-Tranche Two
- Appendix B – Budget Proposals Tranche One
- Appendix C – Tranche Two Budget Proposal detail
- Appendix D – Grant Register

- Appendix E – Council Tax Information
- Appendix F – Business Rates- Discretionary Retail Relief
- Appendix G – Fees and Charges
- Appendix H – Capital Programme Schemes 2020/21- 2024/25
- Appendix I – Financial Risk Register
- Appendix J – Carbon Impact Assessments
- Appendix K – Treasury Management Strategy
- Appendix L – Capital Strategy
- Appendix M – Asset Management Plan
- Appendix N – Investment Acquisition Strategy

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## Appendix A (a)– 2019/20-2021/22 MTFS Detailed Budget Position

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
|---|---|---|---|
| NNDR | (51,396) | (50,253) | (50,253) |
| Revenue Support Grant | (10,413) | (10,413) | (10,413) |
| Council Tax | (83,972) | (86,904) | (90,638) |
| New Homes Bonus | (4,701) | (2,066) | (1,461) |
| Business Rate Pool | (1,320) | - | - |
| Improved Better Care Fund | (7,260) | (7,260) | (7,260) |
| Social Care Grant | (4,680) | (4,680) | (4,680) |
| | | | |
| **TOTAL CORPORATE FUNDING** | **(163,742)** | **(161,576)** | **(164,705)** |
| | | | |
| **PLANNED EXPENDITURE** | | | |
| | | | |
| **Chief Executives** | | | |
| Chief Executive | 157 | 168 | 173 |
| Human Resources | 1,047 | 1,000 | 1,023 |
| **Total Chief Executives** | **1,204** | **1,168** | **1,196** |
| | | | |
| **Governance** | | | |
| Director of Governance | 165 | 161 | 165 |
| Constitutional Services | 2,007 | 2,029 | 2,041 |
| Legal Services | 1,890 | 1,953 | 1,985 |
| Performance & Information | 208 | 216 | 219 |
| **Total Governance** | **4,270** | **4,359** | **4,410** |
| | | | |
| **Place & Economy** | | | |
| Director, OP & JV | (101) | (141) | (134) |
| Development and Construction | (145) | (86) | (61) |
| Sustainable Growth Strategy | 1,618 | 1,656 | 1,675 |
| Peterborough Highway Services | 5,063 | 5,374 | 5,651 |
| Waste, Cleansing and Open Spaces | 13,063 | 13,824 | 14,177 |
| Westcombe Engineering | 106 | 133 | 145 |
| City Centre Management | 387 | 408 | 420 |
| Energy | 478 | 478 | 478 |
| Service Director Environment & Economy | (4) | - | 2 |
| **Total Place & Economy** | **20,465** | **21,646** | **22,353** |
| | | | |
| **People & Communities** | | | |
| Director | 1,236 | 1,300 | 1,366 |
| Communities | 5,955 | 6,306 | 6,526 |
| Adults | 46,370 | 49,350 | 49,530 |
| Children's & Safeguarding | 10,147 | 11,183 | 11,352 |
| Education | 6,856 | 6,992 | 7,045 |
| Commissioning & Commercial Operations | 16,737 | 16,906 | 17,020 |
| DSG | - | - | - |
| **Total People & Communities** | **87,301** | **92,037** | **92,839** |
| | | | |
| **Public Health** | | | |
| Children 0-5 Health Visitors | 3,987 | 3,987 | 3,987 |
| Children 5-19 Health Programmes | 944 | 944 | 944 |
| Sexual Health | 1,938 | 1,938 | 1,938 |
| Substance Misuse | 2,187 | 2,187 | 2,187 |
| Smoking and Tobacco | 306 | 303 | 303 |
| Miscellaneous Public Health Services | 1,340 | 1,326 | 1,326 |
| Public Health Grant | (10,982) | (10,982) | (10,982) |
| **Total Public Health** | **(280)** | **(297)** | **(297)** |
| | | | |
| **Resources** | | | |

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
|---|---|---|---|
| Director's Office | 273 | 281 | 286 |
| Financial Services | 3,285 | 3,152 | 3,142 |
| Corporate Items | 3,742 | 2,667 | 2,520 |
| Peterborough Serco Strategic Partnership | 6,506 | 5,555 | 5,898 |
| Corporate Property | 1,612 | 1,019 | 1,076 |
| Cemeteries, Cremation & Registrars | (1,507) | (1,478) | (1,466) |
| **Total Resources** | **13,911** | **11,196** | **11,456** |
| | | | |
| **Customer & Digital Services** | | | |
| Director Customer & Digital Services | 75 | 75 | 75 |
| ICT | 7,127 | 7,326 | 7,501 |
| Marketing & Communications | 349 | 340 | 348 |
| Resilience & Health & Safety | 282 | 292 | 297 |
| **Total Customer & Digital Services** | **7,833** | **8,033** | **8,221** |
| | | | |
| **Business Improvement** | | | |
| Programme Management Office | 602 | 576 | 579 |
| **Total Business Improvement** | **602** | **576** | **579** |
| | | | |
| **NET SERVICE EXPENDITURE** | **135,306** | **138,718** | **140,757** |
| | | | |
| **Corporate Expenditure** | 5,368 | 5,392 | 5,416 |
| | | | |
| **Capitalisation Directive** | (1,217) | - | - |
| | | | |
| **Capital Financing Costs** | 25,795 | 31,711 | 33,340 |
| | | | |
| **Contribution from/to Reserves** | (1,510) | - | - |
| | | | |
| **TOTAL PLANNED EXPENDITURE** | **163,742** | **175,821** | **179,513** |
| | | | |
| **REVISED DEFICIT/(SURPLUS)** | **-** | **14,245** | **14,808** |

**Note that Public health related activity and overheads are also reported under People and Communities and other directorates*

## Appendix A (b)– 2019/20-2021/22 MTFS Detailed Budget Position outlining the Gross, Income and Net Budget position

| | 2020/21 | | | 2021/22 | | | 2022/23 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Gross Exp. Budget £000** | **Income Budget £000** | **Net Exp. Budget £000** | **Gross Exp. Budget £000** | **Income Budget £000** | **Net Exp. Budget £000** | **Gross Exp. Budget £000** | **Income Budget £000** | **Net Exp. Budget £000** |
| NNDR | 2,800 | (54,196) | (51,396) | 2,856 | (53,109) | (50,253) | 2,924 | (53,177) | (50,253) |
| Revenue Support Grant | - | (10,413) | (10,413) | - | (10,413) | (10,413) | - | (10,413) | (10,413) |
| Council Tax | - | (83,972) | (83,972) | - | (86,904) | (86,904) | - | (90,638) | (90,638) |
| New Homes Bonus | - | (4,701) | (4,701) | - | (2,066) | (2,066) | - | (1,461) | (1,461) |
| Business Rate Pool | - | (1,320) | (1,320) | - | - | - | - | - | - |
| Improved Better Care Fund | - | (7,260) | (7,260) | - | (7,260) | (7,260) | - | (7,260) | (7,260) |
| Social Care Grant | - | (4,680) | (4,680) | - | (4,680) | (4,680) | - | (4,680) | (4,680) |
| **TOTAL CORPORATE FUNDING** | **2,800** | **(166,542)** | **(163,742)** | **2,856** | **(164,432)** | **(161,576)** | **2,924** | **(167,629)** | **(164,705)** |
| | | | | | | | | | |
| **PLANNED EXPENDITURE** | | | | | | | | | |
| | | | | | | | | | |
| **Chief Executives** | | | | | | | | | |
| Chief Executive | 157 | - | 157 | 168 | - | 168 | 173 | - | 173 |
| Human Resources | 1,396 | (349) | 1,047 | 1,349 | (349) | 1,000 | 1,372 | (349) | 1,023 |
| **Total Chief Executives** | **1,553** | **(349)** | **1,204** | **1,517** | **(349)** | **1,168** | **1,545** | **(349)** | **1,196** |
| | | | | | | | | | |
| **Governance** | | | | | | | | | |
| Director of Governance | 165 | - | 165 | 161 | - | 161 | 165 | - | 165 |
| Constitutional Services | 2,012 | (5) | 2,007 | 2,034 | (5) | 2,029 | 2,046 | (5) | 2,041 |
| Legal Services | 2,531 | (641) | 1,890 | 2,597 | (644) | 1,953 | 2,632 | (647) | 1,985 |
| Performance & Information | 208 | - | 208 | 216 | - | 216 | 219 | - | 219 |
| **Total Governance** | **4,916** | **(646)** | **4,270** | **5,008** | **(649)** | **4,359** | **5,062** | **(652)** | **4,410** |
| | | | | | | | | | |
| **Place & Economy** | | | | | | | | | |
| Director, OP & JV | (5) | (96) | (101) | (45) | (96) | (141) | (38) | (96) | (134) |
| Development and Construction | 1,795 | (1,940) | (145) | 1,862 | (1,948) | (86) | 1,896 | (1,957) | (61) |
| Sustainable Growth Strategy | 1,985 | (367) | 1,618 | 2,022 | (366) | 1,656 | 2,041 | (366) | 1,675 |
| Peterborough Highway Services | 10,000 | (4,937) | 5,063 | 10,313 | (4,939) | 5,374 | 10,592 | (4,941) | 5,651 |
| Waste, Cleansing and Open Spaces | 18,418 | (5,355) | 13,063 | 19,186 | (5,362) | 13,824 | 19,539 | (5,362) | 14,177 |
| Westcombe Engineering | 1,630 | (1,524) | 106 | 1,657 | (1,524) | 133 | 1,669 | (1,524) | 145 |

| | 2020/21 | | | 2021/22 | | | 2022/23 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Gross Exp. Budget £000 | Income Budget £000 | Net Exp. Budget £000 | Gross Exp. Budget £000 | Income Budget £000 | Net Exp. Budget £000 | Gross Exp. Budget £000 | Income Budget £000 | Net Exp. Budget £000 |
| City Centre Management | 939 | (552) | 387 | 962 | (554) | 408 | 975 | (555) | 420 |
| Energy | 1,175 | (697) | 478 | 1,175 | (697) | 478 | 1,175 | (697) | 478 |
| Service Director Environment & Economy | 96 | (100) | (4) | 100 | (100) | - | 102 | (100) | 2 |
| **Total Place & Economy** | **36,033** | **(15,568)** | **20,465** | **37,232** | **(15,586)** | **21,646** | **37,951** | **(15,598)** | **22,353** |
| | | | | | | | | | |
| **People & Communities** | | | | | | | | | |
| Director | 1,565 | (329) | 1,236 | 1,665 | (365) | 1,300 | 1,768 | (402) | 1,366 |
| Communities | 18,636 | (12,681) | 5,955 | 18,977 | (12,671) | 6,306 | 19,196 | (12,670) | 6,526 |
| Adults | 70,582 | (24,212) | 46,370 | 73,562 | (24,212) | 49,350 | 73,742 | (24,212) | 49,530 |
| Children's & Safeguarding | 15,153 | (5,006) | 10,147 | 15,436 | (4,253) | 11,183 | 15,605 | (4,253) | 11,352 |
| Education | 17,028 | (10,172) | 6,856 | 17,164 | (10,172) | 6,992 | 17,217 | (10,172) | 7,045 |
| Commissioning & Commercial Operations | 23,931 | (7,194) | 16,737 | 24,100 | (7,194) | 16,906 | 24,214 | (7,194) | 17,020 |
| DSG | 99,291 | (99,291) | - | 99,291 | (99,291) | - | 99,291 | (99,291) | - |
| **Total People & Communities** | **246,186** | **(158,885)** | **87,301** | **250,195** | **(158,158)** | **92,037** | **251,033** | **(158,194)** | **92,839** |
| | | | | | | | | | |
| **Public Health** | | | | | | | | | |
| Children 0-5 Health Visitors | 3,987 | - | 3,987 | 3,987 | - | 3,987 | 3,987 | - | 3,987 |
| Children 5-19 Health Programmes | 944 | - | 944 | 944 | - | 944 | 944 | - | 944 |
| Sexual Health | 1,938 | - | 1,938 | 1,938 | - | 1,938 | 1,938 | - | 1,938 |
| Substance Misuse | 2,282 | (95) | 2,187 | 2,282 | (95) | 2,187 | 2,282 | (95) | 2,187 |
| Smoking and Tobacco | 306 | - | 306 | 303 | - | 303 | 303 | - | 303 |
| Miscellaneous Public Health Services | 1,641 | (301) | 1,340 | 1,627 | (301) | 1,326 | 1,627 | (301) | 1,326 |
| Public Health Grant | - | (10,982) | (10,982) | - | (10,982) | (10,982) | - | (10,982) | (10,982) |
| **Total Public Health*** | **11,098** | **(11,378)** | **(280)** | **11,081** | **(11,378)** | **(297)** | **11,081** | **(11,378)** | **(297)** |
| | | | | | | | | | |
| **Resources** | | | | | | | | | |
| Director's Office | 273 | - | 273 | 281 | - | 281 | 286 | - | 286 |
| Financial Services | 3,870 | (585) | 3,285 | 3,737 | (585) | 3,152 | 3,727 | (585) | 3,142 |
| Corporate Items | 3,792 | (50) | 3,742 | 2,717 | (50) | 2,667 | 2,570 | (50) | 2,520 |
| Peterborough Serco Strategic Partnership | 54,701 | (48,195) | 6,506 | 53,750 | (48,195) | 5,555 | 54,093 | (48,195) | 5,898 |
| Corporate Property | 5,057 | (3,445) | 1,612 | 4,752 | (3,733) | 1,019 | 4,809 | (3,733) | 1,076 |
| Cemeteries, Cremation & Registrars | 1,522 | (3,029) | (1,507) | 1,565 | (3,043) | (1,478) | 1,590 | (3,056) | (1,466) |

| | 2020/21 | | | 2021/22 | | | 2022/23 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Gross Exp. Budget £000 | Income Budget £000 | Net Exp. Budget £000 | Gross Exp. Budget £000 | Income Budget £000 | Net Exp. Budget £000 | Gross Exp. Budget £000 | Income Budget £000 | Net Exp. Budget £000 |
| **Total Resources** | **69,215** | **(55,304)** | **13,911** | **66,802** | **(55,606)** | **11,196** | **67,075** | **(55,619)** | **11,456** |
| | | | | | | | | | |
| **Customer & Digital Services** | | | | | | | | | |
| Director Customer & Digital Services | 75 | - | 75 | 75 | - | 75 | 75 | - | 75 |
| ICT | 7,463 | (336) | 7,127 | 7,662 | (336) | 7,326 | 7,837 | (336) | 7,501 |
| Marketing & Communications | 495 | (146) | 349 | 486 | (146) | 340 | 494 | (146) | 348 |
| Resilience & Health & Safety | 317 | (35) | 282 | 327 | (35) | 292 | 333 | (36) | 297 |
| **Total Customer & Digital Services** | **8,350** | **(517)** | **7,833** | **8,550** | **(517)** | **8,033** | **8,739** | **(518)** | **8,221** |
| | | | | | | | | | |
| **Business Improvement** | | | | | | | | | |
| Programme Management Office | 602 | - | 602 | 576 | - | 576 | 579 | - | 579 |
| **Total Business Improvement** | **602** | **-** | **602** | **576** | **-** | **576** | **579** | **-** | **579** |
| | | | | | | | | | |
| **NET SERVICE EXPENDITURE** | **377,953** | **(242,647)** | **135,306** | **380,961** | **(242,243)** | **138,718** | **383,065** | **(242,308)** | **140,757** |
| | | | | | | | | | |
| **Corporate Expenditure** | 5,368 | - | 5,368 | 5,392 | - | 5,392 | 5,416 | - | 5,416 |
| | | | | | | | | | |
| **Capitalisation Directive** | (1,217) | - | (1,217) | - | - | - | - | - | - |
| | | | | | | | | | |
| **Capital Financing Costs** | 30,574 | (4,779) | 25,795 | 32,924 | (1,213) | 31,711 | 34,553 | (1,213) | 33,340 |
| | | | | | | | | | |
| **Contribution from/to Reserves** | (1,510) | - | (1,510) | - | - | - | - | - | - |
| | | | | | | | | | |
| **TOTAL PLANNED EXPENDITURE** | **411,168** | **(247,426)** | **163,742** | **419,277** | **(243,456)** | **175,821** | **423,034** | **(243,521)** | **179,513** |
| | | | | | | | | | |
| **REVISED DEFICIT/(SURPLUS)** | **413,968** | **(413,968)** | **-** | **422,133** | **(407,888)** | **14,245** | **425,958** | **(411,150)** | **14,808** |

**Note that Public health related activity and overheads are also reported under People and Communities and other directorates*

## Appendix B – Tranche One Budget Proposals

| Proposal | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
|---|---|---|---|
| **Building on successful transformation** | **2,312** | **2,367** | **2,367** |
| Review of care packages to promote independence | 1,749 | 1,749 | 1,749 |
| Dimming of street lighting between 9pm and 5am | 100 | 100 | 100 |
| Revised Services for low level support for older people discharged from hospital | 45 | 45 | 45 |
| Revised funding for Peterborough Community Assistance Scheme | 418 | 473 | 473 |
| **Changing services to reflect the council of today** | **7,171** | **9,020** | **9,100** |
| Changes to the Serco contract | 4,536 | 4,536 | 4,536 |
| HR Controls | 1,487 | 2,486 | 2,516 |
| Place and Economy directorate shared services progression | 139 | 195 | 195 |
| Reshaped Human Resources Function | 450 | 663 | 663 |
| Reshaping of departments and further shared services | 483 | 1,061 | 1,111 |
| Support provided for members | 76 | 79 | 79 |
| **Contract And Commercial** | **1,167** | **1,278** | **1,278** |
| Removal of unused project budget for road safety | 30 | 30 | 30 |
| Facilities management service costs within the Schools PFI | 168 | 168 | 168 |
| Joint commissioning of our Healthy Child Programme | 541 | 541 | 541 |
| Joint commissioning of our Integrated Lifestyle Services | 80 | 100 | 100 |
| Realignment of drug and alcohol budget | 40 | 40 | 40 |
| Reduction in the repair and maintenance budget through commercial review | 80 | 80 | 80 |
| Self-funding of Lifeline service after six weeks | 57 | 124 | 124 |
| Revised Extra Care Contract | 47 | 71 | 71 |
| City College Peterborough | 74 | 74 | 74 |
| Revised Stay Well in Winter campaign | 50 | 50 | 50 |
| **Corporate Savings** | **2,200** | **1,970** | **2,040** |
| Council Tax Base & Collection Fund | 600 | 370 | 440 |
| Inflation (Pension & Electricity) | 1,600 | 1,600 | 1,600 |
| **Redesign of Service** | **1,735** | **1,931** | **1,931** |
| Deprivation of Liberties Safeguards (DoLS) assessments | 107 | 159 | 159 |
| PAMS – reduction in outsourcing of assessments | 22 | 22 | 22 |
| Recommissioning children's centre contracts | 100 | 200 | 200 |
| Redesigned commissioning team through shared working | 60 | 60 | 60 |
| Reduction in agency staff in children's social care | 173 | 217 | 217 |
| Reduction in NHS Health Checks budget due to low uptake | 55 | 55 | 55 |
| Removal of social care lead practitioner post | 50 | 50 | 50 |
| Removal of vacant housing case worker post | 40 | 40 | 40 |
| Reshaping community and safety directorate | 127 | 127 | 127 |
| Restructure and remodelling of the Prevention and Enforcement Service (PES) | 380 | 380 | 380 |
| Review of school transport costs | 501 | 501 | 501 |
| Review of security and cleaning at Sand Martin House | 120 | 120 | 120 |
| **Reduction of Provision** | **1,061** | **1,061** | **1,011** |
| Prioritising street cleansing work | 129 | 129 | 129 |
| Reduction in discretionary youth services budget | 516 | 516 | 516 |
| Reduction in response time to non-hazardous fly tipping | 59 | 59 | 59 |
| Vivacity | 357 | 357 | 307 |
| **Spending Review** | **6,868** | **6,149** | **6,176** |
| Additional 1% Council Tax | 783 | 817 | 844 |
| Additional Social Care Funding | 3,308 | 3,308 | 3,308 |
| Continuation of IBCF (3 year ASC grant) | 1,121 | 1,121 | 1,121 |
| Homelessness | 279 | 279 | 279 |

| Proposal | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
|---|---|---|---|
| Public Health and Better Care Fund (NHS) | 419 | 419 | 419 |
| Revenue Support Grant increase at (Current CPI- 2%) | 205 | 205 | 205 |
| Continuation of Tackling Troubled Families | 753 | 0 | 0 |
| **Using our assets** | **646** | **586** | **586** |
| Changing frequency of property condition surveys | 67 | 67 | 67 |
| Increase in income from council-owned commercial units | 23 | 23 | 23 |
| Introducing auto-scale product | 45 | 45 | 45 |
| Move from Educate system to Synergy | 60 | 0 | 0 |
| Reduction in property contingency budget | 126 | 126 | 126 |
| Vivacity People’s Network support maintenance budget reduction | 6 | 6 | 6 |
| Income generation and business rates from Sand Martin House | 319 | 319 | 319 |
| **Grand Total** | **23,160** | **24,362** | **24,489** |

## Appendix C – Tranche Two Budget Proposals- Future years

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Description |
|---|---|---|---|---|
| **Capitalisation Direction** | **(1,217)** | | | |
| Capitalisation Direction | (1,217) | | | In order to deliver ongoing savings from 2020/21 the council launched a voluntary redundancy scheme in January. As part of this the council will need to pay significant one-off redundancy and transformation costs. In the past councils have been granted approval from government to use capital funding (borrowing) to fund revenue costs such as those associated with redundancy, known as a 'capitalisation direction'. With the support of MPs Shailesh Vara and Paul Bristow, the council has asked for that power to be granted for 2019/20. The government has not yet informed the council of its decision. *Note- also includes £7.738m of Capitalisation direction in 2019/20* |
| **Savings and Income** | **(12,895)** | **(2,459)** | **(1,974)** | |
| Additional Archaeological Services charges within Planning | (10) | (10) | (10) | This proposal looks to begin charging for some archaeological services that are non-statutory and are currently included in the overall planning fee that a person pays. The council is allowed to charge for discretionary services such as these, in the same way it is allowed to charge for other discretionary services. |
| Adult Social Care Demand and Better Care Fund | (106) | 473 | 509 | The council is receiving additional money in its Better Care Fund grant from Government from next year. It is proposed that this additional money is used to address council budget pressures as a result of an increase in demand for adult social care services. Without this investment then reductions would need to be made to front line adult social care provision. |

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Description |
|---|---|---|---|---|
| Business Rates Provision Review and forecast | (1,911) | | | The Council has reviewed the level of Business Rates provision it holds to mitigate the financial impact of valuation change and appeals. From this review the Council has been able to release some of this, due to:<br>o An element being held in respect of the 2010 revaluation list, where a number of appeals have been withdrawn reducing the overall risk<br>o A reduction in the overall % held in respect of the 2017 list. The national average was set at 4.7%, and the Council has been contributing at a rate of 4%, but on review of this some of the items provided for have already taken place and been accounted for. This and with a review of the overall balance and trend of appeals has meant that a reduction in the overall rate to 3.09% is appropriate at this stage.<br><br>The Council has also reprofiled the forecast, to take account of anticipated growth and other adjustments including deferred timescales for schools converting to academies, therefore not attracting the charitable relief status.<br><br>These changes mean that there is a one-off revenue benefit in 2020/21 |
| Capital Financing Budget Review | 68 | 69 | (46) | This is the cumulative impact to capital financing following amendments to the capital programme between the two tranches. |
| Capital receipts - POSH deferred Receipt element | (372) | (372) | (372) | The council has agreed with Peterborough United Football Club to spread part of the payment for the purchase of the ground over 5 years. Therefore £4.150million will be paid in 2019/20, which is already accounted for, and the remaining £1.115m will be paid over three years. |
| Capital Receipts- Asset Sales | (3,930) | | | The council has undertaken a review of all its assets and is proposing to sell a number of sites in 2020/21 generating capital receipts. |

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Description |
|---|---|---|---|---|
| ESPO Dividend | (73) | (73) | (73) | Peterborough is one of six councils who co-own the Eastern Shires Purchasing Organisation (ESPO) which was set up to provide greater purchasing power by collectively buying together. When customers use ESPO's services it incorporates a charge and a proportion of this charge is then returned as an annual dividend to the co-owning authorities.<br><br>In recent years an assumed annual dividend of £100,000 has been included in the budget. This proposal recommends increasing that by £73,000, based on the actual dividend the council has received in the past few years. |
| Fees and Charges and Inflation review | (135) | 75 | 3 | The Council has reviewed its fees and charges and inflation budget. This review has identified a small saving, with further detail being outlined in section 5.5 of the main MTFS report, and Appendix G |
| Food Waste Procurement | (150) | (150) | (150) | The Council separately collects food waste from households, and this enables it to be disposed of at a lower cost than when combined with black bin waste. The council intends to increase resident participation in the food waste collection scheme through additional promotion, and has secured a cost effective contract for its treatment. These measures should save the council £150,000. |
| Freeze on planting budget | (25) | (25) | (25) | This saving will be achieved through a reduction in planting larger 'standard' trees and a greater reliance on smaller whip planting where appropriate. The use of 'standards' will continue to be used on those sites where conditions warrant their use e.g. street tree planting. Good success rates have been achieved with whips and they are often less prone to vandalism, more resilient of drought and often establish quickly. |
| Housing | (1,520) | (1,520) | (1,520) | In previous years' budget rounds a prediction was made of what the likely spend would be on providing temporary accommodation in 2020/21 and beyond based on rising levels of demand and on the use of bed and breakfast type accommodation. In recent years the council has broadened its range of temporary accommodation by, for example, buying homes off the open market, leasing homes for use as temporary accommodation and building homes to increase the supply of permanent accommodation through its joint venture with Cross Keys Homes. As a result the council has reduced its reliance on bed and breakfast accommodation which is more costly and can therefore reduce the expected budget in 2020/21. |

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Description |
|---|---|---|---|---|
| | | | | |
| HR controls- Agency saving | | (188) | (188) | Following a review of existing HR related controls, a number of areas were identified which would benefit from central HR oversight such as absence management, leave, agency/interim spend, recruitment and training. As a result, a number of changes were agreed as part of Tranche one. Further investigation as part of the development and implementation of these changes have identified that the Council can, tighten controls around agency and consultancy to increase the financial benefit in future years. It is recognised that there will be a period of change in 2020/21, with the additional revenue benefit being achieved from 2021/22 onwards. |
| Minor Grant changes- as a result of the settlement | (2) | (2) | (2) | Minor grant changes as a result of the confirmed grant values within the Local Government Provisional Finance Settlement, in comparison to the estimates made following the Spending Review 2019 announcement. |
| New Homes Bonus | (510) | 2,235 | 2,840 | Following the Local Government Provisional Finance Settlement, the Council is set to receive an additional £0.510m of New Homes Bonus grant, then originally forecast. This is a result in housing growth exceeding forecasts.<br><br>However, there was also changes to the future of this grant announced which will see the grant payments in future years reduce significantly. This is due to the payments moving from reflecting four years' worth of growth in 2020/21, to only two years in 2022/21 and one year in 2022/23. MHCLG have confirmed that this funding will be distributed on a more targeted basis within Local Government, but the basis is unknown at present, and will be consulted on throughout 2020. |
| Parking Charges | (310) | (310) | (310) | The council is consulting upon a number of changes to parking charges across the city which will generate additional income. Included is an increase in all tariffs by 50p in Car Haven, Riverside, Wellington Street, Bishop's Road, Trinity Street, Fletton Quays multi-storey and Railway Sidings. In |

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Description |
|---|---|---|---|---|
| | | | | addition, it is proposed to increase the price of resident and visitor permits from £30 a year to £40 and for daily visitor permit books of ten to increase from £12 to £20. |
| Peterborough and Cambridgeshire Business Rates Pool | (1,320) | | | The Ministry of Housing, Communities and Local Government confirmed in December that Cambridgeshire and Peterborough authorities had been successful in their application for a business rates pool. This takes into account the business rates levy owed by each of the authorities, pooling them together, which produces a lower percentage levy calculation for member councils. |
| Property - Maximising the use of Sand Martin House | (475) | (950) | (950) | In 2019 the council decided to lease the second floor of Sand Martin House to the Construction Industry Training Board which has generated an ongoing income of £2.4m a year. This proposal looks to lease another part of the building to generate a further annual income. Council staff members now work in an agile way and base themselves in many different locations on a daily basis, therefore the need for a large number of desks in one building has reduced. |
| Public Health- various small savings | (33) | (33) | (33) | This proposal includes:<br>o A £10,000 reduction in our healthy workplace contract with Everyone Health, resulting in no reduction in service.<br>o A £10,000 modelled saving on our payments to GP practices and pharmacies for a range of public health contracts, due to low levels of activity leading to underspends on the contracts.<br>o A £6,000 saving in our public health staffing budget by reviewing vacancies.<br>o A £5,000 saving from commissioning voluntary sector peer support for breastfeeding mothers jointly with Cambridgeshire County Council.<br>o A £2,000 reduction in the budget for public health campaign materials. |
| Reduction in tree inspection & maintenance budget | (30) | (30) | (30) | This proposal looks to reduce the tree inspection and maintenance budget by £30,000. This reduction should not affect the council's duties in respect of health and safety obligations and therefore trees identified as requiring works to mitigate defined risks will continue to be managed. However, some of the proactive work the council does in terms of, for example, managing our shelter belts and the removal or reduction of nuisance trees near properties, will be reduced. |

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Description |
|---|---|---|---|---|
| Registration Income | (60) | (60) | (60) | A statutory change in the pricing of certificates will provide the council with additional income. The fees increased on 17/02/2018 as follows:<br>o Certificate on day of registration from £4 to £11<br>o Certificate after registration in current register from £7 to £11<br>o Certificate from archived register from £10 to £11 |
| Supplies and Services & Non-essential spend restrictions | (100) | (100) | (100) | In the current financial year restrictions have been put on spend for supplies and services such as printing, travel, publicity, equipment and hospitality.<br>This proposal looks to carry those restrictions forward into 2020/21 and for budgets for supplies and services across all council departments to be removed or reduced. |
| Voluntary Redundancy Programme | (639) | (706) | (705) | On January 2 the council launched a scheme which allowed staff the chance to obtain a quote for voluntary redundancy and put themselves forward for consideration. 18 applications were approved across the council, which will generate an annual saving of £0.705m |
| Waste management- Material Recycling Facility | (130) | (60) | (60) | A haulage, treatment and sale contract for the Material Recycling Facility allows mixed recycling materials to be collected from the depot on Nursery Lane and taken to an out of town Materials Recovery Facility where it is sorted into its constituent materials for transfer to purchasers for use in new products. A reduction in the expected costs of this contract until 2021 enables a short term saving to be made. |
| Council Tax- Collection Fund Surplus | (662) | | | There will be growth in council tax income for the current financial year above predictions because of the city's rising population and construction of new homes. This means that there is a collection fund surplus of surplus of £0.662m which can be rolled forward to support the 2020/21 budget.<br><br>The council is required to finalise the council tax collection fund position in January. a Provisional estimate was declared within the Council Tax base report, with this final figure being declared by the Chief Finance (section 151) Officer on 15 January. |

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Description |
|---|---|---|---|---|
| Council Taxbase | (460) | (722) | (692) | The council tax base is calculated by looking at the amount of properties within the city, and considering other variables which would affect council tax such as property banding, council tax support and council tax benefit. Peterborough is largely weighted towards band A and B properties, however due to a continued growth in the number of households paying council tax in Peterborough (caused by a population growth and house building within the city), the forecast for the amount of tax the council can collect has increased.<br><br>For further details the Council Tax base was reported to Cabinet on 13 January 2020. |
| **Service Budget Pressures** | **2,668** | **2,446** | **2,396** | |
| Direct Revenue Funding (Schools Capitalisation) | 400 | 400 | 400 | Schools use their own funding to support small projects such as building extensions. In previous years the council has chosen to fund such projects from its capital programme and schools have then transferred their revenue funding over to the council. This has provided an opportunity for the council to use this money for revenue purposes and replace it with capital money which is borrowed over an extended period. However, as a result of reduced funding schools are undertaking fewer projects and with more schools following the academy route, fewer are under local authority control. As a result, there is less of an opportunity for the council to generate a revenue income in this way and therefore the predicted income for 2020/21 needs to be reduced. |
| Housing Benefit Subsidy Reduction | 500 | 500 | 500 | The council pays housing benefit to claimants and receives a subsidy from Government for this cost. A government subsidy is also received towards the costs of administration. Additional income has been received in recent years from the recovery of money overpaid to claimants. However, the level of housing benefit is reducing following the move to Universal Credit, and the backlog of overpayment arrears has diminished. As a result, the council's budget needs to be adjusted to reflect the reduction in income from government and the reduction in arrears to be collected. |
| Income from sale of electricity from Energy from Waste plant | 250 | 250 | 250 | The council is able to sell electricity produced by its Energy Recovery Facility and as a result a predicted income is built into the council's budget. However, energy prices recently have been lower than experienced in previous years and the amount of power generated by the ERF has fluctuated, meaning the ERF is expected to generate a reduced income in 2020/21 and beyond, creating a £250,000 pressure in the council's budget. |

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Description |
|---|---|---|---|---|
| | | | | |
| METAL- recognition of a two year grant extension | 50 | 50 | | The council has an agreement with arts organisation Metal to provide annual funding of £50,000 until 2022 to enhance the city's cultural offering and make it an attractive place to live and spend time. This funding is match funded by the Arts Council.<br><br>As part of the agreement Metal must deliver a number of community arts projects in 2020/21 as it has done in the past two years, including at least one large scale public project in the city, bringing together a diverse range of local residents to participate. |
| Place & Economy Shared Service | 39 | 39 | 39 | A number of highways roles are now shared with Cambridgeshire County Council. A saving was built into the MTFS from 2019/20 of £160,000 as a result of this sharing arrangement and the removal of posts from the city council's highways structure. There is now a need for the council to contribute to the roles of District Highway Maintenance Manager and Bridge Engineer, which work across both council areas, reducing the overall saving from £160,000 to £121,000. |
| Property - Reduction in income from the Market and Northminster shops due to the demolition of the car park. | 187 | 187 | 187 | Following the planned demolition of the Northminster Multi-Storey Car Park, the council's budget needs to be adjusted to reflect that there will no longer be any rental income from the 11 shop units formerly on this site. The income from the market has also reduced as a result of the removal of 10 stalls. |
| Property - Loss of rental income from the sale of the Allia Business Centre | 41 | 41 | 41 | The council is selling the London Road football ground and the Allia Business Centre to Peterborough United Football Club. This will generate an income for the council in the form of a capital receipt. However the sale will lead to a loss of income from the Allia Future Business Centre, which this item explains. |
| Property - Additional Security | 60 | 60 | 60 | This proposal looks to increase security cover at Central Library which is now the location for child protection case conferences. |

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Description |
|---|---|---|---|---|
| Property - Town Hall North delayed Income | 288 | 0 | 0 | A refurbishment of the Town Hall North is taking longer than expected for a number of reasons including design changes by the Cambridgeshire and Peterborough NHS Foundation which has agreed to lease the space and the condition of the building which has required more remedial action (e.g. asbestos removal) than had been expected. As a result of these issues the building is not expected to be available for occupation until late 2020, leading to a loss of rental income for one year. |
| Capitalisation Direction- Cost of Borrowing | 566 | 632 | 632 | If the council is permitted to use capital funding to pay the revenue costs associated with redundancy, as outlined above, there will be an annual cost of borrowing as outlined in this proposal. |
| SEN and Home to School Transport - additional service demand | 287 | 287 | 287 | As a result of a rising number of Education Health and Care Plans and the need to transport more pupils to special schools, there is an ongoing commitment of £287,000 which requires base funding. Options are being explored on how to mitigate these changes, but the increase is in line with population increase and a rising complexity of needs for children with SEND. |
| **Tranche One Budget Proposal Adjustments** | **3,450** | **3,097** | **3,097** | |
| Members Allowances - putting back the saving from Tranche One | 19 | 19 | 19 | At a cabinet meeting on 20 December 2019, cabinet voted to remove two items from the tranche one proposals that related to members' allowances that now need adding back in. These include:<br>o Removal of the £15,200 saving for IT equipment.<br>o To maintain the current car parking charge to members of £44 a year. |
| Vivacity | 178 | 178 | 178 | Discussions are ongoing with Vivacity about ways its reliance on council funding can be reduced, as outlined in tranche one of the 2020/21 budget setting process. However, time is needed to develop robust plans and therefore some of the predicted savings are uncertain and should be taken out of the MTFS. |
| SEN and Home to School Transport | 222 | 255 | 255 | Following a full review of the savings proposed in tranche one of the budget, detailed business cases have been developed into the key areas and updated to reflect the latest demand for transport. This |

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Description |
|---|---|---|---|---|
| | | | | has led to a reduction in some of the savings proposals under the following headings -<br>o looking at how we manage demand for transport (including more independent travel support)<br>o Cost effective alternatives to existing transport arrangements (including parental mileage)<br>o better procurement (including stimulating market)<br>o ensuring that transport routes are used to optimum levels (including the sharing and scheduling of vehicles to a greater capacity). |
| HR Function | | 121 | 121 | A tranche one proposal committed to a reshaping of the HR function to align it with the new HR controls being introduced. Since then further investigations into how this could be delivered have concluded that the expected saving will need to be reduced |
| Reduction in facilities management services performed by Bouygues at schools | 168 | 168 | 168 | A Tranche One proposal committed to renegotiating the cost of facilities management which forms part of the PFI contract for Jack Hunt, Ken Stimpson and Queen Katharine Academy. Further investigations have found that the predicted savings are uncertain and should therefore be taken out of the 2020/21 MTFS. Investigations are ongoing as to how this contract can be reduced. |
| Serco | 1,702 | 1,702 | 1,702 | Discussions are ongoing with Serco to develop a robust savings plan as described in tranche one. However, time is needed to develop this plan further and therefore, predicted savings are uncertain and the saving within the MTFS has been reduced to reflect this. |
| Business Support | 1,161 | 654 | 654 | In Tranche one the council proposed a saving of £2,536,000 by redesigning the business support/admin/personal assistant function across the council. Since then further investigations into how this could be delivered have concluded that the expected saving will need to be phased, so the saving in 2020/21 and 2021/22 will need to be reduced. |
| **Grand Total** | **(7,994)** | **3,084** | **3,519** | |

## Appendix D – Grant Register

| Department | Fund Provider | Grant Name | Grant Amount 2020/21 | Brief Description of what the grant is being used for |
|---|---|---|---|---|
| | | | **£000** | |
| Place & Economy | DfT | Bus Service Operator's Grant | Unknown | Supporting Bus Services & provision of infrastructure supporting such services. |
| Place & Economy | DfT | Bikeability | (58) | Programme to increase the provision of cycle training for children attending compulsory education in England in accordance with the National Standards. |
| Place & Economy | MHCLG | Lead Local Flood Authority | Unknown | Support the Flood and Drainage department. |
| Place & Economy | CPCA | CPCA Sustainable Travel | Unknown | Recharge of Sustainable Transport costs to CPCA who have the Transport Powers |
| Place & Economy | CPCA | CPCA Schemes & Studies | Unknown | Recharge of Transport Planning costs to CPCA who have the Transport Powers |
| Place & Economy | MHCLG | New Towns Fund | Unknown | The Council will submit an investment plan in May 2020 and if we are successful, the grant may be available after summer 2020. Detailed guidelines are expected end of February 2020. |
| **PLACE & ECONOMY TOTAL** | | | **(58)** | |
| People & Communities | Cambridgeshire Police & Crime Commissioner | Crime & Disorder grant for PCC PES | (24) | Contributes to Community Safety Services |
| People & Communities | MHCLG | PFI | (4,731) | DfE Grant for 3 PFI School schemes |
| People & Communities | MHCLG | Flexible Homelessness Support Grant | (882) | To support self-contained accommodation for homelessness as a replacement for previous scheme |
| People & Communities | MHCLG | Rough Sleeping Initiative | (700) | To provide local support for those living on the streets with ongoing initiatives such as dedicated support teams and securing additional bed spaces - now includes the Rapid Re-Housing Pathway grant |
| People & Communities | MHCLG | Homelessness Reductions Act - New Burdens funding | (303) | New burdens funding for the initial costs associated with implementing the Homelessness Reduction Act |
| People & Communities | HO | Tackling Troubled Families Grant | (400) | Various programmes within Peterborough, a detailed monitoring sheet is available |
| People & Communities | HO | Syrian Refugee Resettlement Programme | (580) | Resettlement programme for refugees |
| People & Communities | HO | Fenland Syrian Refugee Resettlement Programme | (81) | Resettlement programme for refugees |
| People & Communities | Arts Council | Music Education Hubs | (343) | Funding to create joined-up music education provision |
| People & Communities | DfE | Extension of the Role of Virtual School Heads to Certain Previously Looked after Children Implementation Grant | unknown | The purpose of this grant is to provide support to local authorities in England, to help them meet their duty to appoint a Virtual School Head for previously looked- |

| Department | Fund Provider | Grant Name | Grant Amount 2020/21 | Brief Description of what the grant is being used for |
|---|---|---|---|---|
| | | | | after children and make information and advice available to the following parties for the purposes of promoting the education of eligible previously looked-after children: |
| People & Communities | EFA | Dedicated Schools Grant | (93,991) | Funding is split in four blocks. Schools block which is allocated to schools through the Peterborough's schools funding formula. Early years block which funds free nursery education for 3 and 4 year olds and qualifying 2 year olds, a small percentage is retained for support services. The high needs block provides support for children aged 0-25 with special educational needs either through direct resources or support services. The Central Schools Services Block funds school support services. |
| People & Communities | EFA | Primary PE and Sport Premium | unknown | The PE and sport premium was introduced to improve the provision of physical education and school sport in primary schools across England. The funding is allocated directly to primary schools and is ring-fenced. This means it may only be spent on improving the provision of PE and sport in schools. |
| People & Communities | EFA | Vulnerable Bursary Fund | unknown | 16 to 19 Bursary Fund summary. The 16 to 19 Bursary Fund provides financial support to help students overcome specific barriers to participation so they can remain in education |
| People & Communities | EFA | Sixth Form Funding from the Education Funding Agency (EFA) | (1,106) | Funding for sixth-form colleges and special schools to provide study programmes for young people aged 16-19. Funding is allocated through and national funding formula and passported to schools.. |
| People & Communities | EFA | Pupil Premium Grant | (4,194) | The pupil premium is additional funding for publicly funded schools in England. It's designed to help disadvantaged pupils of all abilities perform better, and close the gap between them and their peers. |
| People & Communities | DfE | Universal Infants Free School Meals | unknown | Funding for schools to provide a free schools meal to infant aged (Reception, year 1 and year 2)pupils. |
| People & Communities | EFA | Teachers Pay grant | Will be notified Spring 2020 | Funding to support schools with the recommended September 2018 pay award for teachers. |
| **PEOPLE & COMMUNITIES TOTAL** | | | **(107,335)** | |
| Public Health | DoH | Public Health grant | (10,982) | Grant funds the spend attributable to Public Health |
| **PUBLIC HEALTH TOTAL** | | | **(10,982)** | |
| Resources | DWP | Discretionary Housing Payments (DHPs) | To be confirmed | Discretionary Housing Payments. Expenditure=income |
| Resources | DWP | Mandatory Rent Allowances: subsidy | To be confirmed | Housing Benefit Claims |

| Department | Fund Provider | Grant Name | Grant Amount 2020/21 | Brief Description of what the grant is being used for |
|---|---|---|---|---|
| Resources | DWP | Housing Benefit Subsidy Admin Grant | (622) | Housing Benefit Admin |
| Resources | DWP | New Burdens - Universal Credit | (26) | This New Burden funding reflects the additional costs associated with UC implementation. |
| Resources | DWP | New Burdens - HB Other | (63) | This New Burden funding relates to the costs incurred by LAs in administering the DHP scheme and the extra costs of implementing the benefit cap regulations. |
| Resources | MHCLG | Localised Council Tax Support Admin Subsidy grant | Unknown | Council Tax Support Administration |
| Financing | MHCLG | New Homes Bonus | (4,701) | New Homes Bonus is a grant paid by MHCLG to incentivise new house building, including additional incentives for affordable housing and bringing empty homes back in to use. This is calculated using house numbers included within the annual CTB1 (Council tax) return submitted by Councils. |
| Financing | MHCLG | Revenue Support Grant | (10,413) | Revenue Support Grant is a central government grant given to local authorities which can be used to finance revenue expenditure on any service. The amount of Revenue Support Grant to be provided to authorities is established through the local government finance settlement |
| Financing | MHCLG | S31 Business rate grants: **see below** | | The Council received section 31 grant funding, in relation to Business Rates where the Government has announced changes to the scheme, which differ to the original legislation set. These payments are seen as a compensation payment to Councils where the change would reduce their income generation potential. For example when MHCLG have announced an increase in the Small Business Rates Relief this would help local small businesses by providing relief for them, but create a pressure for the Council. The government pay this difference to ensure the council maintains its income level and also ensures businesses are supported. |
| Financing | MHCLG | S31 Business Rate Capping | (1,817) | |
| Financing | MHCLG | S31 Small Business Rates relief | (2,367) | |
| Financing | MHCLG | S31 Small Business Rates supplement | (188) | |
| Financing | MHCLG | S31 Local DRR scheme | (4) | |
| Financing | MHCLG | S31 Rural rate relief | (8) | |
| Financing | MHCLG | S31 Rate bill cap for small bus (£600 cap) | (7) | |
| Financing | MHCLG | Social Care Grant | (4,679) | |
| Financing | MHCLG | Improved Better Care Fund | (7,260) | Improved Better Care Fund - to alleviate the pressure that Local Authorities face in the provision of Adult Social Care |
| **RESOURCES TOTAL** | | | **(32,155)** | |
| **ALL REVENUE GRANTS TOTAL** | | | **(150,530)** | |

## Appendix E – Council Tax Information

### ASC Precept and general Council Tax increase assumptions within the MTFS:

| **Summary** | **2019/20** | **2020/21** | **2021/22** | **2022/23** |
|---|---|---|---|---|
| Council Tax increase | 2.99% | 1.99% | 2.99% | 2.99% |
| ASC precept increase | 0.00% | 2.00% | 0.00% | 0.00% |
| Council Tax Band D (general Council Tax) | £1,344.37 | £1,371.11 | £1,439.81 | £1,482.86 |
| Council Tax Band D - ASC precept | £0.00 | £26.89 | £0.00 | £0.00 |
| **Council Tax Band D** | **£1,344.37** | **£1,398.00** | **£1,439.81** | **£1,482.86** |
| Council Tax Base - Band Ds | 57,555.25 | 59,093.47 | 59,873.47 | 60,653.47 |
| | | | | |
| **Council Tax Requirement (Band D x Council Tax Base)** | **£77,375,551** | **£82,612,671** | **£86,205,822** | **£89,939,998** |
| Collection Fund- Council Tax Surplus | £201,000 | £662,000 | | |
| Parish Precept | £672,134 | £697,807 | £697,807 | £697,807 |
| **Total Council Tax (as per Appendix A)** | **£78,248,684** | **£83,972,477** | **£86,903,629** | **£90,637,806** |

### Break down of the ASC Precept and general Council Tax:

| | **2019/20 Band D** | **2020/21 Band D** | **2021/22 Band D** | **2022/23 Band D** |
|---|---|---|---|---|
| General Council Tax | £1,210.64 | £1,249.67 | £1,276.42 | £1,318.22 |
| Increase | £39.03 | £26.74 | £41.80 | £43.05 |
| | **£1,249.67** | **£1,276.41** | **£1,318.22** | **£1,361.27** |
| ASC precept 2016/17 | £22.56 | £22.56 | £22.56 | £22.56 |
| ASC precept 2017/18 | £35.19 | £35.19 | £35.19 | £35.19 |
| ASC precept 2018/19 | £36.95 | £36.95 | £36.95 | £36.95 |
| ASC precept 2019/20 | £0.00 | £0.00 | £0.00 | £0.00 |
| ASC precept 2020/21 | £0.00 | £26.89 | £26.89 | £26.89 |
| **Total** | **£1,344.37** | **£1,398.00** | **£1,439.81** | **£1,482.86** |

### Breakdown of the Council Tax across the valuation bands:

| | **Valuation Bands** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **A**<br>£ | **B**<br>£ | **C**<br>£ | **D**<br>£ | **E**<br>£ | **F**<br>£ | **G**<br>£ | **H**<br>£ |
| Total Non-Parished Areas | 932.00 | 1,087.33 | 1,242.67 | 1,398.00 | 1,708.67 | 2,019.32 | 2,330.00 | 2,796.00 |
| *Multipliers (which are applied to the Band D rate)* | *0.6667* | *0.7778* | *0.8889* | *1.0000* | *1.2222* | *1.4444* | *1.6667* | *2.0000* |

**Appendix F – Business Rates- Discretionary Retail Relief**

On Monday 27 January 2020, the Financial Secretary to the Treasury made a Written Ministerial Statement announcing additional business rates measures that will apply from 1 April 2020. An extract from the text of the statement is reproduced below.

The Government will increase the retail discount from one-third to 50 per cent, extend that discount to cinemas and music venues, extend the duration of the local newspapers office space discount, and introduce an additional discount for pubs.

The increase in the level of the retail discount from one-third to 50 per cent will apply in 2020/21 for eligible retail businesses occupying a property with a rateable value less than £51,000.

The extension of the retail discount is to those eligible music venues and cinemas with a rateable value of less than £51,000.

The extension of the £1,500 business rates discount for office space occupied by local newspapers will apply for an additional 5 years until 31 March 2025.

The pubs discount will provide a £1,000 discount to eligible pubs with a rateable value of less than £100,000 in 2020/21. This is in addition to the retail discount and will apply after the retail discount.

All reliefs are subject to state aid rules and apply in England only.

The Government confirms that it will fully fund local authorities for awarding these reliefs and provide new burdens funding to local authorities for administrative and IT costs.

The Government expects local authorities to ensure these changes are applied for the start of the 2020/21 billing period.

As in previous years the Government is not changing the primary legislation around the reliefs available to properties. Instead the Government will, in line with the eligibility criteria set out in the guidance, reimburse local authorities that use their discretionary relief powers, introduced by the Localism Act (under section 47 of the Local Government Finance Act 1988, as amended) to grant relief.

As part of the budget setting process for 2019/20 the council approved the retail relief scheme for both 2019/20 and 2020/21 at its current level of 33%. The government have now updated the detailed guidance on the operation of the retail relief scheme which now includes relief at the higher rate of 50% and the following additional categories of premises for 2020/21:

“iv. Hereditaments which are being used as cinemas

v. Hereditaments that are being used as live music venues:

− live music venues are hereditaments wholly or mainly used for the performance of live music for the purpose of entertaining an audience. Hereditaments cannot be considered a live music venue for the purpose of business rates relief where a venue is wholly or mainly used as a nightclub or a theatre, for the purposes of the Town and Country Planning (Use Classes) Order 1987 (as amended).

− Hereditaments can be a live music venue even if used for other activities, but only if those other activities (i) are merely ancillary or incidental to the performance of live music (e.g. the sale/supply of alcohol to audience members) or (ii) do not affect the fact that the primary activity for the premises is the performance of live music (e.g. because those other activities are insufficiently regular or frequent, such as a polling station or a fortnightly community event).

− There may be circumstances in which it is difficult to tell whether an activity is a performance of live music or, instead, the playing of recorded music. 7 Although we would expect this would be clear in most circumstances, guidance on this may be found in Chapter 16 of the statutory guidance issued in April 2018 under section 182 of the Licensing Act 2003."

The government have also issued new guidance for the operation of the pubs discount which will provide £1,000 relief to all pubs with an RV of less than £100,000. This is in addition to the 50% retail relief (calculated first) due to pubs with an RV of less than £51,000.

The Retail relief and pubs relief are available in 2020/21 only, the discount for office space occupied by local newspapers is an extension of the current scheme for a further 5 years up to 31st March 2025.

### Appendix G – Fees and Charges

| Directorate | Service Area | Charge | Average Increase | Council Lead/Statutory |
|---|---|---|---|---|
| Governance | Mayoralty/Civic | Civic Room Lettings | 1.5% | Council Lead |
| Place and Economy | Passenger Transport | Queensgate Bus Station | 0.0% | Council Lead |
| Place and Economy | Street Works | Licenses and permits | 2.9% | Council Lead |
| Place and Economy | Asset Management | Street naming & numbering information | 0.0% | Council Lead |
| Place and Economy | Trans and Development | Highways Development | 1.6% | Council Lead |
| Place and Economy | Planning | Planning Fees and Charges | 0.0% | Council Lead/Statutory |
| Place and Economy | Archaeology Service | Archaeology Services | 0.0% | Council Lead |
| Place and Economy | City Centre Services | City Services Street Trading | 1.1% | Council Lead |
| Place and Economy | Tourism | Tickets sold on behalf of event organisers | 0.0% | Council Lead |
| Place and Economy | Licensing | Gambling Act Licensing | 17.6% | Statutory |
| Place and Economy | Licensing | Hackney Carriage Licensing | 3.4% | Council Lead |
| Place and Economy | Licensing | Animal Welfare Licensing | 0.3% | Council Lead |
| Place and Economy | Licensing | Lottery Licensing | 0.0% | Statutory |
| Place and Economy | Business Regulations | Other Environmental Health Licensing | 1.5% | Council Lead |
| Place and Economy | Business Regulations | Construction, Design and Management Fees | 0.0% | Statutory |
| Place and Economy | Business Regulations | Trading Standards | 0.5% | LACORS (Local Authority Coordination of Regulated Services |
| Place and Economy | Business Regulations | Street Trading Consents (Non Pedestrian Area) | 5.2% | Council Lead |
| Place and Economy | Business Regulations | Other charges | 0.9% | Council Lead/Statutory |
| Place and Economy | Community Protection | Environmental Protection Act | 0.0% | Statutory |
| People and Communities | Community Protection | Environmental Enforcement | 5.6% | Statutory |
| People and Communities | Enforcement | Houses of Multiple Occupation License | 0.0% | Statutory |
| People and Communities | Housing & Healthy Living - Housing | Selective Licensing | 0.0% | Council Lead |
| People and Communities | Education | Parental contribution to Bus Passes issued | 20.7% | Council Lead |
| People and Communities | Parking Services | PCN's - Off Street Parking | 0.0% | Statutory |
| People and Communities | Parking Services | PCN's - On Street Parking | 0.0% | Statutory |
| People and Communities | Parking Services | On Street Parking | 0.0% | Council Lead |
| People and Communities | Parking Services | Off Street Parking | 14.4% | Council Lead |
| People and Communities | Parking Services | Off Street Parking Season tickets | 0.0% | Council Lead |
| People and Communities | Parking Services | Staff Parking | 0.0% | Council Lead |
| People and Communities | Parking Services | Residential Parking | 15.3% | Council Lead |
| People and Communities | Children & Families | Accommodation charges | 0.0% | Council Lead |
| People and Communities | Children's Social Care | Unauthorised absence penalty notice | 0.0% | Statutory |
| People and Communities | Independent Sector Placements | Extra Care Schemes | 2.4% | Council Lead |
| People and Communities | Independent Sector Placements | Day services | 0.0% | Council Lead |
| People and Communities | Independent Sector Placements | Direct payment rates | 0.0% | Council Lead |
| People and Communities | Independent Sector Placements | Respite | Assessed charge | Council Lead |
| Resources | Bereavement Services | Crematorium fees | 4.1% | Council Lead |
| Resources | Bereavement Services | Memorial Sales | 3.2% | Council Lead |
| Resources | Bereavement Services | Cemetery fees | 4.1% | Council Lead |
| Resources | Registration Services | Private Citizenship Ceremonies | 4.9% | Council Lead |

| Directorate | Service Area | Charge | Average Increase | Council Lead/Statutory |
|---|---|---|---|---|
| Resources | Registration Services | Approved Premises/Registration Office | 2.7% | Council Lead |
| Resources | Registration Services | Baby Naming/Renewal of Vows | 2.2% | Council Lead |
| Resources | Registration Services | Registration Services – Statutory fees | 0.9% | Statutory |
| Resources | Strategic Property | Property Rents | Varies | Council Lead |

**Further Fees and Charges information available on the Peterborough City Council Website, using the following links:**

Car Parking Charges and Fees: https://www.peterborough.gov.uk/residents/parking/car-park-locations

Planning Application Charges and Fees: https://www.peterborough.gov.uk/council/planning-and-development/planning-and-building

Registration and Bereavement Services Charges and Fees: https://www.peterborough.gov.uk/residents/births-deaths-and-ceremonies

Registration Services – Baby Naming/ Renewal of Vows Charges and Fees: https://www.peterborough.gov.uk/residents/births-deaths-and-ceremonies/baby-naming-and-renewal-of-vows

Peterborough Crematorium Charges and Fees: https://www.peterborough.gov.uk/residents/births-deaths-and-ceremonies/cremations

Street Trading Charges and Fees: https://www.peterborough.gov.uk/business/licences-and-permits/apply-for-a-licence/street-trading-consent

Licences and Permits Charges and Fees: https://www.peterborough.gov.uk/business/licences-and-permits

Selective Licensing Charges and Fees: https://www.peterborough.gov.uk/residents/housing/selective-licensing/selective-licensing-overview

Highways Control Charges and Fees: https://www.peterborough.gov.uk/council/planning-and-development/highway-control

Street Naming and Numbering Charges and Fees: https://www.peterborough.gov.uk/council/planning-and-development/street-names-and-numbering

**Appendix H – Capital Programme Schemes 2019/20- 2023/24**

| Project | 2020/21 | 2021/22 | 2022/23 | 2020/21 Funding | | 2021/22 Funding | | 2022/23 Funding | |
|---|---|---|---|---|---|---|---|---|---|
| | Budget | Budget | Budget | Corp. Res. | 3rd Party Inc. | Corp. Res. | 3rd Party Inc. | Corp. Res. | 3rd Party Inc. |
| **Strategic Plans** | | | | | | | | | |
| New Primary provision | 100 | 100 | 100 | 100 | - | 100 | - | 100 | - |
| New Secondary provision | 1,000 | - | - | 1,000 | - | - | - | - | - |
| New school provision in Great Haddon | 500 | 500 | 10,000 | - | 500 | - | 500 | - | 10,000 |
| Leisure Trust schemes | 180 | 1,200 | - | 180 | - | 1,200 | - | - | - |
| **People & Communities Total** | **1,780** | **1,800** | **10,100** | **1,280** | **500** | **1,300** | **500** | **100** | **10,000** |
| A1260 Nene Thorpe Bridge / Nene Parkway | - | - | 2,500 | - | - | - | - | 2,500 | - |
| A15 Paston Parkway APV Baker Footbridge | - | - | 150 | - | - | - | - | 150 | - |
| A1260 Nene Parkway Longthorpe Footbridge | - | - | 250 | - | - | - | - | 250 | - |
| Parkway Drainage Improvement Programme | - | - | 250 | - | - | - | - | 250 | - |
| Intelligent Transport Systems Infrastructure | 250 | - | 250 | 250 | - | - | - | 250 | - |
| **Place and Economy Total** | **250** | **-** | **3,400** | **250** | **-** | **-** | **-** | **3,400** | **-** |
| North Westgate Development | 2,000 | 2,000 | - | 2,000 | - | 2,000 | - | - | - |
| Crematorium Relining | 42 | 88 | - | 42 | - | 88 | - | - | - |
| Further s106 / CLF etc | 500 | - | - | - | 500 | - | - | - | - |
| **Resources Total** | **2,542** | **2,088** | **-** | **2,042** | **500** | **2,088** | **-** | **-** | **-** |
| **Total Strategic Plans** | **4,572** | **3,888** | **13,500** | **3,572** | **1,000** | **3,388** | **500** | **3,500** | **10,000** |
| | | | | | | | | | |
| **Rolling Programes** | | | | | | | | | |
| ICT Projects | 4,920 | 5,000 | 3,500 | 4,920 | - | 5,000 | - | 3,500 | - |
| **Customer & Digital Services Total** | **4,920** | **5,000** | **3,500** | **4,920** | **-** | **5,000** | **-** | **3,500** | **-** |
| Capital expenditure incurred by Peterborough Schools | 458 | 458 | 458 | - | 458 | - | 458 | - | 458 |

| Project | 2020/21 | 2021/22 | 2022/23 | 2020/21 Funding | | 2021/22 Funding | | 2022/23 Funding | |
|---|---|---|---|---|---|---|---|---|---|
| | Budget | Budget | Budget | Corp. Res. | 3rd Party Inc. | Corp. Res. | 3rd Party Inc. | Corp. Res. | 3rd Party Inc. |
| Off Street Car Parks - Structural Works And Resurfacing | 114 | 100 | 100 | 114 | - | 100 | - | 100 | - |
| School capital maintenance, minor works and overall programme costs | 2,330 | 2,090 | 2,100 | 1,130 | 1,200 | 890 | 1,200 | 900 | 1,200 |
| Social Care property adpations and equipment | 3,615 | 3,615 | 3,650 | 1,415 | 2,200 | 1,415 | 2,200 | 1,450 | 2,200 |
| **People & Communities Total** | **6,517** | **6,263** | **6,308** | **2,659** | **3,858** | **2,405** | **3,858** | **2,450** | **3,858** |
| Play Areas Improvement Programme | 346 | 185 | 185 | 346 | - | 185 | - | 185 | - |
| Wheelie Bins | 160 | 160 | 160 | 160 | - | 160 | - | 160 | - |
| Roads And Bridges | 330 | 330 | 330 | 330 | - | 330 | - | 330 | - |
| Highways | 4,221 | 3,921 | 3,921 | 855 | 3,366 | 555 | 3,366 | 555 | 3,366 |
| Surface Treatments | 630 | 630 | 630 | 630 | - | 630 | - | 630 | - |
| Integrated Transport Programme | 1,407 | 1,407 | 1,407 | - | 1,407 | - | 1,407 | - | 1,407 |
| Refurbishment of Traffic Signal Sites Nearing End of Life | 200 | 100 | 120 | 200 | - | 100 | - | 120 | - |
| Parkways Five Year Maintenance programme | 1,500 | 1,500 | 1,500 | 1,500 | - | 1,500 | - | 1,500 | - |
| Extreme Weather Network Improvements | 1,000 | 750 | 750 | 1,000 | - | 750 | - | 750 | - |
| Safety Fencing Network | 1,800 | 1,400 | 1,400 | 1,800 | - | 1,400 | - | 1,400 | - |
| Street Lighting Cables and Feeder Pillar Upgrade | 1,000 | 500 | 500 | 1,000 | - | 500 | - | 500 | - |
| Street Signage | 50 | 50 | 50 | 50 | - | 50 | - | 50 | - |
| Footway Slab Replacement Programme | 230 | 230 | 230 | 230 | - | 230 | - | 230 | - |
| Highways Capitalisation | 250 | 250 | 250 | 250 | - | 250 | - | 250 | - |
| **Place and Economy Total** | **13,124** | **11,413** | **11,433** | **8,351** | **4,773** | **6,640** | **4,773** | **6,660** | **4,773** |
| Corporate costs | 400 | 223 | - | 400 | - | 400 | (177) | - | - |
| Cost Of Disposals | 250 | 500 | - | 250 | - | 500 | - | - | - |
| Leisure Trust Property capital maintenance and minor works | 700 | 350 | 350 | 700 | - | 350 | - | 350 | - |
| Strategic Property Portfolio capital maintenance and minor works | 4,850 | 1,840 | 1,706 | 4,850 | - | 1,840 | - | 1,706 | - |

| Project | 2020/21 | 2021/22 | 2022/23 | 2020/21 Funding | | 2021/22 Funding | | 2022/23 Funding | |
|---|---|---|---|---|---|---|---|---|---|
| | Budget | Budget | Budget | Corp. Res. | 3rd Party Inc. | Corp. Res. | 3rd Party Inc. | Corp. Res. | 3rd Party Inc. |
| **Resources Total** | **6,200** | **2,913** | **2,056** | **6,200** | **-** | **3,090** | **(177)** | **2,056** | **-** |
| **Total Rolling Programmes** | **30,761** | **25,589** | **23,297** | **22,130** | **8,631** | **17,135** | **8,454** | **14,666** | **8,631** |
| | | | | | | | | | |
| **Business Cases in Development** | | | | | | | | | |
| Heltwate - expansion and refurbishment | 3,784 | - | - | 2,207 | 1,577 | - | - | - | - |
| Hampton Waters Primary | 1,000 | 11,700 | - | - | 1,000 | - | 11,700 | - | - |
| Manor Drive (Paston Reserve) Primary - new 2FE primary | 100 | 6,326 | - | 86 | 14 | - | 6,326 | - | - |
| Manor Drive (Paston Reserve) Secondary - new 6FE secondary | 6,860 | 13,000 | 5,839 | 485 | 6,375 | - | 13,000 | - | 5,839 |
| Marshfields Expansion | 1,801 | - | - | 1,106 | 695 | - | - | - | - |
| **People & Communities Total** | **13,545** | **31,026** | **5,839** | **3,884** | **9,661** | **-** | **31,026** | **-** | **5,839** |
| Peterborough University Access | 91 | 5,000 | 5,000 | - | 91 | 1,500 | 3,500 | 1,500 | 3,500 |
| Eastern Industries Access Phase 1 - Parnwell Way | 5,277 | - | - | 1,500 | 3,777 | - | - | - | - |
| A1260 Nene Parkway Junction 15 improvements | 149 | - | 7,500 | - | 149 | - | - | 2,250 | 5,250 |
| A1260 Nene Parkway Improvement Jn 32 to Jn 3 (Fletton Parkway) | 7 | 5,000 | - | - | 7 | 1,500 | 3,500 | - | - |
| A16 Norwood Dualling | 67 | - | - | - | 67 | - | - | - | - |
| Peterborough Integrated Renewables Infrastructure (PIRI) | 80 | - | - | 80 | - | - | - | - | - |
| **Place and Economy Total** | **5,671** | **10,000** | **12,500** | **1,580** | **4,091** | **3,000** | **7,000** | **3,750** | **8,750** |
| IFRS 16 Transition | 22,000 | - | - | 22,000 | - | - | - | - | - |
| **Resources Total** | **22,000** | **-** | **-** | **22,000** | **-** | **-** | **-** | **-** | **-** |
| **Total Business Cases in Development** | **41,216** | **41,026** | **18,339** | **27,464** | **13,752** | **3,000** | **38,026** | **3,750** | **14,589** |
| | | | | | | | | | |
| **Active Schemes** | | | | | | | | | |
| Hampton Lakes - New Primary | 1,160 | - | - | - | 1,160 | - | - | - | - |
| Clare Lodge | 212 | - | - | - | 212 | - | - | - | - |

| Project | 2020/21 Budget | 2021/22 Budget | 2022/23 Budget | 2020/21 Funding Corp. Res. | 2020/21 Funding 3rd Party Inc. | 2021/22 Funding Corp. Res. | 2021/22 Funding 3rd Party Inc. | 2022/23 Funding Corp. Res. | 2022/23 Funding 3rd Party Inc. |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |
| **People & Communities Total** | **1,372** | **-** | **-** | **-** | **1,372** | **-** | **-** | **-** | **-** |
| Operation Can Do | 2,000 | - | - | 2,000 | - | - | - | - | - |
| Nene Bridge Bearings | 2,080 | - | - | 2,080 | - | - | - | - | - |
| Crescent Bridge Refurbishment | 104 | - | - | 35 | 69 | - | - | - | - |
| Strategic Network Review | 145 | - | 150 | 145 | - | - | - | 150 | - |
| A1139 Frank Perkins Parkway | 312 | - | - | 312 | - | - | - | - | - |
| A47/AA15 Lincoln Road Junction 18 Improvements | 800 | - | - | 800 | - | - | - | - | - |
| A605 Oundle Road improvement scheme (between Lynch Wood and Alwalton) NPIF | 1,469 | - | - | 674 | 795 | - | - | - | - |
| A605 Whittlesey Access Phase 2 – Stanground Access | 3,232 | - | - | 2,158 | 1,074 | - | - | - | - |
| Westwood Footbridge Pier Top Concrete Refurb | 88 | - | - | 3 | 85 | - | - | - | - |
| **Place and Economy Total** | **10,230** | **-** | **150** | **8,207** | **2,023** | **-** | **-** | **150** | **-** |
| Housing Joint Venture | 6,185 | 700 | - | 6,185 | - | 700 | - | - | - |
| Capitalisation Direction | 1,217 | - | - | 1,217 | - | - | - | - | - |
| **Resources Total** | **7,402** | **700** | **-** | **7,402** | **-** | **700** | **-** | **-** | **-** |
| **Total Active Schemes** | **19,004** | **700** | **150** | **15,609** | **3,395** | **700** | **-** | **150** | **-** |
| | | | | | | | | | |
| **Total Capital Programme** | **95,553** | **71,203** | **55,286** | **68,775** | **26,778** | **24,223** | **46,980** | **22,066** | **33,220** |
| | | | | | | | | | |
| **Business Cases in Development** | | | | | | | | | |
| Mausoleum Building Costs | 198 | - | - | 198 | - | - | - | - | - |
| ADS Fleet Renewal | 10,000 | 4,000 | - | 10,000 | - | 4,000 | - | - | - |
| Hilton Hotel - Fletton Quays | 10,000 | - | - | 10,000 | - | - | - | - | - |
| **Business Cases in Development Total** | **20,198** | **4,000** | **-** | **20,198** | **-** | **4,000** | **-** | **-** | **-** |

| Project | 2020/21 | 2021/22 | 2022/23 | 2020/21 Funding | | 2021/22 Funding | | 2022/23 Funding | |
|---|---|---|---|---|---|---|---|---|---|
| | Budget | Budget | Budget | Corp. Res. | 3rd Party Inc. | Corp. Res. | 3rd Party Inc. | Corp. Res. | 3rd Party Inc. |
| | | | | | | | | | |
| **Strategic Plans** | | | | | | | | | |
| Housing for Vulnerable People | 800 | 799 | - | 800 | - | 799 | - | - | - |
| Invest to Save (eg Property Acquisition) | 19,802 | 20,000 | 10,000 | 19,802 | - | 20,000 | - | 10,000 | - |
| Provision of Housing | 10,000 | - | - | 10,000 | - | - | - | - | - |
| **Strategic Plans Total** | **30,602** | **20,799** | **10,000** | **30,602** | **-** | **20,799** | **-** | **10,000** | **-** |
| **Total Invest to Save** | **50,800** | **24,799** | **10,000** | **50,800** | **-** | **24,799** | **-** | **10,000** | **-** |

## Appendix I- Financial Risk Register

| Risk Area | Detail | Action |
|---|---|---|
| Level of Reserves | As set out in this report (Section 6) the Robustness statement (Section 6.4) the Council has limited recourse in reserves and balances. This presents a risk to the financial sustainability of the organisation over the medium term.<br><br>The general fund is temporarily reduced due to a cash flow timing difference on business rates income, meaning the general fund will be temporarily reduced.<br><br>The council has very little recourse available if savings are not delivered as planned, or unforeseen events occur. A risk assessment of the general fund level is outlined within Section 6, the robustness statement. | Robust financial control within 2020/21 and future years will be exercised through regular budget monitoring, tracking of the delivery of approved savings plans through the Rapid Implementation Team (RIT), and the development of further savings proposals, which will be progressed through the Financial Implementation Programme Management Board (FIPMB). These boards were established as part of a new financial governance structure was implemented in November 2019.<br><br>The use of available specified reserves will be closely managed and controlled to ensure that only required and approved use of these funds takes place, to ensure that the council maintains a level of resilience.<br><br>Reserves and balances will be reviewed regularly, within the monthly Budgetary Control Reporting (BCR), and reported weekly within a budget update to the FIPMB, to ensure that they remain adequate in light of the Council's overall financial position. They will also be reviewed to ensured that any commitments are:<br>• Essential and necessary to deliver future financial benefit;<br>• Represent value for money;<br><br>As outlined within the report (section 5.7) The Council has submitted an application to MHCLG for a capitalisation direction, this is to fund actual and estimated costs associated with transformation and redundancy. |
| Level of one-off (non-repeatable) savings | The Council has relied upon non-repeatable budget savings and income items in order to balance the budget, in 2020/21 and previous years. This is not a sustainable approach. | Although the Council has been aiming to reduce the use one-off budget savings in recent years, table 11, within the report sets out that the Council plans to use £10.6m on one off-resources from various sources to balance the 2020/21 Budget. The table also outlines that this has been practice for a number of years now, which has temporarily resolved the financial position creating a cliff edge in 2021/22.<br><br>Section 5.6 of the report sets out the Councils approach to implementing structural organisational change in 2021/22, to ensure that the Council has a sustainable future, and is able to provide services within its funding envelope. This work has already started on the development of this, and it is hoped that a plan will be recommended for Council approval in Summer 2020. |

| Risk Area | Detail | Action |
|---|---|---|
| Service Delivery- Demand Led Services | The Council provides services in a number of areas where the need for support lies outside the Council's direct control, for example in children's, adult social care and homelessness. Demographic growth and demand pressures present significant financial risk for the Council over the medium term.<br><br>The Council needs to increase the supply of both temporary housing and permanent affordable housing in order to meet the increased demand for housing within Peterborough. | The Council will continue to take measures to review and modify its service provision to respond to increasing demand for services, through more cost effective operating models and working with client groups and partners to manage demand for services.<br><br>Regular monitoring, forecasting and reporting of financial and service performance and anticipated pressures will be undertaken to ensure that corrective management action is taken to control expenditure within the approved budget. Savings plans are based on intervention and prevention, aiming to reduce need and service demand.<br><br>The Council has recently resourced a housing specialist to support the housing needs team imbed new practises and prevention techniques to better manage the future demand for temporary accommodation. This will include a training programme for staff, tighter controls around the use of bed and breakfast accommodations and improvements to the customer journey and working practises. The Council are also continuing to build on a portfolio of housing supply to meet this demand, this includes working closely with local housing organisations and increasing the use of private rented accommodation.<br><br>Regular reporting to the Corporate Management Team (CMT) will continue to take place throughout the course of the year as regular reporting to the RIT and FIPMB groups, which have been established to review and challenge progress. |
| Savings Delivery (current and new proposals) | The achievement of a balanced budget and sustainable MTFS is reliant upon the successful delivery of agreed savings plans and the identification of new plans.<br><br>A number of ambitious savings plans had previously been agreed which have creates structural budget problems, leading to in year forecast overspends. | As stated above in November the Council established the RIT, which meets on a weekly basis to report, monitor and challenge the delivery of savings to ensure are on track as per the original plan. If within this group savings, are being reported as not deliverable or as high risk and remedial action is not effective, those items are escalated to FIPMB where final debates and future actions are agreed.<br><br>Delivery of savings are also monitored on a regular basis within the monthly BCR, this is also reported to the FIPMB, CMT and Cabinet.<br><br>During Summer 2019, the Council reviewed all budgets for appropriateness and robustness, following reporting a £5.5m forecast overspend so early in the financial year. A significant amount of this overspend was the result of undeliverable savings, which have now been more accurately reflected within the budget. Also since the tranche one budget was published in October 2019, the Council has now been able to review and investigate the savings outlined within that report further as part of the development stage and have again reflected changes |

| Risk Area | Detail | Action |
|---|---|---|
| | | within this budget tranche to reflect the robustness and deliverability of those savings. Scrutiny of savings plans was highlighted as an area for improvement within the financial controls review, and the finance team have scrutinised the proposals and assumptions within this budget. This together with the new governance structure for financial reporting and monitoring have enhanced the level of integrity and confidence within the Councils financial reporting. |
| Income | Cost of provision of service outstrips returns or a reduced level of sales.<br><br>Exit strategies associated with these ventures could prove to be costly.<br><br>There is a financial risk attached to failure of commercial investment, either from default or exposure to wider economic changes.<br><br>**Debt**<br>There is also a risk from the non-payment of invoices from our suppliers. The Clinical Commissioning Group (CCG) and other smaller NHS organisations currently account for 58.6% of the Councils general debtor. This is monitored regularly to CMT and separately within the Statement of accounts (Page 70), due to the significant value of the outstanding balance. This level of debt also provides a cash flow risk to the Council. | Commercial proposals will require the production of a robust business case that will be subject to appropriate evaluation and due diligence by relevant professional disciplines (i.e. technical, legal and finance).<br><br>The management of costs, risks and benefits including service outcomes and financial implications will be achieved through regular monitoring and reporting via the Shared Services core group to the programme board, as part of joint corporate management team meeting and through to Cabinet.<br><br>Delivery of planned income generation (and savings) is tracked through monthly BCR, and reported to FIPMB, CMT and Cabinet. Programme and project governance will require recovery plans to be prepared where projects are identified as varying adversely from plan.<br><br>The Council continues to work closely with senior officers at the CCG to resolve this issue and manage the payments to allow the effective management of the Councils cashflow and debt levels. Issues have been escalated to the appropriate internal level at the CCG resulting in significant movement in February 2020. The Council now has a clear escalation route, through the consultation with MHCLG ministers and the Department of Health. |
| Business Rates | Forecasts - the council will benefit from any growth in business rates but will also have to share the risk of volatility of collecting business rates, changes to business rates during the financial year and administration costs associated with collecting business rates. | The finance team will align forecasts using a detailed approach with planning and revenue and benefit colleagues to monitor business and dwelling growth as part of the budget setting process and at regular intervals during the financial year. On a monthly basis dashboard reports are made available to the s151 officer and the corporate finance team to monitor business rates income. |

| Risk Area | Detail | Action |
| --- | --- | --- |
| | Appeals – The new government ‘Check, challenge and appeal’ system seems to have reduced the level of open appeals however there is a provision set aside for appeals by the council, and there is a risk that this may not be sufficient<br><br>Business Rates 75% retention and Business Rates baseline reset, both to be introduced from 2021/22, at present it is not clear how this could impact on the Councils funding levels. | The Council has reviewed the level of Business Rates provision it holds to mitigate the financial impact of valuation change and appeals. From this review the Council has been able to release some of this, due to:<br>o An element being held in respect of the 2010 revaluation list, where a number of appeals have been withdrawn reducing the overall risk<br>o A reduction in the overall % held in respect of the 2017 list. The national average was set at 4.7%, and the Council has been contributing at a rate of 4%, but on review this has been able to be reduced to 3.09% which is appropriate at this stage to the level of activity.<br>This will continue to be monitored by officers.<br><br>Officers will feedback to all consultations, to ensure all concerns are communicated and considered.<br>As information becomes available officers will model the financial impacts, and ensure the budget reflects the appropriate funding levels. |
| Fairer Funding Review (FFR) | The Fairer Funding Review presents a risk for the Council as it means there is significant uncertainty surrounding its future funding levels. The impact of this could be significant for the Council as it could mean additional savings would need to be achieved. At present the MHCLG has issued two of three consultations, however the implementation has now been postponed until 2021/22, with a one year spending review outlining departmental expenditure limits for 2020/21. | Officers are continuing to monitor all announcements, publications and consultations from MHCLG and from Local Government advisors. This will include networking and attending events to keep abreast of the latest information.<br><br>Officers will feedback to all consultations, to ensure all concerns are communicated and considered.<br>As information becomes available officers will model the financial impacts, and ensure the budget reflects the appropriate funding levels. This will include using the modelling tools which are available to us from PIXEL and the LGA. some analysis already undertaken is outlined in section 4.4 |
| Council Tax and Local Council Tax Support | Non-collection rates increase beyond the budget assumptions and / or increase in the levels of Local Council Tax Support (LCTS) eligibility, beyond budget assumptions.<br><br>The LCTS scheme was changed in 2019/20, following approval at Council on 6 March 2019. elements of the changes were incremental and so there is a further change to the LCTS scheme in 2020/21, (increasing the rate from, 31% 2019/20 to | Officers are in discussion with Serco to agree increased targets for collection of council tax to improve the position on the Collection Fund. Monthly updates will monitor the collection rates.<br><br>The Council will revise future year forecasts on council tax income accordingly. |

| Risk Area | Detail | Action |
|---|---|---|
| | 32% 2020/21), this could also have an impact on collection rates. | |
| Partnership Working/ Contractual Commitments | The council now outsources or contracts out a large proportion of services, on a long-term basis to third party organisations, such as Serco, Aragon, Skanska and Vivacity.<br>There is a risk that the council could be subject to increased costs from these contracts due to inflation or alternatively have little flexibility to generate savings within the current budget due to the level accounted for via these contracts. The terms of the contracts may also restrict this. | The Council is reviewing all contracts, with a view to achieving improved value for money through strengthened contract management arrangements and negotiation of variation to services to be delivered.<br>The Council is also looking to put stronger contract management processes and associated specification management for the end to end procurement processes it runs and this will form a basis of the Operating Model review which will take place at the end of the 2019/20 financial year<br><br>The Council will continue to work closely with its partner organisations to deliver the best services to its residents in the most effective and efficient manner. |
| Capital | **Capital Receipts**<br>The agreed Minimum Revenue Provision (MRP) policy allows the Council to repay its debt through the application of receipts from asset disposal to repay debt.  This represent a risk to the final outturn position if those receipts are not achieved.<br><br>If the legislation was to be change to prevent the Councils current use of capital receipts, the council would look to use capital receipted flexibly to fund redundancy and transformation expenditure.<br><br>**Capital Programme**<br>The proposed Capital Programme is partially reliant on third party contributions and grant allocations. These funding streams are not always guaranteed, such that they could be impacted by a downturn in development or reduced opportunity for central government funding.<br><br>The council has been successful in obtaining funding via grants for development in the school | This is monitored monthly through Budgetary Control Reporting to Capital Review Group (CRG), CMT, FIPMB and Cabinet. The Finance team also receive the latest forecasts for sale completion, estimated receipt level and market environment operating under on a bi-weekly basis from out property partners NPS.<br><br>The Council has included a Flexible use of Capital Receipts Policy within the Capital strategy 2020/21, and in the instance f the legislation changing will look to use this for redundancy and transformation expenditure, in line with the policy, in order to maintain a level of resilience in the reserves balances.<br><br>The capital programme is closely monitored and reported by officers within the monthly budgetary control reporting. The council operates an officer led CRG, which meets regularly to review the progress of schemes contained in the capital programme and evaluate new proposals or opportunities available to the council<br><br>All capital investment proposals require a business case which assesses funding options and associated risks and mitigating actions.<br><br>Developer contributions, such as that within a section 106 agreement, are to be realised in line with approved policy and legal agreement. |

| Risk Area | Detail | Action |
|---|---|---|
| | infrastructure. There is a risk that the council may not receive grants in the future to fund new school buildings, despite increasing demand for school places.<br><br>There is a risk associated with the management and maintenance v in relation to insufficient resources being available to maintain adequately the councils existing and planned infrastructure. | Grant bids to be worked up by the budget/project managers in partnership with the finance team, in line with previous successful approach.<br><br>As a result of a structural report produced in July 2019, highlighted severe concerns around the structural integrity of one of the Councils assets, Northminster Car park. The Council has reviewed, and heightened the level of review, scrutiny around the conditiona and maintenance of the councils assets. This will be coordinated by our partners, NPS and Aragon who have put in place programme of maintenance and review, which will be reported to an officer lead property group, and directly to the Chief Executive of the council. |
| Economic (Treasury) Risk | Inflation - increases above forecasts assumed within the budget.<br><br>Interest rates - a change in interest rates could impact on borrowing costs which may in part be offset by increased investment interest receipts. | Monitor inflation position and forecasts, and review impact on budget through budget control monitoring and reporting process.<br><br>Capital financing estimates developed using latest forecasts of interest rates for MTFS (which allow for a level of increase) via the Council's treasury advisors. Existing borrowing has been undertaken at fixed rates in order to minimize the exposure of this risk. A review and assessment will be undertaken to try to achieve the optimum time to enter into new borrowing in light of advice on future rate rises, taking into account 'cost to carry' in relation to any early borrowing.<br><br>The Council will review the level and timing of the capital programme and debt portfolio if rates increase beyond forecast levels. |
| Financial Resilience | There is a risk that the Councils financial resilience is insufficient to further withstand the combined pressures of reducing grant funding and the increased cost and demand pressures.<br><br>Any weaknesses in the delivery of the strategy to strengthen financial resilience may exacerbate this risk. The consequence is an unsustainable and financially unviable organisation beyond the short term. | A number of metrics are being developed to measure financial resilience across local government (CIPFA Resilience Index). The strategy to strengthen financial resilience is underpinned by a set of financial planning and management arrangements, including significant changes in arrangements for commissioning services. However, a clear route to a sustainable medium term financial position has not yet been fully identified as a national measure.<br><br>Section 5.6 of the report sets out the Councils approach to implementing structural organisational change in 2021/22, to ensure that the Council has a sustainable future, and is able to provide services within its funding envelope. This work has already started on the development of this, and it is hoped that a plan will be recommended for Council approval in Summer 2020. |

| Risk Area | Detail | Action |
|---|---|---|
| | | The Council's financial position is reviewed weekly via the FIPMB and regularly reported to Cabinet (as outlined within the supporting documents). Adverse variances are clearly identified and actions, discussed at these forums and put in place to mitigate the financial impact as far as possible. |
| Brexit | Brexit carries a number of risks which could have a financial or operational impact the on services the Council provides. This is likely to be the result of changes in the funding and regulatory frameworks including the following:<br>• Procurement<br>• Regulatory services<br>• European Union (EU) funding<br>• Loss of staff, where staff are from the EU<br><br>There is a wider risk to the economy, through importation/export delays and tariffs, price pressure on key commodities e.g. fuel and labour market which could place more demand on services or budgets. | High level impact assessment have been completed by officers within the Council<br><br>Officers from Cambridgeshire County Council and Peterborough City Council are on a joint risk group assessing the impact from Brexit, this has included officers attending MHCLG events and participating in teleconferences by the Home Office.<br><br>As the UK has now left the EU on 31 January 2020, the UK enter a period of transition, where negotiation continue.  The Council will continue monitor these negotiations for progress and will update policy and issue guidance, where there is an impact on current practices. |

## Appendix J – Carbon Impact Assessments

| Proposal | The council's energy consumption via buildings (electricity, gas, oil). | The council's energy consumption via travel (eg petrol). | The councils water usage (especially hot water). | Creation of renewable energy. | Carbon offsetting – will the proposal offset carbon emissions such as through tree planting. | Reducing carbon emissions through amending ongoing activities not covered above eg management of land, such as peat soils, in a way which reduces carbon dioxide emissions. | If the project involves the creation or acquisition of a building, has the energy rating been considered. Are / will measures be included to make the building energy efficient? | Embodied energy - does your project/proposal include construction of buildings or other significant infrastructure? | Additional info | What information is available to help the environmental impacts identified above to be quantified? | Can any differences be justified as appropriate or necessary? | Are any remedial or mitigation actions required? | Once implemented, how will you monitor the actual impact? | Overall summary to be included in your covering report. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Capitalisation Direction | | | | | | | | | | | | | | |
| Capitalisation Direction | Funding- recognising additional/reduced income as per revised forecast assumptions. No (or neutral) carbon implication. | | | | | | | | | | | | | |
| Savings and Income | | | | | | | | | | | | | | |
| Additional Archaeological Services charges within Planning | Funding- recognising additional/reduced income as per revised forecast assumptions. No (or neutral) carbon implication. | | | | | | | | | | | | | |
| Adult Social Care Demand and Better Care Fund | Funding- recognising additional/reduced income as per revised forecast assumptions. No (or neutral) carbon implication. | | | | | | | | | | | | | |
| Business Rates Provision Review and forecast | Funding- recognising additional/reduced income as per revised forecast assumptions. No (or neutral) carbon implication. | | | | | | | | | | | | | |
| Capital Financing Budget Review | A revenue accounting implication arising from revised capital programme. Those capital decisions are not assessed here. Therefore, no (or neutral) carbon implication. | | | | | | | | | | | | | |
| Capital receipts - POSH deferred Receipt element | Funding- recognising additional/reduced income as per revised forecast assumptions. No (or neutral) carbon implication. | | | | | | | | | | | | | |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Capital Receipts-Asset Sales | Unknown | Unknown | Unknown | Unknown | Unknown | Unknown | Unknown | Unknown | Specific Property information not disclosed for assessment- an CIA willl be completed at the point of sale. | Unknown | Unknown | Unknown | Unknown | Unknown impact as the assets to be sold are not available so the carbon implications of such sales cannot be assessed. The probability is that the sales will result in positive carbon implications, as the council will have less property which it manages and therefore reduces its associated heating and power requirements (though, of course, the purchaser will consequently increase their carbon footprint). |
| ESPO Dividend | Funding- recognising additional/reduced income as per revised forecast assumptions. No (or neutral) carbon implication. | | | | | | | | | | | | | |
| Fees and Charges and Inflation review | Funding- recognising additional/reduced income as per revised forecast assumptions. No (or neutral) carbon implication. | | | | | | | | | | | | | |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Food Waste Procurement | Neutral | Negative | Neutral | Neutral | Neutral | Positive | Neutral | Neutral | N/A | Monthly contract reports will identify carbon savings. | The increase in distance travelled is a result of a compliant procurement process in which STGP were successful as they offered the best value bid to the Council therefore the increase in travel is necessary for the Council to benefit overall from the procurement. | No | Monitored monthly through contractor reports on carbon impact of the food waste treatment. | It is anticipated that this will have a neutral carbon impact because procurement of the contract is required to ensure the optimum treatment technology is used for Food Waste and to ensure there is no negative carbon impact as a result. Whilst this contract will increase travel, compared to the current scenario, we anticipate that this will be mitigated by the increase in facility efficiency and additional measures detailed to reduce the carbon emissions. This will be monitored as part of the contract. |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Freeze on planting budget | Neutral | Neutral | Neutral | Neutral | Neutral (whilst tree planting as a whole helps offset carbon emissions, this proposal is not intended to reduce the quantity of tree planting, but instead plant smaller (cheaper) trees. The net outcome overall should be a neutral level of offsetting, assuming the success rate of planting remains similar. | Neutral | Neutral | Neutral | N/A | None | | No | Success rate of planted trees is regularly monitored. Any increase or decrease in failure rate of planted trees will be monitored. | Neutral impact |
| Housing | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | The Council is not directly responsible for the energy use at these sites and therefore overall | N/A | N/A | No | N/A | Neutral impact. |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | emissions will not change | | | | | |
| HR controls- Agency saving | Funding- recognising additional/reduced income as per revised forecast assumptions. No (or neutral) carbon implication. | | | | | | | | | | | | | |
| Minor Grant changes- as a result of the settlement | Funding- recognising additional income as per revised forecast assumptions. No (or neutral) carbon implication. | | | | | | | | | | | | | |
| New Homes Bonus | Funding- recognising additional income as per revised forecast assumptions. No (or neutral) carbon implication. | | | | | | | | | | | | | |
| Parking Charges | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | None | It is not anticipated that changing the parking tariffs will affect the Councils emissions. | N?A | N/A | N/A | Neutral impact |
| Peterborough and Cambridgeshire Business Rates Pool | Funding- recognising additional income as per revised forecast assumptions. No (or neutral) carbon implication. | | | | | | | | | | | | | |
| Property - Maximising the use of Sand Martin House | Positive | Neutral | Positive | Neutral | Neutral | Neutral | Neutral | Positive | Making more efficient use of space will reduce the overall consumption of energy (including hot water) by the council (as energy use now shared with other tenants). By sharing building also reduces the councils share of the energy embodied within the building (and saves the tenant from creating embodied energy which they would have done if securing a new building of their own) | Details of tenant share of energy bills unknown. Embodied energy of SMH unknown. Therefore precise carbon dioxide savings not quantifiable, but can be certain to be positive. | N/A | Nil | Monitor whether the councils energy consumptio n in SMH significantly increases post tenants arriving, and if so attempt to establish why and to what degree the new tenants are consuming energy. | Positive impact, due to electricity and gas savings, and due to the sharing of the embodied energy of SMH, but uncertain of scale of savings at this stage. |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Public Health- various small savings | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | It is assumed that these savings represent a reduction in grant rather than a grant stopping entirely and therefore the impact is anticipated to be neutral. | Unknown | Unknown | Unknown | Unknown | Neutral impact |
| Reduction in Tree inspection & maintenance budget | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Whilst it is feasible that this proposal might reduce some travel requirements (i.e. less visits to site) it is not possible to quantify this at this stage. | Unknown | Unknown | Unknown | Unknown | Neutral impact |
| Registration Income | Funding- recognising additional/reduced income as per revised forecast assumptions | | | | | | | | | | | | | |
| Supplies and Services & Non-essential spend restrictions | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Specific information is required about changes made to ascertain impact of this change. | Unknown | Unknown | Unknown | Unknown | Neutral impact |
| Voluntary Redundancy Programme | Neutral | Positive | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | It is assumed that a reduction in overall FTE will, to some extent, reduce the overall volume of mileage claims across the Council. | The Council collates data annually detailing emissions from mileage claims. | Yes | N/A | The Council collates data annually detailing emissions from mileage claims. | Positive impact overall |
| Waste management- Material Recycling Facility | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | This will not result in any change to the current processes for waste treatment. | N/A | N/A | N/A | N/A | Neutral Impact - this is a budget adjustment and will not result in any change to current processes. |
| Council Tax- Collection Fund Surplus | Funding- recognising additional income as per revised forecast assumptions. No (or neutral) carbon implication. | | | | | | | | | | | | | |
| Council Tax base | Funding- recognising additional income as per revised forecast assumptions. No (or neutral) carbon implication. | | | | | | | | | | | | | |

| Service Budget Pressures | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Direct Revenue Funding (Schools Capitalisation) | Funding- recognising additional income as per revised forecast assumptions. No (or neutral) carbon implication. | | | | | | | | | | | | | |
| Housing Benefit Subsidy Reduction | Funding- recognising additional income as per revised forecast assumptions. No (or neutral) carbon implication. | | | | | | | | | | | | | |
| Income from sale of electricity from Energy From Waste plant | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | The Council is not using this energy generation to offset any of its direct or indirect emissions and therefore there is no impact associated with this proposal | N/A | N/A | N/A | N/A | Neutral impact |
| METAL- recognition of a two year grant extension | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Insufficient information available to allow the impact of this to be considered. | Insufficient information | Insufficient information | Insufficient information | Insufficient information | Unknown impact |
| Place & Economy Shared Service | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | It is difficult to ascertain the likely impact of this proposal. Increased shared services could result in longer or shorter home to work journeys for different people which could have a corresponding impact on work travel. Any increase in carbon emissions could be mitigated by the increased use of technology. | Further information would be required. | N/A | N/A | N/A | Neutral impact |
| Property - Reduction in income from the Market and Northminster shops due to the demolition of the car park. | Positive | Neutral | Positive | Neutral | Neutral | Neutral | Neutral | Neutral | N/A | The Council currently collates energy consumption data for this site which it will no longer be | N/A | N/A | N/A - once the transfer is complete the Council will no longer have site of utility bills. | Positive impact overall |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | responsible for. | | | | |
| Property - Loss of rental income from the sale of the Allia Business Centre | Positive | Neutral | Positive | Negative | Neutral | Neutral | neutral | neutral | N/A | The Council currently collates partial energy consumption data and renewable energy generation for this site which it will no longer be responsible for | N/A | N/A | N/A - once the transfer is complete the Council will no longer have site of utility bills. | Positive impact overall |
| Property - Additional Security | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | N/A | N/A | N/A | N/A | Unknown | Anticipated neutral impact |
| Property - Town Hall North delayed Income | Negative | Neutral | Neutral | Neutral | Neutral | Neutral | Positive | Neutral | N/A | It has been assumed that the refurbishment will include measures that improve overall energy efficiency due to the requirement to have a DEC/EPC at level x or above. | N/A | N/A | Energy consumption will be monitored via utility bills. Clarity required to confirm who is responsible of the utility bills. | Negative - The Council will be responsible for energy consumed during the renovation period. |
| Capitalisation Direction- Cost of Borrowing | Funding- recognising additional/reduced income as per revised forecast assumptions | | | | | | | | | | | | | |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SEN and Home to School Transport- additional service pressure | Neutral | Negative | Neutral | Neutral | Neutral | Neutral | Neutral | Neutral | N/A | Full information is not currently available but any increased spend in this area is likely to have a corresponding impact on the overall volume of travel undertaken. | Options are being considered to rationalise journeys and undertake route optimisation. | No | All new contract operators will be asked to procide information detailing trips made and vehicle type to allow emissions to be calculated. | Negative impact overall but steps have been taken to ensure emissions data is captured moving forward to allow this to be understood in more detail. |
| Tranche One Budget Proposal Adjustments | | | | | | | | | | | | | |
| Members Allowances - putting back the saving from Tranche One | This relates to a Tranche One Proposal- previously assessed | | | | | | | | | | | | |
| Vivacity | This relates to a Tranche One Proposal- previously assessed | | | | | | | | | | | | |
| SEN and Home to School Transport | This relates to a Tranche One Proposal- previously assessed | | | | | | | | | | | | |
| HR Function | This relates to a Tranche One Proposal- previously assessed | | | | | | | | | | | | |
| Reduction in facilities management services performed by Bouygues at schools | This relates to a Tranche One Proposal- previously assessed | | | | | | | | | | | | |
| Serco | This relates to a Tranche One Proposal- previously assessed | | | | | | | | | | | | |
| Business Support | This relates to a Tranche One Proposal- previously assessed | | | | | | | | | | | | |

Appendix K

# Treasury Management Strategy 2020/21 to 2022/23

## Including:
## Minimum Revenue Provision (MRP) Policy 2019/20 & 2020/21

# 1. Introduction

## 1.1. Background

1.1.1. The Council is required to operate a balanced budget, which means that cash raised through the year will meet its cash expenditure. The Treasury Management Strategy (TMS) has four fundamental roles:

- Manage external investments - security, liquidity and yield
- Ensure debt is prudent and economic
- Produce and monitor the Prudential Indicators
- To ensure that decisions comply with regulations.

1.1.2. The role of treasury management is to ensure cash flow is adequately planned so that cash is available when it is needed. Surplus monies are invested in low risk counterparties commensurate with the Council's low risk appetite ensuring that security and liquidity are achieved before considering investment return.

1.1.3. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.1.4. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.1.5. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

1.1.6. CIPFA defines treasury management as:

*" The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

1.2. **Reporting Requirements**

1.2.1. **Capital Strategy**

1.2.2. The CIPFA revised 2017 Prudential and Treasury Management Codes requires all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing; and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability;

1.2.3. The aim of this Capital Strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.2.4. This Capital Strategy is reported separately from the Treasury Management Strategy Statement and non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The Capital Strategy will show:

- the corporate governance arrangements for these types of activities;
- any service objectives relating to the investments;
- the expected income, costs and resulting contribution;
- for non-loan type investments, the cost against the current market value;
- the risks associated with each activity.

1.2.5. Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

1.2.6. Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

1.2.7. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the Capital Strategy.

1.3. **Treasury Management Reporting**

1.3.1. The council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

1.3.2. **Prudential and Treasury Indicators and Treasury Strategy** - The first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators);

- a Minimum Revenue Provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

1.3.3. **A Mid-Year Treasury Management Report –** This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

1.3.4. **An Annual Treasury Report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3.5. **Scrutiny**

1.3.6. The above reports are required to be adequately scrutinised and this role is undertaken by the Audit Committee, Cabinet and full Council.

1.4. **Treasury Management Strategy for 2020/21**

1.4.1. The strategy for 2020/21 covers:

**Capital issues**

- the capital expenditure plans and the associated prudential indicators;
- the MRP policy.

**Treasury management issues**

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

1.4.2. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code 2017, the MHCLG MRP Guidance, the CIPFA Treasury Management Code 2017, and the MHCLG Investment Guidance.

1.5. **IFRS16 - Leases**

1.5.1. A new International Financial Reporting Standard (IFRS) on leases is due to be adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) with effect from 1st April 2020. IFRS 16 defines a lease as a contract or part of a contract, which conveys the right to use as asset (the underlying asset) for a period of time in exchange for a consideration.

1.5.2. Under the standard the distinction between finance leases and operating leases under the previous leasing standard is removed and all leases are treated in the way the finance leases currently are. A 'right of use' asset is shown on the balance sheet with a corresponding liability of the discounted value of the future lease payments. There are exceptions for short dated leases (under a year, or with less than a year remaining at transition) and low value leases (low value to be determined by the Council using its approach to determining de minimus items).

1.5.3. This means that all leases that do not meet the exceptions will be treated as capital expenditure from 2020/21 and form part of the Capital Financing Requirement. An estimate of the impact of the transition to the new standard has been built into the relevant indicators. The full impact will not be known until the 2020 Code has been issued and the detailed assessment completed. If this has a material impact on the Prudential Indicators then a revised Treasury Management Strategy will be produced.

1.6. **Training**

1.6.1. The CIPFA Code requires the responsible officer to ensure that Council members with responsibility for treasury management receive adequate training in treasury management. This requirement is reviewed annual as part of the annual Performance Development Review (PDR) and monthly supervisions. This requirement also applies to Council members responsible for scrutiny.

1.7. **Treasury Management Advisors**

1.7.1. The Council uses Link Asset Services as its external treasury management advisors who have a contract until September 2021.

1.7.2. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon external advisors.

1.7.3. The Council also recognises that there is value in employing external providers of treasury management services in order to access specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented and subjected to regular review.

1.7.4. The scope of investments within the Council's operations may in the near future include both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers. The Council uses NPS Group in relation to this activity, and other specialist advisers will be engaged depending upon requirements.

## 1.8. Treasury Management Policy Statement

1.8.1. The Treasury Management Policy Statement sets out the policies and objectives of Treasury Management Activities which is revised annually. It reflects December 2017 guidance.

1.8.2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

1.8.3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.8.4. Investments using the above definition cover all financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns such as investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations. All investments require an appropriate investment management and risk management framework.

1.8.5. The Council's high level policies for borrowing and investments are set out below.

- to invest available cash balances with a number of high quality investment counterparties over a spread of maturity dates in accordance with the Council's lending list;
- to reduce the revenue cost of the Council's debt in the medium term by obtaining financing at the cheapest rate possible;
- to seek to reschedule or repay debt at the optimum time**.**

## 1.9. The Treasury Management Role of the Section 151 Officer

**The S151 (responsible) officer must do the following:**

- recommend clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submit regular treasury management policy reports;
- submit budgets and budget variations;
- receive and reviewing management information reports;
- review the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;

- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long-term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority. This is done by regular training presentations to the Audit Committee;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above. This is done by regular attendance at course and conferences and joint working with Link Asset Services;
- creation of Treasury Management Practices (TMPs) which specifically deal with how non treasury investments will be carried out and managed, to include the following -
    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
    - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken to the various committees;
    - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

## 2. Capital Prudential Indicators 2020/21 to 2022/23

2.1. The Council's capital programme is the key driver of the treasury management activity. The output of the capital programme is reflected in the prudential indicators which are designed to assist member's overview and confirm the capital programme.

2.2. **Indicator 1** – Capital Expenditure – this Prudential Indicator is a summary of the Council's estimated capital expenditure for the forthcoming financial year and the following two financial years including how it will be funded either from grants, contributions, or capital receipts with the remaining being the 'net financing requirement'

| Capital Expenditure | 2018/19 Actual £m | 2019/20 Est £m | 2020/21 Est £m | 2021/22 Est £m | 2022/23 Est £m |
|---|---|---|---|---|---|
| Customer & Digital Services | 1.5 | 4.5 | 4.9 | 5.0 | 3.5 |
| People & Communities | 28.5 | 24.7 | 23.3 | 39.1 | 22.2 |
| Place & Economy | 29.6 | 21.1 | 29.3 | 21.4 | 27.5 |
| Resources | 34.7 | 19.4 | 14.9 | 5.7 | 2.1 |
| IFRS16 Transition adjustment | - | - | 22.0 | - | - |
| Capitalisation Direction | - | 8.2 | 1.2 | - | |
| Invest to Save / Commercial Activities | 1.6 | 16.9 | 50.8 | 24.8 | 10.0 |
| **Total** | **95.9** | **94.8** | **146.4** | **96.0** | **65.3** |
| **Financed by:** | | | | | |
| Capital receipts (repayment of capital loans) | 8.2 | 23.0 | - | - | 15.0 |
| Capital grants contributions | 38.9 | 34.4 | 26.8 | 47.0 | 33.2 |
| **Net financing requirement** | **48.8** | **37.4** | **119.6** | **49.0** | **17.1** |
| **Total** | **95.9** | **94.8** | **146.4** | **96.0** | **65.3** |

2.3. The capital receipts (repayment of capital loans) shown in the table above relate to:

- 2018/19 - Local Authority Mortgage Scheme (LAMS) capital loan - £1m and Axiom Housing Association Loan Repayment - £7.2m
- 2019/20 - ECS Peterborough 1LLP – capital loan - £23.0m
- 2022/23 - Hotel – capital loan - £15m

2.4. The Invest to Save / Commercial Activities schemes are included in total capital expenditure and the funding resources to be used. However, these schemes will either generate income or generate savings on revenue budgets elsewhere in the Council's services. Therefore the borrowing costs associated with these projects will have a minimal impact on the Council's MTFS position.

2.5. **Indicator 2** – Capital Financing Requirement (CFR) – the CFR is the total historical capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing requirement. Any capital expenditure which has not immediately been paid for will increase the CFR.

2.6. The CFR does not increase indefinitely, as the MRP is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

2.7. The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases) included on the Council's balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The following table shows the CFR estimates for the next three financial years for Council approval:

| Capital Financing Requirement | 2018/19 Actual £m | 2019/20 Est £m | 2020/21 Est £m | 2021/22 Est £m | 2022/23 Est £m |
|---|---|---|---|---|---|
| CFR brought forward | 540.1 | 577.4 | 598.3 | 698.9 | 726.9 |
| Borrowing / Repayment | 35.7 | (4.1) | 37.4 | 4.0 | (15.5) |
| Invest to Save / Commercial Activities | 1.6 | 16.8 | 40.0 | 24.0 | 10.0 |
| IFRS16 Transition adjustment | - | - | 22.0 | - | - |
| Capitalisation Direction | - | 8.2 | 1.2 | | |
| CFR carried forward | 577.4 | 598.3 | 698.9 | 726.9 | 721.4 |
| **Movement in CFR** | **37.3** | **20.9** | **100.6** | **28.0** | **(5.5)** |
| Net financing requirement | 48.7 | 37.4 | 119.6 | 49.0 | 17.1 |
| Less MRP & other financing | (11.4) | (16.5) | (19.0) | (21.0) | (22.6) |
| **Movement in CFR** | **37.3** | **20.9** | **100.6** | **28.0** | **(5.5)** |

2.8. **Indicator 3** – Actual and estimates of the ratio of financing costs to net revenue budget. This indicator identifies the proportion of the revenue budget which is taken up in financing capital expenditure i.e. the net interest cost and the provision to repay debt.

| Ratio of Gross Financing Costs to Net Revenue Budget | 2018/19 Actual | 2019/20 Est | 2020/21 Est | 2021/22 Est | 2022/23 Est |
|---|---|---|---|---|---|
| Total Ratio | 10.7% | 11.4% | 20.6% | 23.0% | 24.2% |
| Ratio with gross MRP charge (capital receipts to redeem debt not factored into financing) | 18.4% | 20.8% | 20.6% | 23.0% | 24.2% |
| Relating to Capitalisation Direction | 0.0% | 0.1% | 1.7% | 1.7% | 1.6% |

## 3. Minimum Revenue Provision (MRP) Policy Statement

3.1. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, equipment, etc. Such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual MRP.

3.2. MHCLG Regulations require full Council to approve an MRP statement in advance of each year. A variety of options are provided to Councils to calculate this revenue charge and the Council must satisfy itself that the provision is prudent.

3.3. A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory MRP, voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Previous accumulated overpayments were fully utilised as at 31 March 2019.

3.4. Councils are allowed by statute to use capital receipts for the repayment of any borrowing previously incurred. The application of capital receipts to repay debt would reduce the level of MRP chargeable to revenue, but statutory guidance does not address how such a reduction should be calculated. When the Council uses its capital receipts to redeem borrowing, the value of the MRP which would otherwise have been set aside for that year will be reduced by the amounts which have instead been repaid from capital receipts. This results in a prudent level of MRP, as there will be no reduction in the overall level of funding set aside to redeem debt.

3.5. During 2019/20 detailed discussions were held with MHCLG with regards to the council's application of capital receipts to redeem debt. Following these discussions there remains a possibility that the government could amend legislation to provide additional clarity with regards to the use of capital receipts to redeem debt. At the time of drafting there has been no additional clarity provided and therefore the council has not amended its approach and continues to use the receipt from asset sales to redeem its debt. Once clarity is provided the Council will review its application of receipts and amend its policy accordingly if it is deemed necessary with relevant reports presented to the member meetings.

3.6. There are other possible uses for capital receipts, as per the Capital Strategy, the level of capital receipts used to redeem debt will be at the discretion of the S151 officer and their judgements as to which option provides better value for money for the Council's financial strategy.

3.7. Repayments for the PFI scheme and finance leases are applied as MRP, and the associated amounts are included in these Prudential Indicators.

3.8. The following table summarising the MRP Policy.

| **Capital Expenditure Incurred** | **MRP Policy Update 2019/20 & 2020/21** |
|---|---|
| Expenditure funded by borrowing | Asset Life, annuity method – MRP will be based on the prevailing PWLB interest rate for a loan with a term equivalent to the estimated life of the project.<br>If capital receipts have been used to repay borrowing for the year then the value of MRP which would have otherwise been set aside to repay borrowing will be reduced by the amounts which have instead been repaid from capital receipts. The level of capital receipts to be applied to redeem borrowing will be determined annually by the Chief Finance Officer (S151), taking into account forecasts for future expenditure, the generation of further receipts and alternative uses which may provide better value for money for the Council's financial strategy<br>The same process will apply for S106, POIS and CIL receipts. |
| Private Finance Initiative (PFI) - Finance Lease | Use the annuity method of calculation over the remaining asset life |
| Other Finance Leases | The MRP requirement would be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability.<br>Where a lease (or part of a lease) is brought onto the balance sheet, having previously been accounted for off- balance sheet, the MRP requirement would be regarded as having been met by the inclusion in the charge for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement. |
| Secured Loans to third parties repaid in bullet form. | No MRP will be charged each year as reliance can be placed on the capital receipt that will be generated when the loan is repaid or, in the event of a default, the realisation of the security. If realisation of the security does not equate to the original loaned amount the Council will recognise the associated impairment and will charge MRP for the outstanding loan amount over the next MTFS periods. |

## 4. Current Treasury Position

4.1. The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

4.2. The overall treasury management portfolio as at 31 March 2019 and for the position as at 13 February 2020 are shown in the following table for both borrowing and investment.

| Treasury Portfolio | Actual 31.03.19 £'000 | Actual 31.03.19 % | Current 13.02.20 £'000 | Current 13.02.20 % |
|---|---|---|---|---|
| **Treasury Investments** | | | | |
| Banks | 9,000 | 60 | 6,300 | 93 |
| Local Authorities | - | - | - | - |
| DMADF (HM Treasury) | - | - | - | - |
| Money Market Funds | 6,000 | 40 | 500 | 7 |
| **Total Treasury Investments** | **15,000** | **100** | **6,800** | **100** |
| **Treasury External Borrowing** | | | | |
| Local Authorities | (70,500) | 17 | (67,500) | 15 |
| PWLB | (369,587) | 81 | (369,587) | 81 |
| LOBOs | (17,500) | 4 | (17,500) | 4 |
| **Total External Borrowing** | **(457,587)** | **100** | **(454,587)** | **100** |
| **Net Treasury Investment / (Borrowing)** | **(442,587)** | | **(447,787)** | |

4.3. **Indicator 4** - The Council's treasury position at 31 March 2020, with estimates for future years, is summarised below. The table below shows the actual external borrowing (Gross Debt) against the CFR

| Gross debt & capital financing requirement | 2018/19 Actual £m | 2019/20 Est £m | 2020/21 Est £m | 2021/22 Est £m | 2022/23 Est £m |
|---|---|---|---|---|---|
| **External Borrowing** | | | | | |
| Market Borrowing | 419.6 | 457.6 | 478.5 | 557.1 | 585.1 |
| Repayment of borrowing | (22.0) | (48.0) | (70.5) | (19.5) | (27.1) |
| Expected change in borrowing | 60.0 | 68.9 | 149.1 | 47.5 | 21.6 |
| Other long-term liabilities | 49.6 | 49.2 | 70.5 | 69.8 | 69.1 |
| **Gross Debt at 31 March** | **507.2** | **527.7** | **627.6** | **654.9** | **648.7** |
| CFR | 577.4 | 598.3 | 798.9 | 726.9 | 724.1 |
| **% of Gross Debt to CFR** | **87.8%** | **88.2%** | **89.8%** | **90.1%** | **89.9%** |

4.4. Based on the prudential indicators there are a number of key measures to ensure that the Council operates its activities within defined limits. One of these is that the Council needs to ensure that its total borrowing does not, except in the short-term, exceed the total of the CFR in the year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

4.5. The Chief Finance Officer (S151) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in this Medium Term Financial Strategy (MTFS).

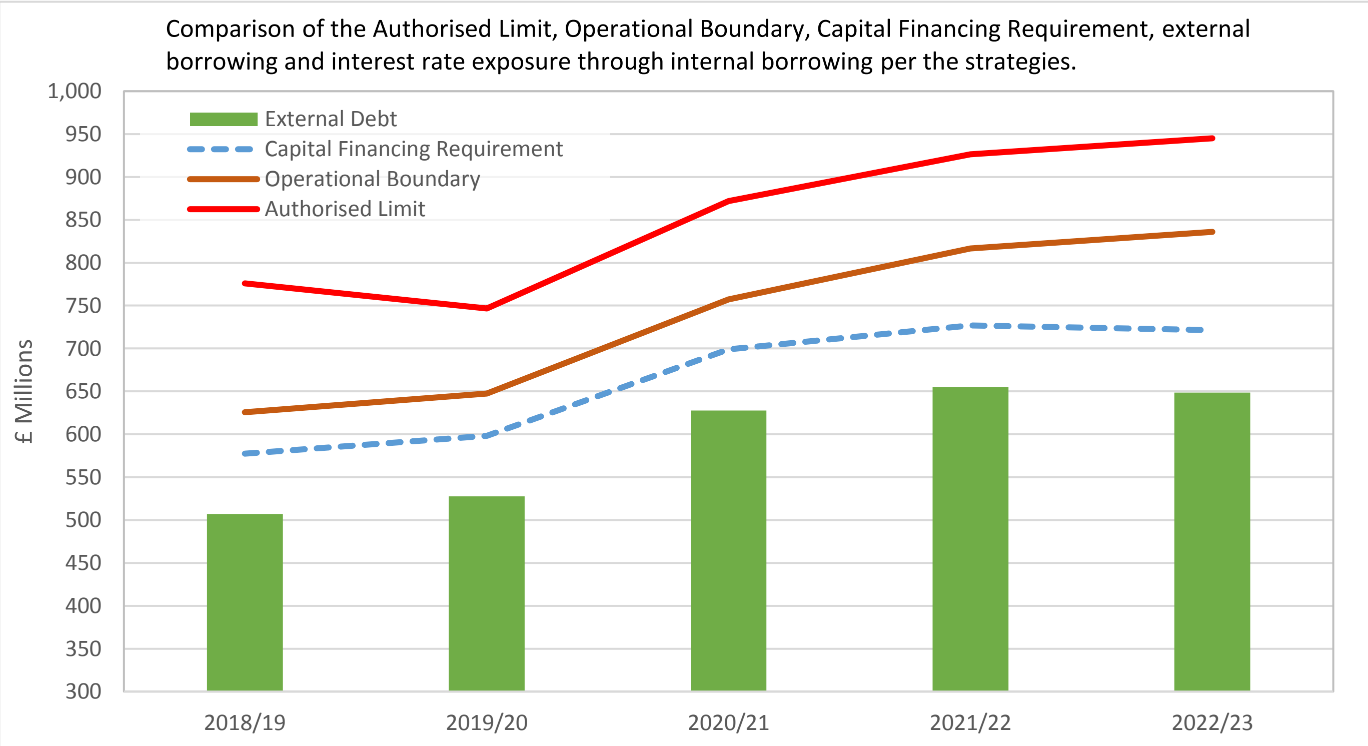
4.6. **Indicator 5** - The Operational Boundary - external borrowing is not normally expected to exceed this limit. If the operational boundary was exceeded this would be reported immediately to the members of the Audit Committee with a full report taken to the next committee meeting. In the current year it has not been exceeded. The Operational Boundary is set out below:

| Operational Boundary | 2018/19 Actual £m | 2019/20 Est £m | 2020/21 Est £m | 2021/22 Est £m | 2022/23 Est £m |
|---|---|---|---|---|---|
| Borrowing | 457.6 | 598.3 | 686.9 | 746.9 | 766.9 |
| Other long-term liabilities | 49.6 | 49.2 | 70.5 | 69.8 | 69.1 |
| **Total** | **507.2** | **647.5** | **757.4** | **816.7** | **836.0** |

4.7. **Indicator 6** - The Authorised Limit for external borrowing - this represents a limit beyond which external borrowing is prohibited. This limit is set and revised by full Council.

| Authorised Limit | 2018/19 Actual £m | 2019/20 Est £m | 2020/21 Est £m | 2021/22 Est £m | 2022/23 Est £m |
|---|---|---|---|---|---|
| Borrowing | 457.6 | 697.5 | 801.4 | 856.7 | 876.0 |
| Other long-term liabilities | 49.6 | 49.2 | 70.5 | 69.8 | 69.1 |
| **Total** | **507.2** | **746.7** | **871.9** | **926.5** | **945.1** |

4.8. This is a statutory limit determined under section 3 (1) of the Local Government Act 2003. Government under sections 4(1) and 4(2) may limit either the total of all Council borrowing, or those of a specific Council, although this power has not yet been exercised.



**Prospects for Interest Rates**

4.9. The Council utilises the treasury services of Link Asset Services and part of their service is to assist the Council to formulate a view on interest rates to assist with borrowing and investment decisions.

4.10. The Link Asset Services forecast for bank base rate (as at January 2020) and PWLB new borrowing as at January 2020 is as follows (note that the PWLB Borrowing Rate includes the Certainty Rate adjustment):

| Interest Rate (All rates shown as %) | Bank Rate View | 5yr PWLB Rate | 10yr PWLB Rate | 25yr PWLB Rate | 50yr PWLB Rate | Budget Assumption |
|---|---|---|---|---|---|---|
| **Mar 20** | 0.75 | 2.30 | 2.50 | 3.00 | 2.90 | 1.00* |
| **Jun 20** | 0.75 | 2.30 | 2.50 | 3.00 | 2.90 | 1.50* |
| **Sep 20** | 0.75 | 2.40 | 2.60 | 3.10 | 3.00 | |
| **Dec 20** | 0.75 | 2.40 | 2.60 | 3.20 | 3.10 | |
| **Mar 21** | 0.75 | 2.50 | 2.70 | 3.30 | 3.20 | |
| **Jun 21** | 1.00 | 2.60 | 2.80 | 3.40 | 3.30 | 3.68 |
| **Sep 21** | 1.00 | 2.70 | 2.90 | 3.50 | 3.40 | |
| **Dec 21** | 1.00 | 2.80 | 3.00 | 3.50 | 3.50 | |
| **Mar 22** | 1.00 | 2.90 | 3.10 | 3.70 | 3.60 | |
| **Jun 22** | 1.25 | 2.90 | 3.10 | 3.80 | 3.70 | 3.95 |
| **Sep 22** | 1.25 | 3.00 | 3.20 | 3.80 | 3.70 | |
| **Dec 22** | 1.25 | 3.00 | 3.20 | 3.90 | 3.80 | |
| **Mar 23** | 1.25 | 3.10 | 3.30 | 3.90 | 3.80 | |

** Based on inter-local authority borrowing rates, per point 4.12.*

4.11. The Council successfully applied to be one of the principal local authorities that would qualify for the Certainty Rate, during the period 1 November 2019 to 31 October 2020. This results in the Council being able to benefit from reduced interest rates on PWLB loans by 20 basis points (0.20%). The Council is assuming that there will be a similar scheme in place when this scheme expires. The Council will submit a new application to ensure it qualifies.

4.12. The MTFS assumes that 2020/21 borrowing is taken from the local authority market at an average rate of 1.5% for loan lengths between 1 to 3 years.

4.13. From 2021/22 the current assumption is to revert to borrowing at the PWLB 50 year rate with an average taken across the quarters for that year but then adjusted with a range of borrowing periods and associated interest rates. The Chief Finance Officer believes this prudent until the future borrowing strategy is fully developed once the market response to the PWLB rate rise has crystailsed.

4.14. The interest rate forecasts provided by Link Asset Services in paragraph 4.10 are predicated on an assumption of an agreement being reached on Brexit, including terms of trade, between the UK and the EU. On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an orderly non-agreement exit in December 2020, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

4.15. The balance of risks to the UK:

- the overall balance of risks to economic growth in the UK is probably relatively even due to the weight of all the uncertainties over post-Brexit trade arrangements and the impact of an expansionary government spending policy (as expected in the Budget on 11th March).
- the balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similar to the downside.

4.16. One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

4.17. Link Asset Services interest rate forecasts, detailed above, are based on their views of the future economic climate, and below are some extracts taken from their economic forecasts:

- Brexit - the Conservative Government gained a large overall majority in the general election on 12 December; this ensured that the UK left the EU on 31 January. However, there will still be much uncertainty as the detail of a comprehensive trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open three possibilities; a partial agreement on many areas of agreement and then continuing negotiations to deal with the residual areas, the need for the target date to be put back, probably two years, or, a no deal Brexit in December 2020.
- GDP growth took a big hit from both political and Brexit uncertainty during 2019; quarter three 2019 surprised on the upside. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The forward-looking surveys in January have indicated that there could be a significant recovery of growth now that much uncertainty has gone.

Nevertheless, economic growth may only come in at about 1% in 2020, pending the outcome of negotiations on a trade deal. Provided there is a satisfactory resolution of those negotiations, which are in both the EU's and UK's interest, then growth should strengthen further in 2021.

- At its 30 January meeting, the Monetary Policy Committee held Bank Rate unchanged at 0.75%. The vote was again split 7-2, with two votes for a cut to 0.50%. The financial markets had been predicting a 50:50 chance of a rate cut at the time of the meeting. Admittedly, there had been plenty of downbeat UK economic news in December and January which showed that all the political uncertainty leading up to the general election, together with uncertainty over where Brexit would be going after the election, had depressed economic growth in quarter 4. In addition, three members of the MPC had made speeches in January which were distinctly on the dovish side, flagging up their concerns over weak growth and low inflation; as there were two other members of the MPC who voted for a rate cut in November, five would be a majority at the January MPC meeting if those three followed through on their concerns.
- However, that downbeat news was backward looking; more recent economic statistics and forward-looking business surveys, have all pointed in the direction of a robust bounce in economic activity and a recovery of confidence after the decisive result of the general election removed political and immediate Brexit uncertainty. In addition, the September spending round increases in expenditure will start kicking in from April 2020, while the Budget in March is widely expected to include a substantial fiscal boost by further increases in expenditure, especially on infrastructure. The Bank of England cut its forecasts for growth from 1.2% to 0.8% for 2020, and from 1.8% to 1.4% for 2021. However, these forecasts could not include any allowance for the predicted fiscal boost in the March Budget. Overall, the MPC clearly decided to focus on the more recent forward-looking news than the earlier downbeat news.
- The quarterly Monetary Policy Report did, though, flag up that there was still a risk of a Bank Rate cut; "Policy may need to reinforce the expected recovery in UK GDP growth should the more positive signals from recent indicators of global and domestic activity not be sustained or should indicators of domestic prices remain relatively weak." Obviously, if trade negotiations with the EU failed to make satisfactory progress, this could dampen confidence and growth. On the other hand, there was also a warning in the other direction, that if growth were to pick up strongly, as suggested by recent business surveys, then "some modest tightening" of policy might be needed further ahead. It was therefore notable that the Bank had dropped its phrase that tightening would be "limited and gradual", a long-standing piece of forward guidance; this gives the MPC more room to raise Bank Rate more quickly if growth was to surge and, in turn, lead to a surge in inflation above the 2% target rate.
- As for inflation itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5% and then even further to 1.3% in December . It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit,

inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

- With regard to the labour market, growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000 and then a stunning increase of 208,000 in the three months to November. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.4% in November (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

## 5. Investment and Borrowing Rates

5.1. Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.

5.2. Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9 October 2019. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. Now that the gap between longer term borrowing rates and investment rates has materially widened, and in the long term Bank Rate is not expected to rise above 2.5%, it is unlikely that this authority will do any further longer term borrowing for the next three years, or until such time as the extra 100 bps margin is removed

5.3. Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Chief Finance Officer (S151) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

5.4. There will remain a cost of carry to any new long-term borrowing that temporarily increases cash balances. This revenue cost is the difference between borrowing costs and investment returns.

## 6. Borrowing Strategy

6.1. The Council is currently maintaining an under-borrowed position, where the CFR balance is greater than gross debt, see Indicator 2, and chart on page 94. This is in line with the agreed strategy that the Council's cash balances be used to fund capital expenditure before additional borrowing is undertaken. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

6.2. The capital programme consists of three main types of capital projects:

- Invest to Save – Self Funding Schemes
- Specific Schemes – eg School Extensions
- Rolling Capital Projects eg Enhancing current assets

6.3. Any borrowing decisions will be reported to the appropriate decision making body at the next available opportunity.

6.4. The MTFS is based on the following borrowing strategy for the next three years. The borrowing strategy is under constant review throughout the year monitoring changes in interest rates and borrowing opportunities. The proposed strategy for 2020/21 financial year is:

a) To consider the rescheduling (early redemption and replacement) of loans to maximise interest rate savings and possible redemption discounts.

b) Significant risk of a sharp fall in long and short term rates may arise. This might be due to a marked increase of risks around relapse into recession or of risks of deflation. In this case long-term borrowings will be postponed, and potential rescheduling from fixed rate funding into short-term borrowing will be considered.

c) Significant risk of a much sharper rise in long and short-term rates than currently forecast may arise. This may arise due to a greater than expected increase in world economic activity or a sudden increase in inflation risks. In this case the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

d) Following the 100 bps increase in PWLB rates, loans will primarily be arranged from the other Local Authorities as the market responds to this change.

e) To maintain an appropriate balance between PWLB, Local Authority and other market debt in the debt portfolio and a balance in the maturity profile of debt.

f) To give full consideration to other debt instruments e.g. Local Authority Bonds as an alternative to PWLB borrowing. Due regard will be given to money laundering regulations. The Council is monitoring the development of the scheme and may participate if this proves beneficial.

## 7. New Borrowing Approaches to Be Considered

7.1. To realign the loan maturity profile with the rate the existing CFR debt will be financed by taking out shorter term Local Authority Loans. In the current climate this will reduce interest costs in the short term.

7.2. Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates) and the Municipal Bonds Agency (no issuance at present but there is potential). The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving.

7.3. Maturing long-term debt is replaced by new borrowing. To achieve long-term financial sustainability the Council should aim to reduce its overall debt and the associated financing costs including interest. A high value of outstanding debt represents a financial risk because of potential interest rate changes.

7.4. The use of Capital receipts or S106 receipts to make MRP is a one-off revenue saving. Using these funds in this way means they are not available to fund Capital assets and reduce the overall borrowing requirement.

7.5. Interest rates are liable to change. In the event of significant changes the Council seeks to avoid an increased revenue cost on its capital financing charges.

7.6. The Treasury Management Strategy uses the planned Capital Programme to calculate the borrowing requirement. Typically the Council does not spend at the planned level in any financial year.

7.7. Link Asset Services have a product that will allow the Council to borrow from the market at current interest rates with a small premium but not draw down the funds until they are required - ‘forward borrow’.

## 8. Treasury Debt Prudential Indicators

8.1. There are three debt treasury indicators which ensure debt structure remains within appropriate limits. This manages risk and reduces the impact of any adverse movement in interest rates.

8.2. **Indicator 7 –** Upper limit on fixed interest rate exposure. This identifies a maximum limit for fixed interest rates based upon the debt position net of investments. This has been set at 100% of the borrowing requirement.

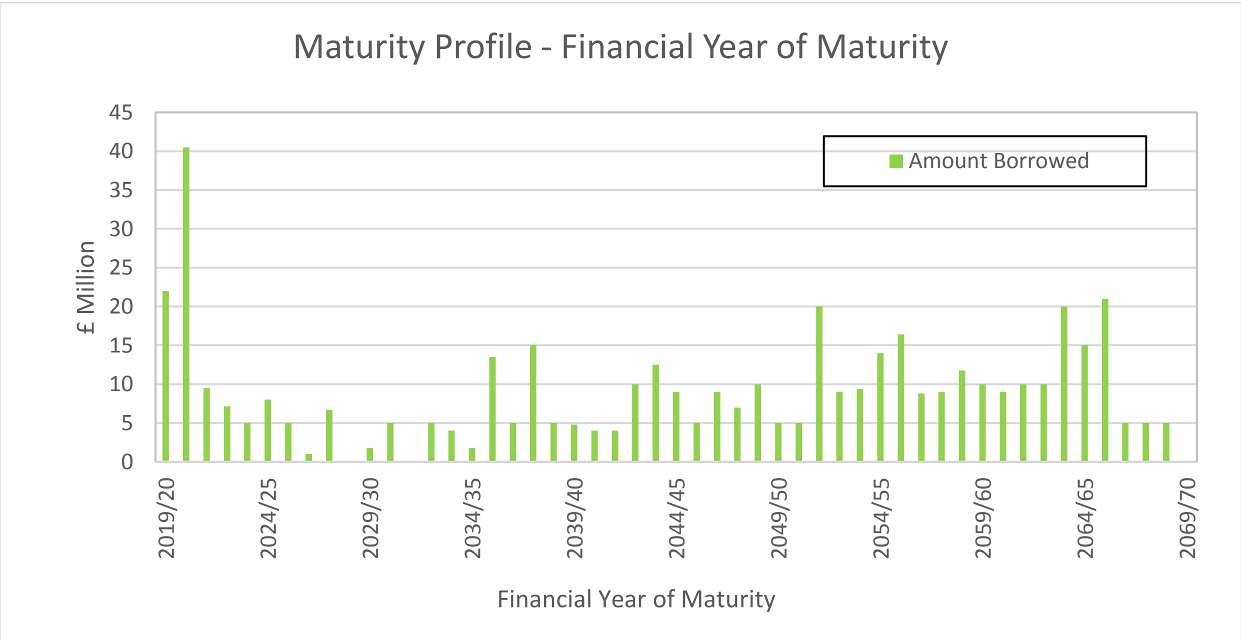
8.3. **Indicator 8** - Upper limit on variable rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. This has been set at 25% of the borrowing requirement.

| **Interest Rate Exposure (Upper Limits)** | **2018/19 Actual £m** | **2019/20 Est £m** | **2020/21 Est £m** | **2021/22 Est £m** | **2022/23 Est £m** |
|---|---|---|---|---|---|
| (7) Limits on fixed interest rate net debt | 457.6 | 697.5 | 801.4 | 856.7 | 876.0 |
| % of fixed interest rate exposure | 100% | 100% | 100% | 100% | 100% |
| (8) Limits on variable interest rate on net debt | - | 174.4 | 200.4 | 214.2 | 219.0 |
| % of variable interest rate exposure | 0% | 25% | 25% | 25% | 25% |

8.4. **Indicator 9** - Maturity structure of borrowing. These gross limits are set to reduce the Council's immediate exposure to large fixed rate sums falling due for refinancing.

| **Maturity Structure of borrowing** | **Upper Limit** | **As at 13 February 2020** |
|---|---|---|
| Under 12 months | 40% | 14% |
| 12 months to 2 years | 40% | 2% |
| 2 years to 5 years | 80% | 3% |
| 5 years to 10 years | 80% | 5% |
| 10 years and above | 100% | 76% |

8.5. The following chart shows the Council's debt maturity profile by financial year as at 13 February 2020:



## 9. Policy on Borrowing in Advance of Need (Future Capital Expenditure)

9.1. The Council will not borrow more than it requires, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. However, at any time the Council may obtain a loan or other financing at what are considered advantageous terms in anticipation of future capital expenditure. The money borrowed will be invested temporarily. The Council may also borrow in the day-to- day management of its cash flow operations or as an alternative to redeeming higher yielding investments.

9.2. The Council will ensure there is a clear link between the capital programme across the future years and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of capital expenditure.

9.3. The Council will ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered and factored into the MTFS.

9.4. Consideration will be given to the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

## 10. Debt Rescheduling on Existing Debt Portfolio

10.1. Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

## 11. Investment Strategy Principles

11.1. The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

11.2. The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

11.3. The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

## 12. Investment Counterparty Selection Criteria and Financial Investment Strategy

12.1. As the Council has run down its cash balances, surplus cash will be generated from cash flow movements e.g. a grant received in advance of spend or from borrowing in advance of need. Therefore investment activity will be kept to a minimum.

12.2. However, where it is necessary for investments to be undertaken in order to manage the Council's cash flows, the Council's primary principle is for the security of its investments. After this main principle the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

12.3. The Chief Finance Officer (S151) will maintain a counterparty list in compliance with the set out below. Any revision of the criteria will be submitted to Council for approval as necessary.

12.4. The Councils minimum criteria will apply to the lowest rating for any institution according to the type of investment account being used. For instance, the credit rating criteria for the use of the Council's call accounts and Money Market Funds, which are used for short-term investments only, will use the Short-Term credit ratings in the table shown within 12.5. If an institution is rated by the three credit agencies and two meet the Council's criteria and the other one does not, the institution will fall outside the lending criteria. This complies with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

12.5. In order to minimise the risk to investing, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The Council uses the creditworthiness service provided by Link Asset Services which uses ratings from all three rating agencies, Fitch, Moody's and Standard and Poor's, as well as Credit Default Swap (CDS) spreads. Link Asset Services monitors ratings on a real time basis and notifies clients immediately on any rating changes or possible downgrades. Minimum Credit Ratings Criteria – further explanations are given in Annex 1.

| **Minimum Credit Ratings for Group 2 Banks** | | |
|---|---|---|
| **Agency** | **Short-Term** | **Long-Term** |
| Fitch | F1 | A |
| Moody's | P-1 | Aa |
| Standard & Poor's | A-1 | A |

12.6. All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three rating agencies by Link Asset Services

12.7. The Council does not place sole reliance on the use of Link Asset Service's advice as the Council uses internal expertise and knowledge to make decisions. Market data, market information, information on government support for banks and the credit ratings of that government support are also considered when making treasury decisions.

12.8. The criteria for providing a pool of high quality investment counterparties (both Specified and Non-Specified investments), and is shown in the order of use by the Council, all of the following are subject to continuous credit rating reviews:

- Money Market Funds
- UK Government (including gilts and the Debt Management Account Deposit Facility (DMADF)).
- Bank of Scotland call account (part of the Lloyds Banking Group).
- UK Local Authorities.

12.9. The Council also uses Barclays Bank, the Council's own banker. If Barclays fall below the criterion in 12.5 then the following strategy will be followed:

- with regard to the three credit rating agencies, if one reduces its rating but the other two remain the same or improve, the Council will reduce the maximum of £15m in the call account to £5m and a keep a low balance in the current account.
- if two or more credit rating agencies reduce their ratings below the criteria in 12.5 the Council will still require to use the Barclays accounts for transactional purposes, so maximum balance of £500k will be left overnight in the current account to prevent the account becoming overdrawn and incurring overdraft fees.
- Seek advice from Link Asset Services

12.10. The above action applies to Barclays only due to its status as the Council's banking provider. Use of other bank accounts would be subject to criteria set out in the point 12.5. The above approach to Barclay's Bank has been developed following consideration that the Council needs banking facilities to process daily banking transactions, and such activity presents a lower risk profile compared to investment activity the significant impact, resource requirement, and risk exposure of changing bank provider the possible state and stability of the banking sector and viable alternative suppliers.

- Banks Group 1 - Part nationalised UK banks - Lloyds Banking Group Plc. (Bank of Scotland and Lloyds) and Royal Bank of Scotland Group Plc. (National Westminster Bank, The Royal Bank of Scotland and Ulster Bank Ltd). These banks can be included if they continue to be part nationalised and / or they meet the ratings in 14.6.
- Banks Group 2 – good credit quality - the Council will only use banks which are UK banks and have the minimum credit ratings criteria relating to the type of investment being undertaken.
- Building Societies – if they meet the ratings above
- Money Market Funds - AAA rated by Fitch
- Bill Payment Service – The Council currently has a contract with Santander UK who collect payments of Council Tax through the post office via various methods of payment such as Paypoint. The funds that are collected are transferred to the Council daily thus minimising the risk of Santander UK holding the Council's cash. This arrangement for the bill payment service falls outside the investment criteria for investments therefore any downgrade of Santander UK will not affect this service. However this arrangement will be closely monitored to ensure funds continue to be transferred daily.

12.11. The Council's lending list will comprise of the institutions that meet the investment criteria above. Each counterparty on the list is assigned a counterparty limit as per the table in Annex 1. Counterparties that no longer meet the investment criteria due to a credit rating downgrade will be removed from the list and any changes will be approved by Council. Approval will also be required if any new counterparties are added to the lending list.

12.12. Link Asset Services approach to assessing creditworthiness of institutions is by combining credit ratings, credit watches and credit outlooks to produce a colour coding system. The Council will use counterparties within the following maximum maturity periods, in order to mitigate the risk of investing in these institutions:

| Link Asset Services Banding | Description |
|---|---|
| Blue | 1 year (only applies to nationalised / semi nationalised UK banks) |
| Orange | 1 year |
| Red | 6 months |
| Green | 100 days |
| No colour | The Council will not invest with these institutions |

12.13. The proposed criteria for Specified and Non-Specified investments are shown in Annex 1 for approval.

12.14. **Indicator 11** - Upper limit for total principal sums invested for over 365 days excluding loans. This limit is set with regard to the Council's liquidity requirements and to reduce the need for an early sale of an investment, and is based on the availability of funds after each year-end and up-dates are reported to the Audit Committee at midyear.

| **Overall limit for sums invested over 365 days** | **2018/19 Actual £m** | **2019/20 Est £m** | **2020/21 Est £m** | **2021/22 Est £m** | **2022/23 Est £m** |
|---|---|---|---|---|---|
| Principal sums invested 365 days | 0.0 | 0.0 | 10.0 | 10.0 | 10.0 |

## 13. Loans Made to Third Parties

13.1. The Council makes secured loans to third parties to advance the Council's strategic interests.

13.2. Loans are only made after the Council's formal decision making process has been followed. This includes formal approval by the Chief Finance Officer (S151).

13.3. As part of the formal decision to make the loan, the security for the loan will be assessed as to its adequacy in the event of the third party defaulting on repayment.

13.4. Non treasury investments are disclosed in the Capital Strategy.

13.5. A facility for an unsecured loan to Peterborough Limited, a Council wholly own company, of £1.75m was agreed at the end of the 2018/19 financial year for a period of five years. As at 13 February 2020, the full £1.75m of this loan had been draw down, £0.15m of which was a capital loan.

13.6. Further unsecured loans to Council owned Local Authority Trading Companies (LATCo's) only may require to be issued during the financial year and will only be issued in accordance with the governance set out in point 13.2 above.

## 14. Non-financial Investments

14.1. The Council does currently not hold any non-financial investments whose purpose is to generate revenue to support core services. For further information see the Acquisitions Policy.

## 15. Treasury Management Scheme of Delegation

15.1. The following is a list of the main tasks involved in treasury management and who in the Council is responsible for them:

Full Council / Audit Committee

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of the Annual Strategy.

Audit Committee / S151 Officer (Chief Finance Officer (S151))

- Approval of / amendments to the Council's adopted clauses, Treasury Management Policy Statement and Treasury Management Practices.
- Budget consideration and approval.

- Approval of the division of responsibilities.
- Receiving and reviewing regular monitoring reports and acting on recommendations.

Section 151 Officer (Chief Finance Officer (S151)) / Head of Corporate Finance

- Reviewing the Treasury Management Policy and procedures and making recommendations to the responsible body.
- Recommending clauses, treasury management policy/practices and making recommendations to the responsible body.
- Submitting regular treasury management reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service advisors

## 16. Housing Revenue Account (HRA)

16.1. The council wrote to the Regulator of Social Housing on 9th October 2019 to inform them of the possible intention to reopen a HRA and engage in the supply of affordable housing. Discussions have begun with Homes England to determine what funding opportunities are available. The outline business case will need to be completed, which is dependent on funding opportunities and also the Councils final strategic direction in this area. As detailed plans for its mobilisation will be dependent on this final strategic decision, this change has not been reflected in the current Treasury Management Strategy.

16.2. If it is agreed to move forward with an HRA a revised Treasury Management Strategy will be produced which will include separately identified HRA capital expenditure and associated accumulated debt and further indicators relating to the affordability of this expenditure.

**Specified Investment Credit Criteria and Limits**
**Specified Investment:**

- Offer high perceived security such as placements with Central Government Agencies, Local Authorities or with organisations that have strong credit ratings
- They offer high liquidity i.e. short-term or easy access to funds
- Are denominated in £ sterling
- Have maturity dates of no more than 1 year
- For an institution scheme to qualify as a 'Specified Investment' it must have a minimum rating (see Section 14.6)

| Investment Type | Maximum Maturity Period | Minimum Credit Criteria | Collective Limit £m | Individual Limit £m |
|---|---|---|---|---|
| Deposit accounts with regulated UK Banks and UK Building Societies | Repayable on call, without notice | Minimum of two short-term rating criteria | 100 | 15 |
| Money Market Funds repayable on call, no notice | Call | Minimum rating – AAA (Fitch) | 50 | 10 |
| Debt Management Agency Deposit Facility | 6 months currently | UK Government backed | N/A | 75 |
| Term Deposits UK Government & Local Authorities | Maturities of up to 1 year | Sovereign risk high security not credit rated | 100 | 20 |
| Term Deposits & Certificates of Deposit Banks Group 1 | Maturities of up to 1 year | Minimum of three short-term rating criteria | 100 | 75 |
| UK Government & Local Authority Stock Issues | Maturities of up to 1 year | Sovereign risk high security not credit rated | 100 | 20 |
| Term deposits & Certificates of Deposit Banks Group 2 | 6 months | Minimum of three short-term rating criteria | 50 | 10 |
| Forward Term Deposits with Regulated UK Banks | Maturities of up to 1 year | Minimum of three short-term rating criteria | 100 | 15 |

**Non-specified Investment Credit Criteria and Limits**

- With the same institutions classified as "specified" investments but have maturity dates in excess of one year – once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity -, or
- Are offered by organisations that are not credit rated or the credit rating does not meet the criteria set out above
- In the current economic climate the Council has run down its cash balances as an alternative to borrowing and investments have been made short-term and the Council would not consider using investments that fall under the 'Non-Specified' Investments category at this time
- If the Council decide to use these investments then Indicator 11 will need to be revised

| Investment Type | Maximum Maturity Period | Minimum Credit Criteria | Collective Limit £m | Individual Limit £m |
|---|---|---|---|---|
| Term deposits with UK Government & Local Authorities | 1-5 years | Sovereign risk high security not credit rated | 20 | 20 |
| Term deposits & Certificates of Deposit with Banks Group 1 | 1-5 years (tradable) | F1(Fitch – short-term) AAA (long-term) | 10 | 10 |
| UK Government & Local Authority Stock Issues | 1-10 years (tradable) | Sovereign risk high security not credit rated | 10 | 10 |
| Term deposits & Certificates of Deposit with Banks Group 2 | 1-5 years (tradable) | F1 (Fitch-short-term) A (long--term) | 20 | 10 |
| Deposit accounts with regulated UK building societies | 1 – 5 years | F1 (Fitch short-term) A (long-term) | 5 | 5 |
| Term deposits UK building societies no formal credit rating | Up to 1 year | Financial position assessed by Chief Finance Officer (S151). | 5 | 5 |
| Bonds issued by financial institution guaranteed by UK Govt | 1-10 years (tradable) | UK Govt backed AAA (Fitch, S&P etc.) | 5 | 5 |

In the current economic climate the Council has run down its cash balances as an alternative to borrowing and investments have been made short-term and the Council would not consider using investments that fall under the 'Non-Specified' Investments category at this time.

**Explanation of Credit Ratings**

| Agency | Short-Term | Long-Term |
|---|---|---|
| Fitch | F1-Highest short-term credit quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; a "+" may be added to denote any exceptionally strong credit feature. | A-High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings. |
| Moody's | P-1-superior ability to repay short-term debt obligations | Aa-high quality and are subject to very low credit risk |
| Standard & Poor's | A-1-The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong. | A-more susceptible to the adverse effects of changes in circumstances and economic conditions. However the obligor's capacity to meet its financial commitment on the obligation is still strong. |

# Capital Strategy

# 2020/21 – 2022/23

**Introduction and Strategic Priorities and Principles**

1.1 The Capital Strategy (Asset Investment Strategy) outlines how Peterborough City Council (PCC) will look to make asset investment and manage its asset investment resources to help achieve the strategic priorities of the Council. It is good practice that the Capital Strategy and Asset Management Plans are regularly reviewed and revised to meet the changing priorities and circumstances. The Council's Capital Strategy is reviewed on an annual basis to reflect the changing needs and priorities of the residents.

1.2 The CIPFA Prudential Code 2017 states that in order to demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, the Council is required to produce an annual Capital Strategy.

1.3 The Capital Strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of services along with an overview of how associated risk is managed and the implications for future financial stability.

1.4 The Strategy is an integral part of the Medium Term Financial Strategy (MTFS) and intrinsically linked with the Asset Management Plan (AMP) (Appendix M) and the Treasury Management Strategy (TMS) (Appendix K) of the Council and should be read in conjunction with these documents.

1.5 Over the period of the MTFS, the Council needs Asset Investment to deliver its priorities. In order to achieve this, it recognises the need to deliver efficiencies, seek additional funding and periodically review both the consumption of the Asset Investment resources and stated priorities. It ensures this happens through the four core principles below:

1.6 **Principle 1 –** Managing the impact of investment decisions on revenue budgets

- Ensuring Asset Investment decisions do not place any unnecessary pressure on the MTFS or Council Tax, and they are also within the Council's Prudential Indicators (see the Prudential Code and Treasury Management Strategy and Minimum Revenue Provision Policy).
- Promoting Asset Investment which enables invest to save outcomes.
- Making sure assets yield maximum return, through effective ongoing asset management, consistent with levels of investment. (See AMP).

1.7 **Principle 2** – Optimise the availability of Asset Investment funding where that funding supports the priorities for Peterborough

- Disposal of surplus assets (including asset transfer to community organisations where appropriate) and reinvestment.
- Effective working relationships with potential funders.
- Listening to and supporting effective partnering arrangements.
- Having clear policies for the consumption of any reserves.

1.8 **Principle 3 –** Ensure effective pre and post project appraisal

- Ensuring a system of competition exists for project approval.
- Building into project appraisal recognition of environmental sustainability.
- Fully considering project risk.
- Carefully considering value for money and efficiency of every project.

1.9 **Principle 4 –** Performance manage the Asset Investment programme

- Integrating the Asset Investment programme with the Verto project management system, Infrastructure Planning systems/processes e.g. Infrastructure Delivery Schedule (IDS) and other service plans.

- Ensuring the Asset Investment schemes use appropriate project management tools.
- Ensuring responsibility for the delivery of the Asset Investment programme is clearly defined.

**Aims of the Strategy**

1.10 The specific aims of this strategy are to ensure:

- Physical assets and related resources are efficiently and effectively used to support the Council's priorities. (See the Asset Management Plan (AMP) at Appendix M of the Medium Term Financial Plan (MTFS)). These inputs when reviewed against the outputs from asset investment schemes will demonstrate value for money;
- Issues related to property and other assets are fully reflected in the Council's planning, for example, ensuring adequate funds for maintenance are available;
- Stakeholders can understand the Council's Asset Investment decisions and the management of its asset investment projects;
- Adequate provision is made for delivering corporate priorities and demonstrated through effective resource allocation;
- Invest to save projects are encouraged;
- The Council works within the Prudential Code framework and demonstrates robust and linked asset investment and treasury management; (see the Prudential Code and Treasury Management Strategy and Minimum Revenue Provision Policy at Appendix K of the MTFS);
- Asset management plans are reviewed to identify surplus assets which can move through a disposal process to generate new Asset Investment and/or revenue resources; (see AMP);
- Asset investment spending plans are affordable, financially prudent, sustainable and integrated with the MTFS;
- Support for our partners by maximising the potential for joint working and match funding, where this secures better outcomes than could be achieved in isolation.

**Strategic Context**

1.11 **Climate Emergency**

- On the 24th of July 2019, at a meeting of Peterborough City Council's Full Council, members unanimously declared a climate emergency and agreed to make the Council's activities net-zero carbon by 2030. This commits the Council to achieving 100 per cent clean energy across its buildings and services by 2030 and ensuring that all strategic decisions, budgets and approaches to planning decisions are in line with a shift to zero carbon across the entire city by 2030. This significantly influences the type, scale and timeliness of investment needed across the city not only to support further growth but to ensure this can be delivered in a sustainable way whist ensuring that the city is able to adapt to the inevitable changes that Climate Change will bring.

1.12 **Peterborough Planning Policy Framework**

- To facilitate and coordinate growth, the City Council has a new fully adopted Local Plan (adopted 24th July 2019) which sets out the council's long-term vision and objectives for the city and surrounding villages. It sets out the policies and proposals for growth and regeneration until 2036. Having an up to date plan in place puts the Council in a good position to encourage and guide public and private investment decisions.

- The major growth identified in the Local Plan will require substantial funding for the infrastructure requirements which such growth generates (on top of funding required to maintain our existing infrastructure). The sources of such funding are wide ranging, including government grants, private sector investment and our own corporate resources. It should also be noted that this growth will also in turn generate additional funding which will offset some of the investment cost, such as increases in Council Tax revenues from additional homes built, New Homes Bonus grant from government, and through the funding arrangements surrounding Business Rates where local authorities are able to keep an element relating to growth.
- To coordinate the infrastructure requirements associated with growth, the Council prepares an Infrastructure Delivery Schedule (IDS)1. The IDS is intended to be refreshed and approved regularly by Cabinet and a refresh was prepared for approval by Cabinet in November 2016. The IDS is a 'live' schedule of the entire infrastructure needed to support sustainable growth in Peterborough, with an indication of when such infrastructure is needed and how much it might cost. The IDS is linked into the Council's project management system (Verto). A variety of funding sources will then be used to pay for the items on the IDS, in a prioritised way, including from:
- Developer Contributions received from S106 Planning Obligations and Community Infrastructure Levy (CIL) Charging Schedule. CIL has now replaced Section 106 planning obligations for many forms of infrastructure funding, although Section 106 agreements can still be used for site-specific mitigation measures and for affordable housing provision. The Developer Contributions already accumulated by the Council from Section 106 Planning Obligations will continue to be allocated through the IDS.
- Government and Other Grants.
- City Council's own Asset Investment.

### 1.13 Commissioning Led Council and Principles

#### 3.3.1 What is a commissioning led council?

- This means that the Council will deliver better outcomes for customers through identifying the most efficient, effective and economic models of service delivery.
- This may mean the Council continuing to deliver services on its own, or directly through other agencies and organisations or as a partnership between the Council and other organisations. This will provide a range of different abilities, skills and knowledge to enable targeted services to be delivered in the right place at the right time.
- A commissioning approach offers significant benefits to local residents and businesses alike. Services will be delivered in more efficient ways, stimulating local enterprise by creating new markets in the provision of local services, and an increased emphasis on the scrutiny of those services.

#### 3.3.2 Commissioning Principles

- Demand management - to prioritise the commissioning of services and solutions that will prevent or delay escalating support and service needs.
- Efficient and effective - undertake an evidence based approach to commissioning services and solutions that demonstrate efficient and effective use of resources. Services and solutions will be commissioned on the basis of best value.
- Return on investment - to commission on the basis of a clear, whole-life costed benefits realisation for service users, PCC and other stakeholders. This will include analysis of the value of social and environmental outcomes of commissioning activities as well as financial outcomes.

- Market Development - to develop the market with providers and partners to ensure that strategic commissioning activity across health and social care is coordinated and best value and outcomes are delivered.
- Statutory duties - ensure PCC complies with its legal duties within the statutory legislative and policy framework.
- Political - Commissioning activity will take account of and be sensitive to the national and local political context. Engagement with elected members will be carried out throughout the commissioning process.
- Collaborative commissioning - We will work to commission services and co-produce solutions with strategic partners where this best delivers PCC outcomes and objectives.

1.14 **Housing Revenue Account (HRA)**

The council wrote to the Regulator of Social Housing on 9th October 2019 to inform them of the possible intention to reopen a HRA and engage in the supply of affordable housing. Discussions have begun with Homes England to determine what funding opportunities are available. The outline business case will need to be completed, which is dependent on funding opportunities and also the Councils final strategic direction in this area. As detailed plans for it's mobilisation will be dependent on this final strategic decision, this change has not been reflected in the current Capital Strategy.

**Capital Programme Governance and Project Management**

1.15 The Council has a Capital Review Group (CRG)

1.16 The CRG Terms of Reference

4.2.1 **Objective**

- A Capital Review Group (CRG), led by officers to review the councils capital programme with a view to recommending new projects and amendments to the programme to the Financial Improvement Plan Management Board (FIP Board). This will include consideration for the financial implications, the impact and requirement for the recommendations.
- These will be recommended and considered as part of the budget process for setting the Medium Term Financial Strategy (MTFS).

4.2.2 **Purpose**

- To Review the Councils Capital Programme, including the following:
- Review new Capital Programme Project Proposals submitted to the CRG by project leads, ensuring:
  - strategic fit
  - holistic impact to the Council
  - fulfilment of service requirement
  - acceptable financial implications
- Review the regular progress monitoring of the Capital Programme. Including reviewing any change in the scope of projects, timescales and financial implication.
- To ensure all projects are input and monitored through Verto
- To ensure the correct governance approval route is recognised and completed
- To monitor the progress against the capital receipts target included within the MTFS
- To advise FIP Board, Cabinet Policy Forum (CPF), Budget Working Group (BWG), Cabinet and Council on the capital Programme
- To review all virements

1.17 All new proposed capital projects have to go through the following governance structure before it can be included into the Capital Programme. This will ensure that the governance is adhered to and all risks and rewards are addressed at all governance levels.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| CRG | FIP Board | CPF | BWG | Audit Committee | Cabinet | Joint Scrutiny of the Budget | Cabinet | Council |

1.18 To manage the capital programme the Council operates a project management system (Verto). Option appraisals and feasibility studies are required to support and justify a business case for projects. The longer term property and revenue implications (i.e. whole-life considerations) are part of this process which is consistent with the principles set down in the Prudential Code for Asset Investment Finance in Local Authorities.

1.19 Project officers monitor the implementation of the Capital Programme on a regular basis with reports being submitted monthly to Verto. Heads of Service or project leads offer regular updates which are reported to Department Management Teams.

1.20 The Capital Programme as a whole (both expenditure and income) is reported to FIP Board at least on a quarterly basis. These reports sent to FIP Board contains an overview of the current position and provides FIP Board with the information required to ensure that the capital programme is sustainable in the long term through revenue support by the Council or its partners and that use of capital programme resources reflects what was agreed in the production of the Council's MTFS.

**Key Areas of Council Asset Investment**

1.21 The Council's Capital Programme for 2020/21 to 2022/23 totals £303.3m and is summarised in 1.50 Individual schemes are itemised in Appendix H.

1.22 The following is a summary of the key elements of the strategy by service area.

**People and Communities Directorate**

1.23 **Community Infrastructure**

- Community Infrastructure incorporates community centres, sports facilities, open space, affordable housing, and other community infrastructure related items. Funding for community infrastructure needs primarily come forward via new developments as part of the Developer Contributions received from S106 Planning Obligations and Community Infrastructure Levy (CIL) Charging Schedule.

- During the first 30 years of the contract governing the Large Scale Voluntary Transfer of the Council's housing stock to Cross Keys Homes (CKH) in October 2004, the Council receives part of the sale proceeds under the Preserved Right to Buy (Council tenants transferred to CKH retain the right-to-buy) on an agreed basis. As part of a budget approval decision by Full Council for 2016/17 that agreed to the creation of a housing Joint Venture , it was also agreed that the funds accumulated from these Right to Buy receipts would be directed to the housing joint Venture to build new affordable homes in Peterborough.

- A significant percentage of new affordable housing provision will continue to come forward via developers as part of S106 planning agreements. The Council's current planning policy aims to secure 30% of all new housing (on eligible sites) to be affordable homes, subject to negotiation with developers. The delivery of affordable housing varies each year according to national funding allocations, local funding and planning permissions approved.

- Affordable Houses completed over the last few years are as follows;

  2015/16 -168 Homes

  2016/17 – 129 Homes

  2017/18 – 120 Homes

  2018/19 - 150 Homes

- For 2019/20, current projections indicate that 371 new affordable homes should be completed.
- The Green Open Space Strategy is jointly led by Aragon Direct Services Ltd and PCC through joint working. Any improvements and developments are delivered though input from the statutory planning document and an annual external H&S assessment of our play provision.

1.24 **School Places**

- The Council is responsible for ensuring there are sufficient early years, childcare and school places within its area to meet the needs of the population. The Education and Inspections Act (2006) placed additional duties on local authorities to ensure fair access to educational opportunity, to promote choice for parents and secure diversity in the provision of schools. The Act also placed an explicit duty on LAs for the first time to respond formally to parents seeking changes to the provision of schools in their area, including new schools. In addition, the Council is responsible for providing transport where children have to access schools which are some distance from their home.

- There has been increased growth in the number of children living in Peterborough in recent years for two main reasons:

- Firstly, Peterborough has one of the highest birth rates in the country. Using the actual number of births per year and a forecast of future birth numbers helps provide an overview of the demand for school places. Across the Peterborough Unitary Authority area the number of births increased every year between 2006 and 2012, when it reached its peak. Since 2012, the number of births per year has fluctuated, but within a tight range of just over 3,200 births in 2013 and just over 3,000 births in 2017. The number of births is forecast to continue at similar levels, fluctuating at around 3,100 per year to 2021.

- Secondly, in terms of house building, Peterborough remains one of the fastest growing cities in the UK. 1,043 dwellings were completed in the Peterborough Unitary Authority area in the year to March 2019. 41% of these were built in urban extensions, 51% in the rest of the urban area and 7.8% in the rural area. The new Local Plan, adopted on 24th July 2019, makes provision for 19,440 new homes in the period 2016 to 2036. During the first 5 years (2016 to 2021) the annual requirement is for 942 dwellings per year, and this then increases to 982 per year between 2021 and 2036. The greater proportion of new dwelling provision is planned within urban extensions. There are currently 13,122 dwellings with outstanding planning permission. Of the unimplemented permissions 4,277 had full permission and 8,845 had outline permission. In addition to the sites rolled forward from the previous Local Plan, there are allocations at Great Haddon (5,300 dwellings), Norwood (2,000 dwellings) further development around the East of England Showground (650 dwellings) and an extension to Eye village (280 dwellings).

- It is clear that the earlier increase in the birth rate, which is being sustained at a level close to its 2012 peak, and continued housing building across Peterborough has had, and will continue to have, a significant impact on the number of school places required. The Council will continue to monitor very closely the demographic trends in the city along with the growth in housing developments to ensure that it can continue to fulfil its statutory duty to provide sufficient school places.

- The Education Organisation Plan is updated on an annual basis and includes a description of all projects presently under consideration, in feasibility, in various stages of pre-construction design and on site under construction. The list of projects taken from the Plan is below.

5.5.1 **Early Years**

- Due to the large number of new providers entering the market, the local authority will not seek to create additional capacity at this time. This is to ensure sustainability of existing provision.
- Future opportunities in new housing developments: There is still significant growth expected in some areas of Peterborough due to continued housing development. Pre-school provision for two, three and four-year-olds will be located in all new primary schools. Full day care will be required for all ages. More details about these schemes and potential tender opportunities will be announced in coming months.

5.5.2 **Primary Schools**

- Manor Drive Primary is a proposed new 2FE (420 place) school on the Paston Reserve site to serve the needs of the development. A free school bid was submitted and approved as part of the Wave 12 programme. The school is now in the pre-opening phase and the target opening date is September 2022. It can then potentially open concurrently with the proposed new secondary school, which will be constructed on the same site and which is also required to serve this major development area. The secondary school bid received its approval in the recent DfE announcement on wave 13 of the Free Schools programme.
- Negotiations are underway to secure developer contributions for the 3FE (630 place) primary school to serve the proposed Norwood development.
- Hampton Lakes, a new primary school which will ultimately serve Hampton Gardens and Hampton Beach, opened with 30 Reception places in September 2019 on the site of Hampton College. It will move to its permanent accommodation from September 2020.
- There is currently a proposal under consultation by the Roman Catholic Diocese of East Anglia for a new 3FE/630 place Roman Catholic primary school to be built on the Hampton East development. A decision on whether or not to proceed with this proposal will be made in late February 2020.
- In response to the within catchment pressure, and as a temporary measure, the PAN of John Clare Primary has recently been increased from 15 to 20 taking the overall number of places available from 105 to 140. If key planning applications for further house building in the village are approved officers will work on a proposal for a permanent expansion scheme at John Clare Primary. This would need to be approved by the Peterborough City Council Capital Review Group. This scheme would increase capacity to 210 places, a timescale for this is yet to be determined.
- Officers are currently consulting with Members, local developers and other key stakeholders to identify next steps to increase places at Eye Primary.
- Officers are currently working with local schools, Members and other key stakeholders on mitigation of the proposed development at the East of England Showground.

5.5.3 **Secondary Schools**

- Manor Drive Secondary Academy is a new planned 6FE (900 place) school to be built on the Paston Reserve development. 3FE (450 places) of this will be used to mitigate the effect of the development. The other 3FE (450 places) will provide some capacity to meet the demand from the rest of the City. This school was approved into pre-opening stage through Wave 13 of the Free School bid process. The LA is now working with the DfE and the 4C's Trust to start the single capital project for the secondary and primary school on the development. The opening date is currently planned to be September 2022. Delivery of the secondary school for 2022 will support the LA in managing a potential shortfall of around 4-5FE (120-150 places) of year 7 places forecast City-wide in September 2022.
- S106 developer contributions for a secondary school on the Great Haddon development has been secured. The first houses on this development are forecast to be built in 2022. The opening of this school will be linked to the pace of development.

5.5.4 **Places for children and young people with Special Educational Needs and Disabilities (SEND)**

- The Government has committed £215 million of capital funding to help local authorities create new school places and improve existing facilities for children and young people with SEND. This funding can be invested in mainstream schools and academies, special units, special schools, early years settings and further education colleges, or to make other provision for children and young people aged from 0 to 25.
- The Council is using this and other funding to create 40 more special school places in the City. Options for this are currently being considered at Heltwate and Marshfields Special Schools.

**Place and Economy Directorate**

1.25 **Delivery of Growth Schemes**

- Through its Local Plan, the City Council is translating the Sustainable Community Strategy into a series of land allocations and planning policies to guide public and private investment decisions. The Local Plan identifies the spatial distribution and broad areas of growth in Peterborough and identifies the sites required to deliver the future growth requirements which will require funding for the infrastructure requirements it generates. This sits alongside developer contributions and community infrastructure levy mechanisms for securing the necessary contributions towards funding and maintaining this infrastructure.
- The Local Plan is a key driver in helping the city centre become more vibrant, dynamic and diverse. Offering a high quality built environment, employment, and learning and leisure opportunities by encouraging new investment into the city.
- The directly-elected Mayor and the Cambridgeshire and Peterborough Combined Authority hold strategic transport powers and are the Local Transport Authority for the Cambridgeshire and Peterborough area. They are responsible for allocating local transport funding to the most important transport needs to help improve traffic flow, reduce congestion, improve road safety, increase walking and cycling and improve accessibility amongst other things. The Combined Authority sets the overall transport strategy for Cambridgeshire and Peterborough, called the Local Transport Plan. Peterborough City Council previously had these powers and produced its own Local Transport Plan (LTP) but this is now a function of the Combined Authority.
- The Council is increasingly working with partners in joint ventures to actively drive the delivery of growth and regeneration in the city. Building on the success of the Peterborough Investment Partnership (which in its first year of operation obtained planning consent for a

landmark scheme on Fletton Quays), the Council created a new joint venture with Cross Keys Homes to drive the delivery of housing.

- The Council's increasingly commercial and active role in delivery (which includes a willingness to leverage its own assets and covenant as appropriate) is a key facilitator for bringing sites forward, and remains a pillar-stone for delivering Peterborough's growth agenda. It will take this active role in bringing North Westgate forward, using its unique position to support land assembly on this historically challenging site that the market has failed to bring forward. The Council is working with the principal landowner, Hawksworth Securities, on land assembly plans that would see the Council facilitating the purchase of the land ownerships that will need to be acquired to complete the scheme. This will involve ensuring title checks through a land referencing agent and completing market valuation checks prior to private treaty negotiations with owners.

1.26 **Transport**

- Transport incorporates new roads, bus and railway stations, street lighting, structures, drainage, footways/cycle ways and other transport related infrastructure items.
- To provide context, the directly-elected Mayor and the Cambridgeshire and Peterborough Combined Authority hold strategic transport powers and are the Local Transport Authority for the Cambridgeshire and Peterborough area. They are responsible for allocating local transport funding to the most important transport needs to help improve traffic flow, reduce congestion, improve road safety, increase walking and cycling and improve accessibility for all highway users amongst other things. The Combined Authority sets the overall transport strategy for Cambridgeshire and Peterborough, called the Local Transport Plan (LTP). Peterborough City Council previously had these powers and produced its own LTP but this is now a function of the Combined Authority. The draft new LTP is now in its final stages of development.
- The Council works with the Combined Authority to develop a programme of highway infrastructure improvements which is set out in the transport element of the IDS. The transport Asset Investment programme, as reflected in the IDS, takes account of the following goals:
    - Drive growth, regeneration and economic development
    - Improve educational attainment and skills
    - Safeguard vulnerable children and adults
    - Implement the Environment Capital agenda and Climate Emergency commitment
    - Support Peterborough's culture and leisure trust Vivacity
    - Keep all our communities safe, cohesive and healthy
    - Achieve the best health and wellbeing for the city
- The LTP sets out how the forecast increased demand to travel will be met by a combination of increased use of sustainable travel and a programme of targeted highway infrastructure improvement and Asset Investment maintenance works.
- The Council awarded as of 1st October 2013 a new 10 Year Highway Services contract, which can be extendable by a further 10 years (5+5yrs). This contract gives the authority more flexibility in meeting its strategic objectives and goals in an efficient and effective manner.
- The Council is progressing with the Department for Transport's incentive fund requirements to ensure it maximises the LTP maintenance block allocation to maintain the existing highway infrastructure. In order to determine the level of funding, each local highway authority in England (excluding London) is required on an annual basis to compile a report

answering 22 questions with 3 assessment bands. Currently, Peterborough City Council has successfully reached band 3 (the highest) receiving the maximum allocation.

1.27 **Regeneration**

- Peterborough is the 5th fastest growing city in England. The city expanded rapidly as a 'New Town' during the 1970s and continues to grow to the present day. Research undertaken for the Local Plan which was adopted in July 2019 suggests that Peterborough's population will rise from its current level of 201,000 to over 230,000 by 2036. This rate of growth will create challenges as well as opportunities: for example, despite the fourth highest housing stock growth nation-wide, housing demand increasingly outstrips supply. (Last year, the average time for a house to sell in the city was 13 days – the fastest in the country.)
- It is against this background that the Council is evolving its role in driving growth: a change that has accelerated as the benefits of its approach have become clear. This change in approach is guided by series of core principles:
    - The Council should not just be a facilitator of growth but should take an active role in promoting and delivering growth wherever necessary
    - Times of financial constraint mean the Council will need to tap into new sources of income beyond government grant finance to drive regeneration and economic development
    - The Council should extend its existing partner arrangements and enter new ones where both parties have synergies that can drive growth effectively and at pace and there is an opportunity to do so in way that can deliver best value.
- Over recent years the Council has taken an increasingly hands-on and commercial approach to regeneration. Its work on Fletton Quays, following the establishment of the Peterborough Investment Partnership in January 2015, has seen a long-term underused and derelict brownfield site taken successfully through the planning process to the point where physical transformation is now well underway. Over the next two years this site will be transformed, with new offices and residential developments along a revitalised riverside promenade.
- In November 2016 the Council set up a housing joint venture company with Cross Keys Homes called Medesham Homes that is working to deliver affordable homes to meet the needs of a growing population. The Council has also earmarked funds over the next three years to support land assembly for the delivery of regeneration in the North Westgate area, which - like Fletton Quays before it - has stalled as a development opportunity, and will require the Council to become more directly involved in facilitating delivery. In early 2016, the Council entered into a joint venture with Norse Property Services, which will bring new and extended property capabilities and capacity to the Council.
- As well as equipping itself with these new mechanisms for delivery, the Council is reviewing its approach to its land and property assets, both current and future. Where it can identify assets of strategic growth importance - such as some parts of North Westgate - it will make efforts to assemble such assets to help secure Peterborough's future economic strength; where assets offer strong investment returns, the Council will, in addition, actively examine acquisitions that can help diversify its income streams and support service delivery.
- The council is also looking at how its assets at Northminster can best be redeveloped following the demolition of the Market Car Park so that this important area of the city can be regenerated.
- In addition, the council plans to form a joint venture property company with the Cambridgeshire and Peterborough Combined Authority to facilitate the development of a new university Campus for Peterborough on council-owned land at the Wirrina car park.

- The Gladstone, Millfield and New England neighbourhoods that make up the CAN-Do area feature in the 20% most deprived communities in the UK. These neighbourhoods experience a range of challenges and also contain some of the oldest housing stock in the city. In order to address such challenges, Operation CAN-Do was set up in 2013 as a 10-year programme of local improvement and following the initial success of the community-based interventions, it was recognised that capital investment was needed to truly regenerate the area. In the Council's 2017/2018 budget funding was allocated to support investment in physical regeneration, £663k of which has been spent or committed to date. The Council has allocated a further £2m in the 2020/21 financial year and intends to allocate further funds, up to £7.5m in future years.

- In addition to such interventions the Council will continue to explore how by taking an active - and far more wide-ranging - view of growth, and its own role in the delivery of growth, it can achieve both direct and indirect social and economic benefits for the people of Peterborough.

1.28 **Local Authority Trading Company (LATCo)**

- The council has a wholly owned trading company, Aragon Direct Services, which performs the delivery of key services, including bin collections and street cleaning, previously operated by Amey. Within these services there is a range of equipment and facilities used. The capital strategy will need to include future plans on how this equipment is kept fit for purpose and complies with legislative requirements.

**Customer & Digital Services**

1.29 **Information and Communication Technology – ICT**

- IT and Digital services are critical to the efficient delivery of Council Services. In July 2019 Cabinet approved an IT and Digital Strategy for Peterborough City Council in partnership with Cambridgeshire County Council. This strategy is centred on building a shared IT infrastructure and shared IT, Business and Digital systems. Work on delivering this Strategy is well underway. By the start of 2020/21 a fully aligned Adults' and Children's Services IT systems across the two councils and a shared platform for the both councils' websites.

- During 2020/21 the Sand Martin House data centre will become the location for data from both councils as well as the site for hosting data for a range of other public sector partners. This will provide valuable income for the City Council.

- Alongside this there will be a developing key City Council business systems to improve the effectiveness of our HR and finance processes and a roll out of further aspects of Office 365 to support agile working and the ability to collaborate more effectively with our partners.

- All this will be done whilst ensuring the reliability and security of all IT systems through the on-going programme of up-grades and system improvements.

**Resources Directorate**

1.30 **Strategic Property**

- The Council keeps its property portfolio under constant review; ensuring assets are held only for identified operational, growth or investment purposes, see Appendix M Asset Management Plan for more detail. Co-location and further portfolio rationalisation are expected to improve overall efficiency of the operational portfolio and will be used to contribute to the overall growth of Peterborough.

- The Council has now successfully moved its back office functions to the a new office development on Fletton Quays releasing Bayard Place and parts of the Town Hall to be utilised for Investment purposes after business case approval.
- Overall the Council aims to dispose of surplus assets and use the capital receipts raised to support other initiatives. A ‘best consideration’ approach may be applied where the site is in a key growth area. Work is ongoing to identify further sites that are suitable for disposal, recommendations take into account issues such as holding costs, fitness for purpose, alternative use and financial returns. Annex 1 of this report has more detail about the assets that have been identified and suitable for disposal.

1.31 **Invest to Save**

- 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, for example renewable energy schemes. Business cases for future proposals are required to demonstrate how the cost of borrowing will be covered, e.g. through income generation, etc. Therefore, each scheme will be self-financing so that Invest to Save schemes will have no overall impact against the Council’s bottom line.
- The following set of principles are applied in assessment of such schemes:
    - Each project needs to complete the Council’s standard full business case. This includes the required officer evaluation and approvals as for all business cases.
    - Schemes should deliver savings that improve the financial position of the Council as presented in this MTFS.
    - Schemes will also be considered that maintain the MTFS position (ie neither improve nor worsen the position), but contribute towards delivery of service improvements, or contribute to achievement of Council priorities.
    - The MTFS assumes that payback from schemes commence in the same year the project starts. If this is not the case, proposals will need the following additional analysis in the business case:
        - A full net present value (NPV) analysis
        - An outline of how the finance will be covered across financial years if schemes are not cost neutral within each financial year
- Proposals will need to be subject to the Council’s decision making requirements, e.g. any schemes above £500k will be subject to a Cabinet Member Decision Notice (CMDN) approved by the Cabinet Member for Resources and relevant portfolio holder. With updates on schemes is included in future financial reports to Cabinet during the year. Schemes are not approved and budget is not allocated until all of the above are in place.

**Invest to Save Current Schemes:**

- The Council is continuing to investigate further ways it can support the development of housing and other projects - further details of this will be brought forward should the option be financially beneficial to the council. Any projects will comply with the terms and conditions outlined to obtain invest to save funding. Planned schemes are itemised in Appendix H.

1.32 **Climate Emergency**

- On the 24th of July 2019, at a meeting of Peterborough City Council's Full Council, members unanimously declared a climate emergency and agreed to make the Council's activities net-zero carbon by 2030. This commits the Council to achieving 100 per cent clean energy across its buildings and services by 2030 and ensuring that all strategic decisions, budgets and approaches to planning decisions are in line with a shift to zero carbon across the entire city by 2030. This significantly influences the type, scale and timeliness of investment needed across the city not only to support further growth but to ensure this can be delivered in a sustainable way whist ensuring that the city is able to adapt to the inevitable changes that Climate Change will bring.
- Since the Climate Emergency Declaration the Council has produced a Carbon Management Action Plan which is the first major step that the Council is taking to deliver its commitment to achieving net-zero carbon emissions across the Council's operations. The plan details where the Council's current emissions come from, existing plans to reduce emissions and the areas the Council will focus on to achieve reductions over the next two years. Through implementing this plan the Council commits to working at a local level to demonstrate leadership to the business and residential community and directly support the UK Government's delivery of its commitments within the Climate Change Act.
- The Council is committed to undertaking a number of further actions to directly and indirectly reduce emissions including a Carbon Management Action Plan to support schools, parishes and the city as a whole.

1.33 **Loans Made to Third Parties**

- The Council makes loans to third parties to advance the Council's strategic interests. Loans are only made after the Council's formal decision making process has been followed. This includes formal approval by the Chief Finance Officer (S151).
- Although these loans fall outside the Treasury Management Strategy consideration is still given to the principles of Security, Liquidity and Yield and these risks are weighed against the strategic benefits of making the loans.
- As part of the formal decision to make the loan, the security for the loan will be assessed as to its adequacy in the event of the third party defaulting on repayment. The expected loss model is applied throughout the life of the loan in line with the requirements of IFRS9 Financial Instruments and disclosed in the annual Statement of Accounts.

| **Third Party Details** | **Current Loan Advanced** | **Maximum Exposure** |
|---|---|---|
| ECS Peterborough 1 LLP | Capital Loan £23.2m | £23.5m |
| Affordable Housing | Nil | Not Agreed |
| Hotel Loan | Nil | £15.0m |
| Vivacity | Capital Loan £0.4m | £0.4m |
| Peterborough Limited | Revenue Loan £1.6m<br>Capital Loan £0.2m | £1.8m |

**Sources of Asset Investment Funding**

1.34 A summary of the sources of Asset Investment funding is shown in 1.50.

1.35 External sources arise from the Council's aims, together with partners, to maximise opportunities for funding from any source, including Government Grants and applications for National Lottery funding for schemes. Corporate resources can consist of Asset Investment receipts and borrowing. Under the Prudential Code for Asset Investment Finance, the Council has the ability to borrow money. To do this, the Council must be able to show that any borrowing is affordable, prudent and sustainable, see the Treasury Management, Prudential Code and Minimum Revenue Provision Strategy.

1.36 The Council is required to pay the Homes England (HE) a percentage of gross Asset Investment receipts from sales of Community Related Assets (CRA) transferred to it from the Peterborough Development Corporation. From August 2019, this is 36% (diminishing annually by 2%). Although this represents a significant loss of opportunity for the Council, HE is encouraged to reinvest the receipt back into Peterborough. The Council is currently awaiting consultation from HE regarding the policy surrounding these arrangements.

1.37 Developers are required to contribute resources to ensure appropriate infrastructure comes forward alongside growth. Some of this contribution is made directly by the developer, such as the provision of new community facilities as part of a development scheme. Developers also commonly contribute financially to the Council, so that the Council can pool contributions to deliver infrastructure. This process is through the Council's adopted Community Infrastructure Levy. Legislation requires the Council to hand over a proportion of any CIL money it receives to the parish council (the neighbourhood proportion) in which the development is located (if it is in a parished area) or to discuss with the local community how to spend that proportion locally (if the development is in an un-parished area). The proportion to be handed over depends upon whether there is or is not a statutory neighbourhood development plan in place. The Council will also retain a proportion of CIL receipts for administration of the charge. Provisionally, the Council has agreed that the remaining CIL receipts are to be split via the thematic areas outlined below (though it is important to note that such thematic areas will receive other funding via other sources in addition to the CIL)

1.38 **Neighbourhood Proportion**

| | **Proportion of CIL to be allocated where development has taken place** |
|---|---|
| *Parishes / neighbourhoods without a neighbourhood plan* | *15% - capped at £100 per Council tax dwelling* |
| *Parishes / neighbourhoods with an adopted neighbourhood plan* | *25% - uncapped* |

**Remaining CIL receipts - Proposed funding split by infrastructure theme**

| | |
|---|---|
| Transport and Communications | 30% |
| Education and Learning | 40% |
| Community and Leisure | 10% |
| Emergency services / health and well-being | 10% |
| Environment | 10% |

1.39 **Alternative Financing Arrangements**

- The Council has actively investigated public/private partnerships (PPP) and other innovative financing arrangements in relation to a range of Asset Investment projects. Examples include:-
  - Close collaborative working with our private sector contractor within the Environment, Transport and Engineering service to investigate ways of making significant savings and

providing increased value for money. A new contract, contracts or contract extensions has been procured to cover these work areas and commenced in October 2013.

- Partnership arrangements with various Registered Social Landlords for the provision of affordable housing.
- Alternative structures for the development of key sites within Peterborough including the establishment of joint ventures.

1.40 **Capital Receipts**

- A capital receipt is an amount of money exceeding £10,000, which is generated from the sale of an asset. The need to generate capital receipts is a fundamental part of the Asset Management Plan. The rationalisation of the asset portfolio has benefits such as reducing revenue costs that relate to surplus assets and also releases assets for disposal. Capital receipts are an important funding source for the Council.
- The Council takes a holistic approach to funding its Asset Investment programme and will adapt its approach based on overall financial circumstances and the needs of particular services. An outcome of this approach is to treat all capital receipts as a corporate resource; enabling investment to be directed towards those schemes or projects with the highest corporate priority and to ensure the Council achieves value for money from its capital receipts. This means that individual services are not reliant on their ability to generate capital receipts.
- The timing and value of asset sales is the most volatile element of funding, especially in the current financial climate. As a result, the Acting Corporate Director of Resources closely monitors progress on asset disposal. Any in year shortfalls could potentially need to be met from increased corporate resources.
- The Council uses capital receipts to:
    - fund capital expenditure
    - redeem debt - see TMS MRP policy section 3.
    - fund the revenue costs of transformation projects and release savings - this is known as the Flexible Use of Capital Receipts.
- It will be at the discretion of the S151 officer and their judgements as to which option provides better value for money for the Council's financial strategy.
- The statutory guidance on Flexible use of Capital Receipts recommends that, if planning to use this flexibility, a Flexible use of Capital Receipts Strategy is approved by Council.
- As a minimum, the Strategy should list each project that plans to make use of the capital receipts flexibility and that on a project by project basis details of the expected savings/service transformation are provided. The Strategy should report the impact on the Council's Prudential Indicators for the forthcoming year and subsequent years.
- The Strategy should contain details on any projects approved in previous years, including a commentary on whether the planned savings or service transformation have been/are being realised in line with the initial analysis.
- An outline Flexible use of Capital Receipts Strategy is included as Annex Two.

**Procurement Strategy**

1.41 Delivery of the majority of the Capital Programme is commissioned from external providers. The Council will either use a tender process, existing contracted suppliers such as Skanska for Highways Works, or an appropriate framework.

1.42 A new Procurement Strategy is in the process of being completed for approval by the new Procurement and Commercial Boards during 2020 for the next five year period commencing April 2021.

1.43 The Councils approach is governed by its Procurement Strategy. This five year strategy sets out how the Council intends to purchase goods, works or services from third parties that:

- contribute towards achieving the Council's priorities (para 7.8 ) and aligns to the seven commissioning principles the Council has adopted to become a Commissioning Led Council (7.9);
- supports Peterborough's Sustainable Community Strategy[2] and ambition to become the UK's Environment Capital, to substantially improve the quality of life of the people of Peterborough and to raise the profile and reputation of the City as a leading city in environmental matters and a great place in which to live, visit and work;
- complies with the legislative requirements for procurement; and
- meets the challenge within local government and the wider public sector to spend within its means.

1.44 The Council spends in excess of £230 million per year on procuring works, goods and services through a variety of procurement and contracting arrangements covering a wide and diverse spectrum of council functions. For example, this includes buying stationery, energy, insurance, home to school transport for eligible pupils, care packages for eligible adults and children in social care, services from our strategic partners such as building maintenance and highway maintenance, to major IT systems and construction projects. The majority of the Asset Investment Expenditure incurred is undertaken by the Council's partner organisations.

1.45 This strategy will align to the Council's Customer Strategy[3] which is fundamental in the understanding of our customer and business needs that will shape the way we deliver our services as a Commissioning Led Council.

1.46 The outcomes of this strategy will be to:

- Undertake procurement that achieves the Council's Strategic Priorities and being a Commissioning Led Council;
- Achieve agreed efficiencies, effectiveness and economies of scale that demonstrates value for money for the residents, partner organisations, businesses and other interested parties, taking into account environmental, social and economic impacts and whole life costs when procuring products and services;
- Achieve improved business processes that streamline how the council interacts with its supply chain including through maximising digital technology; and
- Promote and supports small medium enterprises including community groups and local businesses

[2] https://www.peterborough.gov.uk/council/strategies-polices-and-plans/strategic-priorities/
[3] https://www.peterborough.gov.uk/council/strategies-polices-and-plans/customer-service-strategy/

1.47 Monitoring arrangements- Progress and monitoring of the procurement strategy outcomes will be done in the following ways:

- Regular monitoring as part of a programme of works through the council's Commercial Board, a cross representative group of officers that are involved in procurement, legal, finance and commissioning activity.
- The corporate management team to receive monitoring reports of the Strategic Procurement Board
- An annual performance report will be provided for Cabinet members.

**Conclusion**

1.48 The Capital Strategy demonstrates and sets the framework for how the Councils capital programme supports its strategic priorities. The Capital Strategy is subject to continuous review and has been prepared in collaboration with other services to ensure it's consistent with the MTFS, which itself has been reviewed and updated. Any revenue implications from the Capital Strategy have been built into the MTFS.

1.49 The Council has implemented and continues to implement changes to its core business and culture to ensure that limited funding is prioritised and effectively targeted to deliver the objectives, through reviewing the current programme for efficiencies in procurement and rationalisation of programmes.

1.50 **Summary Capital Programme**

| Capital Expenditure | 2018/19 Actual £m | 2019/20 Est £m | 2020/21 Est £m | 2021/22 Est £m | 2022/23 Est £m |
|---|---|---|---|---|---|
| Customer & Digital Services | 1.5 | 4.5 | 4.9 | 5.0 | 3.5 |
| People & Communities | 28.5 | 24.7 | 23.3 | 39.1 | 22.2 |
| Place & Economy | 29.6 | 21.1 | 29.3 | 21.4 | 27.5 |
| Resources | 34.7 | 19.4 | 14.9 | 5.7 | 2.1 |
| IFRS16 Transition adjustment | - | - | 22.0 | - | - |
| Capitalisation Direction | - | 8.2 | 1.2 | - | - |
| Invest to Save / Commercial Activities | 1.6 | 16.9 | 50.8 | 24.8 | 10.0 |
| Total | 95.9 | 94.8 | 146.4 | 96.0 | 65.3 |
| Financed by: | | | | | |
| Capital receipts (repayment of capital loans) | 8.2 | 23.0 | - | - | 15.0 |
| Capital grants contributions | 38.9 | 34.2 | 26.8 | 47.0 | 33.2 |
| Net financing requirement | 48.8 | 37.6 | 119.6 | 49.0 | 17.1 |
| Total | 95.9 | 94.8 | 146.4 | 96.0 | 65.3 |

1.51 **Summary of Fixed Asset Values as at 31 March 2019**

| **Fixed Asset Values** | **Gross book £000** | **Depreciation £000** | **Net book value £000** |
|---|---|---|---|
| Land & buildings | 361,672 | (17,389) | 344,283 |
| Vehicles, plant & equipment | 42,318 | (19,993) | 22,325 |
| Infrastructure assets | 309,446 | (131,786) | 177,660 |
| Community assets | 901 | - | 901 |
| Heritage assets | 683 | - | 683 |
| Surplus assets | 1,135 | (104) | 1,031 |
| Assets Under Construction | 2,058 | - | 2,058 |
| Investment properties | 25,676 | - | 25,676 |
| Intangible assets | 22,581 | (13,437) | 9,144 |
| Assets Held for Sale | 1,217 | - | 1,217 |
| **Total** | **767,687** | **(182,709)** | **584,978** |

*Note -These values follow recommended practice for presenting accounts and are not indicative values for insurance purposes nor do they reflect potential disposal values*

**Annex One**

## Disposals Schedule

The following properties are scheduled for disposal or under consideration for disposal:

Substations
Caretakers House in Barnack
POSH (including Allia Centre and small piece of additional land adjacent to Hawksbill Way)
Land at Fleet - Fletton
Orton Bowling Green (Orton Gate)
Land at Whitworth Mill - Plot 7 / Plot 8
Church Street Thorney Assets - Library and Community rooms
Land at Fengate South
North Bank East (Land at Bishops road CP)
Wellington St Car Park
North Bank development - Wirrina Car Park
London Road Gravel Car Park
Alma Road
Dicken Street Car Park
Land at Angus Court
5 Royce Road
Eye Road, Peterborough
SteamHouse Farm / Yard and Buildings at Alkramian
Thistlemere
Northminster Multi Storey Car Park
City Market

**Annex Two**

## Outline Flexible Use of Capital Receipts Strategy

### 1.0 Flexible Use of Capital Receipts

1.1 In December 2017, the Secretary of State announced, alongside the provisional local government finance settlement, the continuation of the capital receipts flexibility programme first announced in December 2015.

1.2 The direction to gives local authorities the freedom to use capital receipts from the sale of their own assets (excluding Right to Buy receipts) to help fund the revenue costs of transformation projects and release savings.

1.3 Under this direction the Council is permitted to treat as capital expenditure, expenditure which:

- is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners;
- is properly incurred by the Authorities for the financial years that begin on 1 April 2016, 1 April 2017, 1 April 2018, 1 April 2019, 1 April 2020 and 1 April 2021; and
- is to be funded by capital receipts which have been received in the years to which the direction applies.

1.4 In applying this flexibility the Council must have regard to the Statutory Guidance on Flexible Use of Capital Receipts.

1.5 The Statutory Guidance includes a list of some example projects that may apply including:

- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Sharing Chief-Executives, management teams or staffing structures;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible
- Integrating public facing services across two or more public sector bodies (for example children's social care, trading standards) to generate savings or to transform service delivery.

1.6 However the list is not designed to be prescriptive or exhaustive, it is for individual local authorities to decide whether or not a project qualifies within the definition in 1.3.

1.7 To apply the flexibility the Council should prepare a Flexible Use of Capital Receipts Strategy before that start of the year, which does not need to be a separate document, and should be approved by Council.

1.8 The initial Strategy may be replaced during the year with Council's approval.

## 2.0 Projects to make use of the Flexible use of Capital Receipts

2.1 The Council plans to apply the capital receipts to fund the costs of the following projects:

| Project Name | Description of Project | Estimated Qualifying Expenditure £000 | Estimated Annual Savings £000 |
|---|---|---|---|
| *Project 1* | *xxx* | *xxx* | *xxx* |
| *Project 2* | *xxx* | *xxx* | *xxx* |
| *Project 3* | *xxx* | *xxx* | *xxx* |
| ….. | | | |

## 3.0 Impact on the Council's Prudential Indicators

3.1 The planned flexible use of capital receipts outlined above will impact on the Council's Prudential Indicators for the forthcoming year and subsequent years as follows:

*3.2 <<Detail to be provided as appropriate once strategy implemented>>*

## 4.0 Update on previously approved Flexible Use of Capital Receipts

4.1 If the application of the Flexible Use of Capital Receipts have been approved to projects in previous years an update will be provided here, including a commentary on whether the planned savings or service transformation have been or are being realised in line with the initial analysis.

## 5.0 Changes to the Strategy

5.1 If in the judgement of the S151 officer an alternative use of the capital receipts provides better value for money for the Council's financial strategy then a revised Strategy will be produced for Council's approval and communicated to MHCLG.

# Peterborough City Council

## Asset Management Plan

## January 2020

## Foreword

Peterborough City Council has a continued commitment to creating vibrant local communities with a strong local economy and good provision of infrastructure, housing and employment. Buildings are important in creating a sense of place and the property assets which the council owns make a contribution to creating sustainable communities within Peterborough. This presents the Council with the challenge of reviewing its property portfolio to ensure that it is optimised in terms of its resources and so that it can contribute to community needs and the Council's budget. This document describes the Council's asset management policy and practice.

## Executive Summary

The current operating context for public services is challenging and those challenges are exacerbated by demographic changes and financial pressures due to diminishing central government funding. Peterborough is a rapidly growing city which puts pressure on demand for housing, infrastructure, employment opportunities and council services.

The Council has a vision for a bigger and better Peterborough – for improving quality of life in its communities and creating a sustainable thriving place to live, work and visit. It also has aspirations to be the environmental capital of the UK. Accordingly, the asset management plan must have a continued focus on using property to support growth, inward investment and financial security whilst having a positive impact on the environment.

The Council and their joint venture partners need to be clear about their objectives for operational, investment, surplus and strategic assets. Any deficiency in resources required to manage the portfolio needs to be identified.

There should be a financial assessment of surplus assets to ensure that they are making contribution either from a financial or community perspective. Where they are not, the Council can consider refurbishment, redevelopment or disposal. Buildings need to be reviewed to understand whether operational costs can be mitigated. In some cases there will be synergies between environmental objectives and cost reduction. Efficient use of services such as sharing buildings between Council services should be considered. Efficient asset management can help to optimise property's contribution to the revenue budget and meet the Council's growth and regeneration priorities.

# 1 Introduction

## 1.1 Purpose & Scope of AMP

This Asset Management Plan (AMP) identifies the key strategic policy and resource influences affecting the Council and sets parameters for asset management over the medium term. The plan has a 5-year horizon with annual reporting on progress.

The AMP is to define how the Council:

- Integrates property decisions with wider Council policy
- Enhances the financial value from its property holdings
- Maintains and improves its assets
- Drives efficiencies within the portfolio
- Supports the Council's aspirations as an environmental city
- Listens and responds to its residents' evolving needs

## 1.2 Overview of the Portfolio

The Council owns a diverse property portfolio. These properties are:

- Operational – those supporting direct service provision
- Investment – those producing a positive financial return
- Surplus – property no longer used in service provision which are sublet or vacant
- Strategic land or property with growth and regeneration potential

## 1.3 Links to Other Plans

The AMP is aligned with a number of wider supporting policies, corporate and service strategies which are listed in appendix A.

# 2 Strategic Context & Direction

## 2.1 Influences for Change

**National**

At a national level there is a drive to promote sustainable communities and an aspiration to create vibrant, attractive places to live and work. Current policy has a strong emphasis upon encouraging community participation and place-shaping with a view to the Council and community working together to improve the character of an area.

The government's localism agenda has a focus on decentralisation – moving resources and decision-making towards individuals, communities and councils. Voluntary groups, social enterprises and parish councils now have a 'community right' to challenge local authorities over their services. New rights mean communities can ask councils to list certain assets as being of value to the community. Where a listed asset comes up for sale, communities have the right to bid for it.

Under Community Asset Transfer (CAT) initiatives there is also potential for the transfer of management, sometimes ownership of council property to community organisations in order to achieve a social, economic or environmental benefit.

There is a strong drive for partnership working - a policy exemplified by the One Public Estate (OPE) initiative. OPE is an established national programme coordinated by the Cabinet Office and the Local Government Association. Its objective is to encourage public sector partnerships and a strategic approach to asset management. By bringing national and local government together and supplying the necessary expertise, OPE has been able to achieve tangible results and is now working with over 300 councils. Their main aims and outcomes have been:

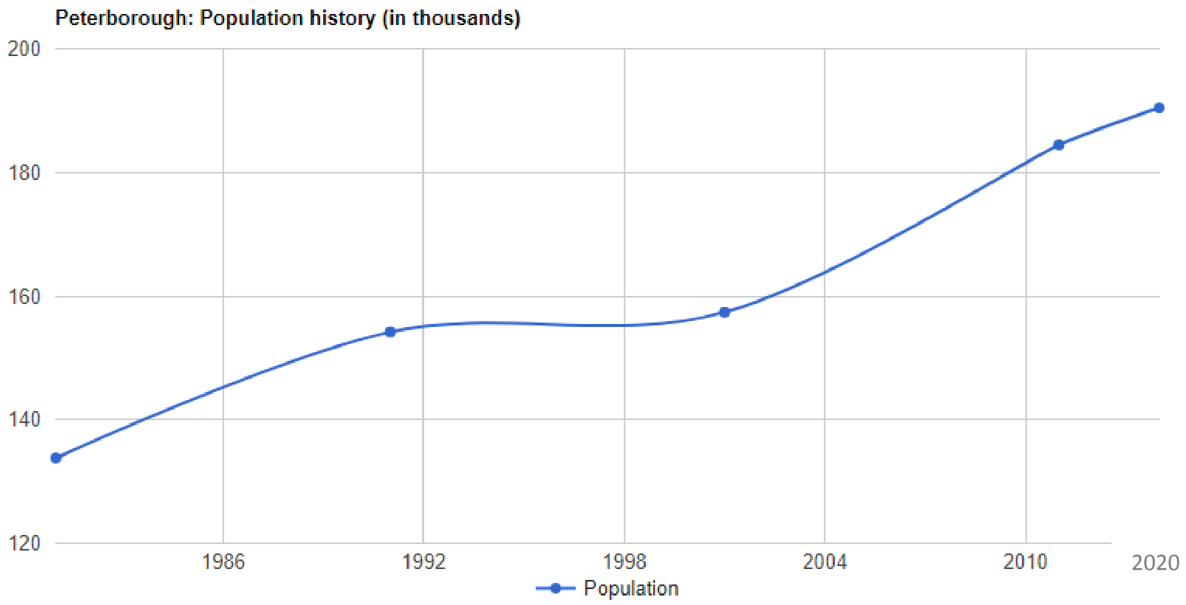
- Driving local growth and job creation
- Creating efficiencies and reducing cost
- Releasing capital to reinvest in communities
- Sharing best practice in asset management
- Using dedicated local teams to work on specific projects
- Freeing up sites to promote the building of new homes

**Regional**

Under the government's devolution agenda, the Cambridgeshire & Peterborough Combined Authority was created in March 2017; the Combined Authority has a directly elected mayor and more discretion on how services are provided. It has new powers and access to funding for new homes and infrastructure. The Council is part of the Local Enterprise Partnership (LEP) that covers Greater Cambridgeshire and Greater Peterborough. The LEP's role is to provide a broad vision for the area to explore ways of building infrastructure and to encourage the development of local skills.

**Local**

Peterborough has seen a period of sustained population growth with population for the Council's administrative area estimated to be c.200,000 in 2018 and 204,000 by 2020 (source - Office of National Statistics).




Whilst the number of migrants has contributed to this growth, the city also enjoys one of the highest birth rates and lowest death rates in the country. The area's proximity to London and good transport links continue to act as a draw to the area. This growth requires investment in infrastructure, especially housing and increases demand on essential services.

## 2.2 Council & Service Priorities

The key priorities underpinning the Council's vision are:

- Growth, regeneration and economic development of the city to bring new investment and jobs; supporting people into work and off benefits
- Improving educational attainment by developing university provision and employment opportunities
- Safeguarding vulnerable children and adults
- Pursuing the Environment Capital agenda to position Peterborough as a leading city in environmental standards

- Supporting Vivacity (Peterborough's culture and leisure trust) to deliver arts and culture

- Keeping our communities safe, cohesive and healthy

There are a range of corporate strategies to which the Council's property portfolio must align.

The most significant of these are highlighted briefly below.

- **People & Communities Strategy** – The Council will develop new models of service delivery working with constrained financial resources. The focus will be upon targeting services and moving further towards a commissioning model. There is a need to adapt service delivery with fewer services being provided directly by the Council, increasing 'shared services' provided by partner agencies and more use of community / voluntary resources. The Council will retain a regulatory role but it is likely to employ fewer staff in the future.

- **UK's Environmental Capital** – The Council has a vision to be a sustainable city. Its aspirations are encapsulated in '*Creating the UK's Environmental Capital: Action Plan'*.

  This sets targets out themes which include:

  - Reducing carbon emissions
  - Sustainable water management
  - Protection of wildlife
  - Use of sustainable materials
  - Sustainable food production
  - Sustainable waste management
  - Sustainable transport solutions
  - Heritage preservation

All of these will impact how the Council manages and uses its property portfolio.

## 2.3 Service Strategies & Partnerships

There are a range of existing service strategies and partnerships which directly affect properties which the AMP addresses. These are shown in appendix B.

## 2.4 Resource Context

The Council's budget is set within a national context of continuing funding cuts and PCC is itself facing a significant funding gap. To meet this challenging environment it will need to operate more commercially and pursue efficiency savings wherever possible. Where there is no commercial, community or strategic case for retaining property, assets will be disposed of; the proceeds of which will be used to support the revenue budget. Within the operational portfolio there is a need to reduce cost through more efficient utilisation, sharing between services and use of energy.

## 2.5 Challenges in the Portfolio

A number of challenges have been identified in the portfolio which need to be addressed.

- Ageing Portfolio – The operational portfolio is ageing and thus has increasing maintenance and repair needs. There is a need to identify and agree Planned Preventative Maintenance (PPM) programmes and if appropriate dispose of assets which are a drain on resources. The capital expenditure budget for the portfolio is significant and for 2019 is circa £1.75 million.

- 'Portfolio Intelligence' and data management. The council has robust data from managing the property portfolio however it needs to ensure the information is collated to provide the necessary high level reporting. That will allow oversight of the portfolio and ensure strategic opportunities are maximised.

- Asset Management – A clear role for the Council's joint venture Estates and Strategic Asset Services Partner NPS Property Consultants is key to delivery of the actions identified in this AMP, as are clarity of roles within the Council's client function.

## 2.6 Strategic Direction

The context outlined suggests a requirement for asset management to focus on using property to support growth, inward investment and financial security. Going forward, there are specific objectives for the various elements of the portfolio.

For example:

- Operational portfolio.
    - Focus on core council assets
    - Increase sharing between services
    - Promote agile working
    - Use planned preventative maintenance to spread cost
    - Reduce energy use
    - Support provision of integrated public services with partners to create multi-agency service facilities

- Surplus portfolio:
    - Refurbish property where there is potential to create long term income and transfer the asset to a dedicated investment portfolio
    - Dispose of assets that are a drain on the Council's resources and where retention does not present a wider community or strategic benefit

- Strategic land and property
    - Keep reviewing opportunities to meet growth and regeneration objectives, and potential opportunities to create income.

There are a number of actions required to respond to the challenges identified above. Given the Council's resource constraints it will need to determine the relative priority of each action and analyse the cost / benefit.

Key Actions

- Set out schedule of properties with status showing suitability for retention, disposal or review
- Review potential for shared use
- Establish an asset management forum at director level; meet quarterly with NPS to review portfolio
- Approve Investment Acquisition Strategy
- Clarify roles within 'intelligent client' and NPS Peterborough
- Review forthcoming lease events of the 54 leased properties and identify areas for cost reduction
- Review fire insurance valuations on a rolling programme to ensure costs & risks are managed
- Develop planned maintenance strategy for 'core' retained
- Finalise the Community Asset Transfer strategy for remaining community buildings
- Develop plan for strategic sites

## 2.7 Making it Happen – A Framework for Action

**NATIONAL**

- Public Sector Spending Constraints
- Public Service Reform
- Socio-economic & Demographic Changes
- Sustainable Communities place-shaping
- Localism & decentralisation
- Partnership Working and One Public Estate

**Regional**

- Devolution Combined Authority
- Population Growth
- Infrastructure Pressures
- Skills Development & Employment
- Cambridgeshire Peterborough Combined Authority

**LOCAL (Corporate & Council Wide)**

- Bigger & better Peterborough
- Long term Sustainability
- Commissioning' service delivery model
- Sustainable Communities ' place shaping
- Customer Service Strategy (digital access)
- Smart Cities – Peterborough DNA

**Vision: to create a bigger and better Peterborough that grows sustainably**

**Improves the quality of life for all its residents and ensures that all communities benefit from the growth and the opportunity it brings**

**Creates a thriving regional community of villages and market towns; a healthy, safe and exciting place to live, work and visit; aspires to be the environmental capital of the UK**

**Using property to support growth, inward investment and financial security**

**Enhancing Portfolio Value**

Invest in operational portfolio to ensure fit for purpose buildings; dispose of assets which are a drain on resources. Improve the energy efficiency of the portfolio and reduce running costs.

**Partnership Working**

Working with public and private sector partners to transform service delivery and reduce operating costs. Review operational assets and seek opportunities to promote integrated public services.

**All Portfolios**

- Establish Asset Management Forum at Director / Head of Service Level
- Approve investment strategy
- Complete H & S organisational responsibilities flow and implement
- Implement EPC & DEC requirements
- Review rates saving opportunities
- Review lease events for leased portfolio
- Review fire insurance valuations to ensure costs & risks are managed

**Operational Portfolio**

- Review operational assets to categorise
- Develop planned maintenance programme for 'core' retained assets
- Ensure current occupiers directorate are included on Technology Forge
- Finalise the Community Asset Transfer Strategy

**Surplus Portfolio**

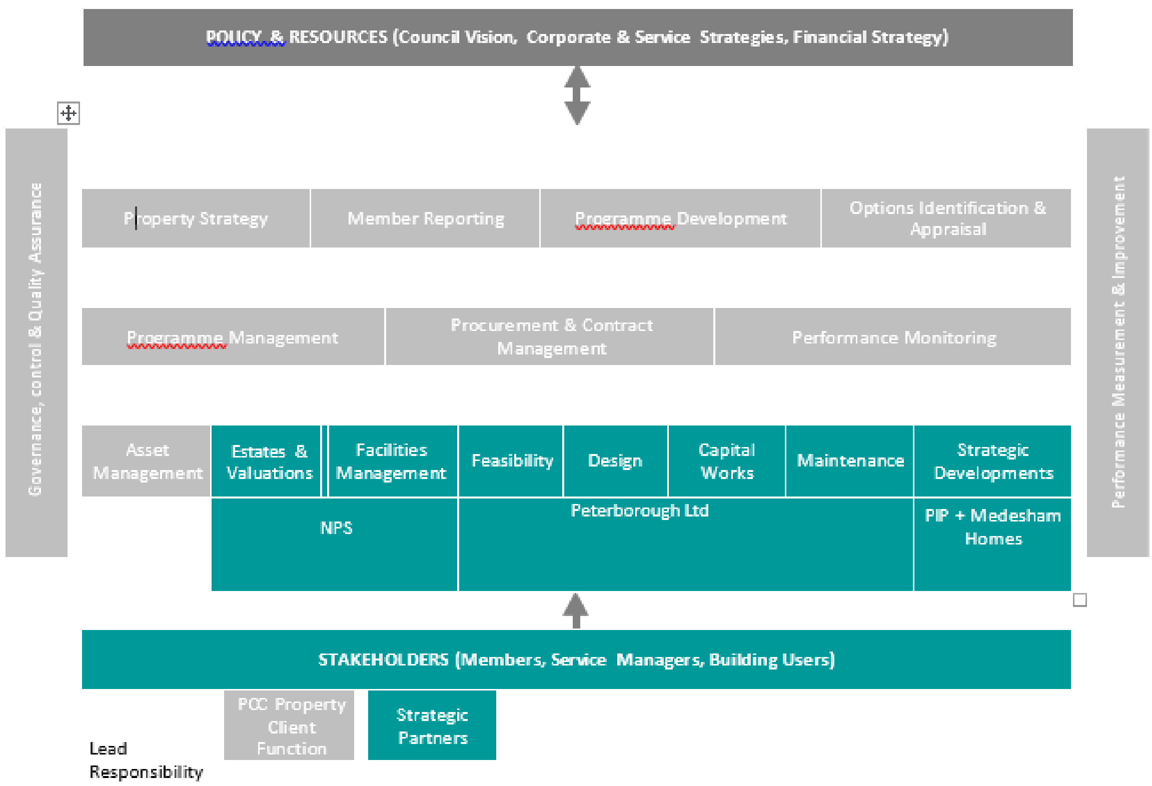
- Maximise revenue and consider refurbishment and / or disposal
- Review strategic assets and categorise

# 3 Asset Management Policy & Practice

## 3.1 Organisational Arrangements

The main professional property services are conducted through NPS Peterborough Ltd for the broad range of estates and valuation services and Peterborough Ltd carry out design, capital works, facilities and property maintenance. The Peterborough Investment Partnership (PIP) – a 50/50 joint venture with the private sector established in December 2014, supports growth and regeneration through the development of strategic sites. Medesham Homes and Cross Key Homes work with PCC to deliver social housing. The Council also has partnerships with Skanska for highways work and Vivacity for culture and leisure services.

The Council's operating model is shown in the diagram below.



## 3.2 Governance & Decision Making

The Cabinet Member for Resources has the lead political role for property matters and acting under delegated powers reports on property issues. The Cabinet or the Cabinet member acting with the Corporate Property Officer (CPO) are responsible for decisions on acquisitions, use and disposal of assets and for ensuring asset management policy and actions are consistent with the Council's corporate strategies and objectives.

The prioritisation of projects in the capital programme is undertaken as part of the budget setting process. The responsibility for service buildings and their operating budgets lies with service departments. Service managers can place orders directly with strategic partners, without necessarily involving property staff and this may mean at times works can be placed without appropriate professional advice. Client managers within the Council oversee the specific contracts and budgets for the various joint ventures that underpin the delivery of the Council's property activities. This approach will be reviewed.

## 3.3 Consistency with 'Best Practice'

The Council working with East of England LGA undertook a 'health check' of its asset management governance arrangements, processes and practice in 2013; with a further analysis of asset management services in 2015. This review acknowledged the Council's areas of good practice and innovation in asset management but also identified some areas of risk where further development work was required. The Council has made progress in addressing the identified deficiencies. Appendix C provides a review of the Council's existing practices against 'best practice' in asset management as a reference point to help clarify further development according to the Council's priorities and resources.

## 3.4 Supporting Policies & Procedures

This AMP is amplified by a range of further property policies and procedures. These are referenced through Appendix A.

# 4 The Property Portfolio

## 4.1 Summary dimensions of the portfolio

The Council has a diverse property estate spread throughout its administrative area. The bulk of the estate is operational property used for direct delivery of services for which the Council has a statutory or discretionary responsibility and is predominantly freehold.

The broad dimensions of the portfolio are:

- The portfolio comprises 1741 land and property assets
- £3.8m rent generated per annum
- Is worth £584.9m in terms of book value
- Incurs running costs of £16.9m per annum

## 4.2 Tenure & Use

The portfolio is predominantly in freehold ownership. There are 54 leasehold buildings currently and these will be reviewed to identify what opportunities there may be to terminate leases in order to reduce the running cost of the portfolio.

## 4.3 Condition & Fitness for Purpose

It is important to survey and record the condition of the building stock in order to be aware of immediate health and safety issues in the portfolio, risks and liabilities to the Council, its service delivery obligations and statutory requirements. It is also an important element of 'Best Practice' within current asset management guidance. Currently the Council's maintenance spend is directed predominantly to reactive maintenance. An important aim of the asset management strategy should be to formalise a maintenance programme with a view to reducing reactive maintenance costs. Regular review of property can reveal whether or not a property is fit for purpose or is in need of refurbishment or even replacement.

A backlog summary is given in Appendix D.

## 4.4 Value, Cost & Income

The objective should be to minimise property expenditure in order to release revenue for service priorities. Property running costs for the entire portfolio are £16.9m (£18.8m 2017/18), whilst the Council's utilities costs for 2018/19 were £4.6m (2017/2018 £4.6 M).

The asset value of the portfolio is £584.9m (£425.5m Dec 2018). The asset value is a 'notional value' required for capital accounting purpose and reported on the Council's Balance Sheet through the annual statement of the accounts. It does not necessarily represent the achievable market value of the portfolio. See Assets Investment Receipts Summary at the end of this report for further details about the capital receipts figures expected in 2019/20 and 2020/21.

| Profile of Capital Receipts (£m) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Achieved | | | | | Expected | | |
| 13/14 | 14/15 | 15/16 | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 |
| £1.489 | £1.769 | £1.027 | £5,978 | £12.738 | £8,313 | £5,930 | £3,900 |

## 4.5 Sustainability & Energy

Energy use in buildings is becoming increasingly important, as organisations lead by example in reducing carbon emissions to meet the UK's national target of reducing carbon emissions by 80% by 2050. The Council also has an aspiration to reduce its carbon emissions and the energy efficiency of Council buildings is important as these represent a significant element of the Council carbon emissions. The Council has entered into an Energy Performance Framework agreement with Honeywell Control Systems with the intention to make energy efficiency improvements to Council properties; with the potential of widening the scheme to other local authorities and partners.

## 4.6 Statutory Compliance

Ensuring the portfolio conforms to statutory obligations is a high priority of the Council. Failure to do so may expose Council staff and clients to health and safety risks or expose the Council to financial risks. The statutory obligations for the portfolio and related professional services are varied and subject to continued revision and therefore need to be monitored closely.

- Asbestos Management - Asbestos surveys of all properties have been undertaken. Asbestos removal work is carried out on a reactive basis as and when required for refurbishment or demolition.

- Display Energy Certificates (DECs) and Energy Performance Certificates (EPCs). Ensuring these are kept up to date and property meets the necessary legislative requirements.

- Water Safety – water management testing (including legionella) is under taken on a systematic basis in accordance with legislative requirements.

- Fire Safety – Fire Risk Assessments are undertaken within the Council's corporate buildings to identify risks, issues and whether mitigation is required. Remedial works to address issues identified from the surveys are undertaken as required.

# 5 Performance & Monitoring

## 5.1 Measurement of Portfolio Performance

The Council could adopt a simple reporting approach which is based on each of the principle asset types:

- Asset types
    - Operational
    - Investment
    - Surplus
    - Strategic

These will concentrate on a small number of indicators chosen to review each portfolio which will provide a framework for the management of each portfolio.

## 5.2 Review Arrangements

The AMP will be reported upon annually to Cabinet and updated periodically with progress reported to Cabinet through the Corporate Property Officer. These will concentrate on the progress of the specific Key Actions identified in the AMP.

## Appendix A – Asset Management Policies and Partnerships

Strategies & Policies

- Asset Management Plan
- Investment  Strategy
- Capital Strategy
- Community Asset Transfer Policy
- Farms Estate Strategy
- Disposals Strategy
- Service asset strategies (to be improved)
- Carbon Reduction strategy
- Protocols, Procedures & Partnerships
- Skanska Highways Partnership
- NPS Peterborough Partnership
- Cross-Keys Housing Joint Venture Partnership
- PiP – Peterborough Investment Partnership

## Appendix B - Service Strategies and Portfolio Implications

| Asset Type | Number Of Assets | Existing & Future Perspectives of the Portfolio |
|---|---|---|
| **Operational Assets** | | |
| Car Parks | 12 | The Council has 12 designated paying car parking sites, the majority of which as surface car parks. There is a need to review the car parks to assess car parking capacity against current and future demand and to identify whether individual car parking sites may have some strategic development potential. |
| Offices | | The development of a modern work environment for the Council has been completed, along with strategic partners in the form of a new 90k square foot office scheme at Fletton Quays. This is the largest office built in the city for over 20 years. The Council have taken a new long term lease, using its covenant strength to support regeneration of this part of the city. The office forms a key part of the 17 acre regeneration site adjoining the river, south of the city centre. In addition, it will include a 160 bed hotel, 400 residential units (mainly apartments) a further 60,000 sq. ft. of offices, a 410 space multi-storey car park and 90 space surface car park (now complete), new retail units and Listed goods shed which become a distillery and visitor centre. This will be complemented by new public realm works including riverside walkways, new public square and improved cycle routes. |
| Libraries | 10 | The Council has recently reviewed its library service and implemented Open+ technology enabled facilities which will allow libraries to stay open for longer hours. Libraries are open for a set number of staffed hours with additional hours operating on a self-service basis. The mobile & library at home service has not changed. The Open+ technology is designed to allow libraries to stay open for longer. The future direction for the library service is to encourage greater and more innovative use of the library facilities to promote neighbourhood based multiuse facilities. Reductions in the existing number of libraries are not anticipated. |

| | |
|---|---|
| Community Assets | Community assets are those properties in the Council's ownership which have a community use or from which a community based activity or service is delivered. The Community Asset Transfer Strategy aims to encourage retention of local facilities without the use of Council funds, increase effectiveness of community assets through local community management and to explore innovative ways to enhance existing community facilities. The Strategy sets out the Council's objectives for community assets and the process and criteria around the transfer of assets to community bodies. |
| Farms | • The Council has developed a strategy for its Rural Estate which is focussed on retaining it as a viable land holding, providing opportunities for new entrants into farming, farm amalgamations to create larger more financial sustainable holdings and service provision for environmental and educational objectives.<br>• An annual Action Plan is drawn up from the Management Strategy with input from councillors, Country Land and Business Association and the tenants themselves to explain in practical terms how the Strategy will be delivered each year, and where amalgamations and capital expenditure will be targeted.<br>• Repairs are proactive rather than reactive, with an emphasis on drainage schemes – this in term supports more robust rents.<br>• Capital receipts are generated from the disposal of small areas of garden extension land, and realising the potential of old buildings unfit for agriculture which can be converted under Class Q (of permitted development regulations) to residential dwellings. |
| Strategic Assets | The focus of developing the Strategic portfolio is to retain market awareness of potential opportunities and to intervene where there are strategic opportunities to support the regeneration of the city. |

# Appendix C - Consistency with Best Practice; key themes and requirements

| | | | |
|---|---|---|---|
| **Roles & Responsibilities** | Current corporate asset management plan | Running cost performance known | Statement of data needs & priorities |
| The council has a designated corporate property function | AMP linked to corporate objectives | Statutory obligations met | Processes to ensure data quality |
| There is Corporate Property Officer with defined responsibilities | Asset management integrated with service planning | Targets set for running costs | Organisational focus for data management |
| Corporate Property Officer reports to a strategic committee | Key areas for change in the portfolio defined | Suitability of buildings assessed | Information easily available to users (cost, suitability etc) |
| Cross-service forum established on property matters | Commercial portfolio strategy identified | Satisfaction with buildings measured | Non-core data available |
| Property occupiers / users role defined | **Capital programme management** | **Review of need, utilisation and cost** | Property IT systems periodically reviewed |
| Group to oversee development of AM practice & AMP | Option appraisal / prioritisation / whole life costings | Profile of capital receipts | **Performance management** |
| Cabinet member lead on property matters | Outcome targets for capital spend | Systematic review programme | Reporting on national performance indicators |
| **Decision making and consultation** | Processes for identifying projects | Criteria to challenge retention | Portfolio performance reported to members |
| Clearly defined decision making processes on property matters | Projects assessed using an agreed methodology | Incentives to release property | KPIs related to defined property objectives |
| Consultation process on the AMP | Authority-wide group to oversee programme | Identification of under-utilisation | Agreed targets for KPIs |
| Views of service users & occupiers sought | Process for post-project evaluation | Specific organisational focus on property review | Comparisons made with others |
| Public consultation on property matters | Projects completed on time & to budget | Disposal processes monitored | Local KPIs in place |
| Full member reporting | **Managing properties in use** | Shared use of buildings promoted | Improvement plan (informed by performance data) |
| **Partnership Working** | Maintenance backlog know and reported to members | Framework for assessing performance of the portfolio | **Data management** |
| Integrated approach to assets with other agencies | Periodic assessment of building condition | Identifying property needs | Inventory & core data available |
| Policy on community asset transfer | Maintenance spend prioritised | Defined aims & objectives for asset management | |

## Appendix D – Summary of Property Portfolio

| Portfolio | Sub-Portfolio | Type / Use | Number |
|---|---|---|---|
| **Operational** | Operational (excl. Schools) | Car parks<br>Children's Centres<br>Day centres<br>Depots / stores<br>Libraries<br>Sports Centres<br>Play centres<br>Pools<br>Public Conveniences<br>Residential homes<br>Waste / Infill sites<br>Youth Centres | |
| | Operational (Schools) | | |
| | Administrative | Offices | |
| | Community assets | Allotments<br>Cemeteries<br>Community Centres<br>Community related asset land<br>Open Spaces (incl Section 120)<br>Recreation grounds<br>Community Use | |
| | | | **744** |
| **Investment** | Industrial<br>Public House<br>Retail<br>Farms Estate | | |
| | | Farms / Agricultural land | **156** |
| **Growth** | | Options to PIP Dev Partner | **3** |
| **Miscellaneous** | | Former housing land<br>Land | |
| | | | **838** |

| Summary of Repair Backlog (£000s) | | | | | |
|---|---|---|---|---|---|
| Condition | Total Value | % | Category | Total Value | % |
| A-Good | £292. | 0.63 | Urgent | £2,812 | 6.05 |
| B-Satisfactory | £8,831 | 18.99 | Essential | £11,331 | 24.37 |
| C-Poor | £28,37 | 61.02 | Desirable | £23,370 | 50.25 |
| D-Bad | £9,004 | 19.36 | | | |
| | **£46,505** | | | **£37,513** | |

Note: The backlog figures are based on the assumption that all properties in the portfolio have a useful life of at least 10 years if all works are progressed as scheduled and do not allow for inflation. These assumptions may not be applicable to the existing portfolio and financial budgeting.

# Peterborough City Council

# Investment Acquisition Strategy

# January 2020

**Executive Summary**

Under the Local Government Act 2003 and the Localism Act 2011 Local authorities have extensive statutory powers allowing them to invest and to borrow, either for purposes relevant to the performance of any of their functions or generally for the prudent management of their financial affairs. On this basis land and property can be acquired, developed or sold.

Local authorities have well established policies and procedures in place for their estate management activities. These do not however include a specific policy governing land and property acquisition, albeit there are a number of policy documents governing more generic capital investment within the public sector. Property investment may be for income generation, for strategic purposes or where there are wider community and economic benefits that can be achieved. This can be achieved by investing and/or developing property within their existing ownership, whether for onward sale or income generation. With the changing climate for local government finance and significant budget pressures in the foreseeable future, local authorities are embracing a more innovative, commercial and entrepreneurial approach to closing the budget gap and the development of a property investment portfolio is one element of this approach.

This strategy sets out the principles, approach and governance for a new enabling policy covering the selective acquisition of property assets within Peterborough and its immediate environs. This approach will have a range of benefits including the generation of income to support Peterborough City Council's revenue budget. The strategy identifies an approach based on the direct ownership and management of property assets, to enable the Council to acquire or redevelop property.

All such acquisitions will be subject to robust appraisal and undertaken in accordance with agreed governance procedures. The regulatory environment and best practice around local authorities investing in property is changing. The Council will need to be aware of this, take a balanced approach to risk and ensure appropriate review and performance arrangements are in place. The strategy sets out the rationale for acquiring properties and the criteria upon which asset selection will be based and reviewed. It also identifies the nature of risk associated with property investment and how the Council can mitigate it. The procedures, criteria and metrics presented through this strategy will be subject to annual review.

Of critical importance in adopting the strategy will be the need for a single point of accountability for the development of an investment portfolio. Equally important is, the ability to intervene in the market in a swift manner, subject to robust business case appraisal and governance, and taking a long term perspective of the portfolio (10 year+).

# 1.0 Introduction

## 1.1 The Importance & Nature of Property

Property is a multi-faceted and multi-purpose resource which is used to deliver a broad range of services within the public sector. It can both consume and generate cash. Increasingly it is being recognised in having strategic importance over the long term in supporting community prosperity and vibrancy. It is proposed that the Council holds different property assets for different purposes. In simple terms these fall within four distinct categories. An operational portfolio for service delivery, a surplus portfolio, an investment portfolio (principally for generating income or capital growth) and a strategic portfolio for assets to support corporate priorities such as regeneration and meeting housing need. The operational portfolio consumes cash, the investment portfolio generates cash and the strategic portfolio has long term 'latent value.'

The Council has a vision for a 'bigger and better Peterborough' that grows in the right way - improving quality of life for all its people and communities and creating a sustainable and thriving sub-regional centre which is an exciting place to live in, work and visit; and which is the environmental capital of the UK. How the Council uses its property assets will be a critical underpinning element in meeting this vision. As revenue budget pressures continue to impact on the Council so it will increasingly need to take a strategic perspective on its property assets. To do this means recognising and developing two key dimensions of property – its ability to generate cash (income or capital) and its ability to support wider strategic priorities, such as regeneration and meeting housing demand. Both are important and point to the need to grow and develop the investment and strategic property portfolios. This strategy focusses on the development of the Council's investment and strategic portfolios, and in particular the rationale for acquisition to grow these portfolios.

## 1.2 The Scope & Purpose of the Strategy

The Council is focussed on investing in property to enhance its financial resilience, safeguard services and to meet regeneration objectives. Adopting a commercial approach will ensure that investment returns, capital growth and long term latent value can be used to meet those objectives.

This strategy is designed to define a broad direction for developing the Council's investment and strategic property portfolios over the long term in order to ensure they are optimised to support the Council's vision for the city. The strategy is not a static document but rather part of a process designed to promote discussion about the nature of, and future direction for the management of the Council's investment and strategic property assets.

The strategy is a practical tool that will:

- Provide a rationale for developing the investment and strategic portfolios.
- Set out governance arrangements covering management of the portfolios.
- Define key objectives and operating principles for day to day management.
- Identify how investment decisions are made (acquisition & review criteria).
- Define an approach to managing risk across its asset holdings.
- Define how the financial viability of the portfolio will be sustained.
- Identify how the performance of the portfolio will be measured.

The strategy takes a medium term planning horizon of over 5 years plus but will be reviewed on an annual basis.

## 2.0 The Rationale for an Investment Portfolio

### 2.1 Property as an Investment Class

The Council's approach to investment is to obtain the optimum return while maintaining a proper level of security and liquidity. Property is one of several asset classes the Council can invest in. Other assets will include cash, fixed interest securities (bonds) and shares. An overall approach is required which ensures a degree of diversification in order to balance risk; with cash (held in savings accounts) and bonds having the lowest risk profile, followed by property. The Council needs to periodically review its balance across these asset classes and take a judgement on return versus risk.

### 2.2 The Legal Framework

Councils have the legal power to acquire and hold both commercial and residential property for investment purposes. Historically commercial property could be acquired and operated directly by councils, providing that the clear purpose was investment. If the purpose was to undertake a trading activity, the commercial property would need to be held in a company vehicle. Residential property can be acquired if the assets are being held and operated indirectly through a local authority controlled Special Purpose Vehicle. It can also be held and operated directly where a council has a Housing Revenue Account (HRA). As PCC does not have an existing HRA it may need to reinstate one in order to participate in any significant residential property investment.

Currently local authorities have broadly drawn powers allowing them to invest and to borrow, either for purposes relevant to the performance of any of their functions or generally for the prudent management of their financial affairs (s.1 & s.12 of the Local Government Act 2003).

They have also been able to acquire property either inside or outside of their administrative area to support any of their functions, including their investment functions, or otherwise for the benefit, improvement or development of their area (s.120 of the Local Government Act 1972).

Lastly, they have been able to take any action (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions, which would again include their investment functions (s.111 of the Local Government Act 1972).

Under the general power of competence set out in s.1 of the Localism Act 2011 local authorities have also built and managed investment property. In accordance with this Act, councils have all the necessary powers to purchase assets inside or outside of their administrative area and manage them for investment and commercial gain.

However, revised Statutory Guidance on Local Authority Investments issued in April 2018 by Ministry of Housing Communities & Local Government is directed towards curbing local authorities borrowing to invest in commercial property solely to raise revenue. There is a distinction between authorities who are taking on debt for regeneration and meeting local objectives, and those who borrow purely to get a return on investment.

The guidance contains a number of key points:

- A call for transparency and democratic accountability with regard to local authority investment.
- Councils should prepare a new investment strategy each financial year.
- Investments by local authorities can be classified into two main categories:
    - investments held for treasury management purposes or other investments;
    - Where local authorities hold treasury management investments, they should apply the principles set out in the Treasury Management Code 2011.
- Councils should disclose the contribution that these investments make to the objectives of the local authority to support effective treasury management.
- Local authorities should disclose the contribution that all other investments make towards the service delivery objectives and/or place making. It is for individual authorities to define the types of contribution that investments can make and a single investment can make more than one type of contribution.
- There is a requirement to prioritise security, liquidity and yield in that order of importance when considering investment strategy

- The local authority's reporting should include quantitative indicators that allow councillors and the public to assess a council's total risk exposure as a result of its investment decisions. This should include how investments are funded and the rate of return received. Where investments are funded by borrowing, indicators should reflect the additional debt servicing costs.

This guidance is supported by new advice released by the Chartered Institute of Public Finance and Accounting (CIPFA) in late 2018/19. CIPFA issued a statement on Borrowing in Advance of need and Investments in Commercial Properties in October 2018. This statement guards against local authorities 'borrowing more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.' The statement goes on to say that commercial investments including property must be proportionate to the resources of the authority, otherwise they are unlikely to be consistent with the requirements of the Prudential Code or the Treasury Management Code.

## 2.3 Approaches to Investing in Property

There are a range of approaches to investing in property assets, from on the one hand investing in a commercial property fund, (or real estate investment trust etc.) and on the other hand owning the physical assets – each with its own advantages and disadvantages. The simple diagram below is intended to provide a framework for developing a strategy based on two broad criteria, ownership and management. The proposed positioning of PCC is shown - which favours both direct ownership and direct management of investment property. This is a considered choice of the Council and the respective pros and cons of this strategy are identified.

| Pros & Cons of Direct Ownership & Management of Investment Property<br>Pros | Cons |
|---|---|
| Ownership of property assets | Potential over-reliance on investment property to fund essential services |
| Achieve direct return | Reliance on own expertise |
| Control over property decisions | Management time & expense |
| No fund management costs | Relative lack of liquidity |

The advantage of PCC's approach is that it will retain direct ownership of the assets with any returns coming direct to the Council. The Council will also retain control over decision making regarding strategy and management of the portfolio, including flexibility as to when to dispose of assets to generate capital.

With this approach the costs associated with other parties holding and managing properties on the Council's behalf are kept to a minimum. Conversely it requires resources to participate in direct property investment and requires a degree of capacity and expertise to manage the portfolio. There can be staff time (and thus cost) tied-up in managing a portfolio and there is a relative lack of liquidity in comparison with other indirect forms of property investment.

When considering direct ownership and management of property the selection of individual acquisitions becomes a critical factor. There are decisions to be made about the property sector and risks in relation to the broad portfolio asset mix, the risk profile of the tenants and the opportunities in the market. At one end of the scale (lower risk but lower opportunity) is a building already let, with a good lease length and tenant; whilst at the other end is a property coming to the end of its lease which is likely to need upgrading / expenditure prior to re- letting.

Alternatively, there may be freehold property which is untenanted but could be redeveloped, providing greater risk but greater opportunity. PCC's strategy will tend towards low risk investments where the covenant strength of the tenant is strong and where there is a good length of lease. There may occasionally be times where PCC may wish to invest in assets it already owns to get a return which would present a low-moderate risk and moderate opportunity. This issue of asset selection is considered in Section 4.4 and Appendix C

## 2.4 Benefits from Investing Directly in Property

The range of benefits that can arise from investing in property assets are more than simple financial returns, although this will be the prime objective of the portfolio. The table below summarises the range of benefits that can be realised and the combination of these need to be borne in mind when managing the portfolio. The relative priority given to these benefits needs to be considered when deciding on the key objectives.

**Benefits from Investing Directly in Property**

| **Direct Returns** | Income |
|---|---|
| | Capital growth |
| **Multiplier Effects** | Supporting growth of key local industries |
| | Improving confidence in local economy |
| | Supporting the local planning framework |
| **Indirect Returns** | Local job creation |
| | Increase in NDR (Business Rates) |
| **Strategic Advantages** | Key site assembly |
| | Long term strategic perspective |

## 2.5 Difference between Investment & Strategic Acquisitions

Acquisition opportunities often arise unexpectedly and it is important to be quick to mobilise in order to take advantage of them when they occur. It is therefore important that the Council has an appraisal framework that permits them to respond without delay when opportunities arise, to save time and allow them to compete in a market where competition is fierce and demand outstrips supply. To do this the Council needs to be in a position to assess opportunities in a systematic but timely manner and to understand the nature of the opportunity in terms of its financial or strategic perspective.

A simple scorecard approach to support this initial appraisal is given below. This looks at a set of financial or strategic criteria to determine whether the Council should proceed. It recognises that some assets will be acquired for investment reasons (long term financial returns) whereas other assets will be acquired for strategic reasons (longer term latent value). Some assets will also have a combination of investment and strategic potential.

An initial set of criteria form both financial and non-financial perspectives can be developed to give a simple score to assess whether to proceed. An initial appraisal 'scorecard' is illustrated in Appendix D.

## 2.6 Risk & Return

At its simplest, a property investment is an investment in land or buildings which has the potential to give the investor a return in the form of rental income and capital growth. Capital growth may come over time by holding the asset and can be maximised through asset management initiatives (for example by re-gearing a lease to obtain a greater length of lease). Risk and return in property investment come both at a market level and from individual asset choice. In practice, property investment can be structured to create a range of different risk / reward profiles from stable bond-like annuity income performance to more volatile equity-like returns. A summary of the main risks and the PCC approach to mitigating these is given in Appendix A.

## 3.0 Strategic Context for the Strategy

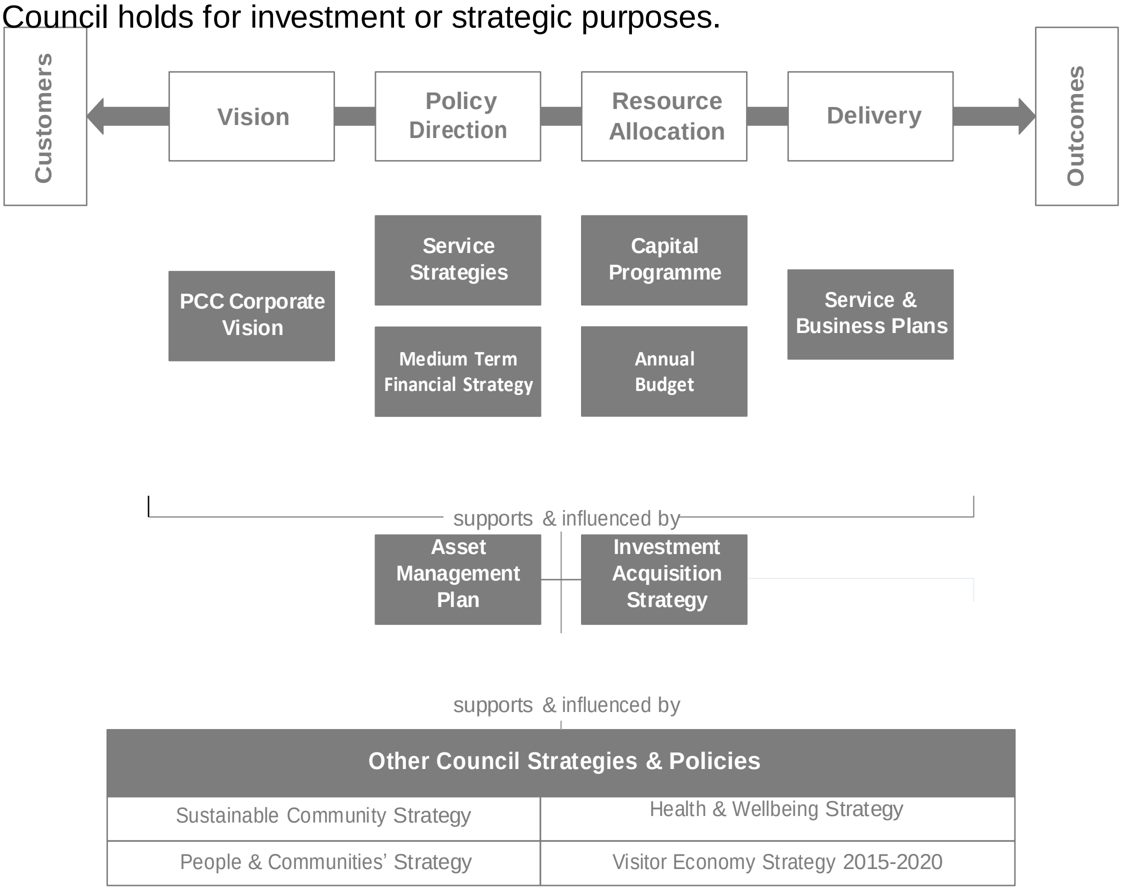
## 3.1 Overall Context

This strategy is set within the context of broader changes in the operating context for local government. The most impactful of these is the move towards a 'self-funding' model for local government as traditional sources of central government funding are reduced (as in the case of the Revenue Support Grant) or possibly withdrawn. This profound change in the funding basis of local government is prompting the need for councils to explore new ways of generating income to support their revenue budgets.

It is also encouraging councils to become more entrepreneurial and to invest in commercial property with a view to generating stable long term income. This strategy is designed to help support the delivery of council services in the future and allow councils to have more influence in shaping the local economy.

### 3.2 Key Council Strategies & Policies

This property investment strategy does not exist in isolation. It is related to the Council's wider corporate and service strategies and in particular the Council's Medium Term Financial Strategy.
This strategy underpins the overall management of the Council's property portfolio, the broad framework for which is articulated through the Council's Asset Management Plan (AMP). Whereas the AMP sets the context and direction for management of the portfolio as a whole, which includes operational and surplus property, this strategy is focused on the property assets the Council holds for investment or strategic purposes.




### 3.3 Resource Context

Over the medium term PCC is seeking to address the potential revenue gap from changes to local government through a range actions. There will be a renewed focus on innovation and efficiency with a view to mitigating and

controlling service demand, maximising funding and expanding commercial income.
A key strand of the action will be in placing a greater focus on income generation. This will be reflected in the Acquisition Strategy and AMP, both through leveraging existing commercial property assets and investment acquisition. The Council has agreed an initial capital allocation of £70m in order to grow its portfolio with an emphasis on acquiring income bearing assets or strategic assets which may have long term latent value.

Whilst no specific income target has been set there is an expectation that there will be a significant and sustained growth in income from property as a contribution to bridging an identified funding gap in the Council's revenue budget.

## 3.4 Market Outlook

### 3.4.1 National

Commercial property returns tend to be linked to national economic performance and to the relative prosperity of the economy. The short term outlook is therefore likely to be generally a positive one but also potentially turbulent given that the implications of Brexit are not yet clear. How the national economy will perform over the long term cannot be guaranteed.

The investment portfolio does however need to be seen over the longer term, as reactions to short term market changes can distort yields which are likely to be more stable if viewed over a greater timeframe. In this context it will be important to balance a one year budget cycle and any expenditure required for this with the longer term perspective that is required for investment management of either a commercial or residential portfolio.

The changing nature of the economy, globalisation the growth in home-working, automation and the use of artificial intelligence (AI) may yet have unforeseen impacts on the demand for different types of buildings. As businesses strive to become more agile many are seeking shorter lease lengths than was historically the case or regular break options so they can react quickly to change. Increasing use of artificial intelligence and automation will change the demand for commercial space over time. Currently there is a very strong demand for industrial and warehouse space, driven to some extent by a change in consumer shopping habits. The trend for internet shopping is also impacting on demand for more traditional retail space. The outcome of such trends and the speed at which they are developing is ever-changing so a degree of forward thinking is required in terms of the portfolio strategy.

The conventional wisdom of retaining a balanced portfolio (between industrial, office and retail) to mitigate risk is therefore shifting and to optimise overall returns from investment a new portfolio balance may be required. This may also necessitate a greater emphasis on residential development where long term demand has proven to be very stable.

In the current climate with rates of return on cash reserves very low (typically between 0.5% and 2.0%) property still presents an opportunity for better returns and also has a potential for significant capital growth over the long term.

### 3.4.2 Local

It will be important for the Council to understand the local property market and its outlook over the medium term. This should include the city and its immediate surroundings and also the Cambridge area because of emerging working relationships across the authorities and its strength as a technology centre.

A local market report for Peterborough published in September 2018 by Savills identified a strong demand for residential and commercial property in Peterborough. This demand is being driven by strong population and economic growth in the area. Whilst demand for accommodation is strongest in the commercial and residential sectors, it is strong across all sectors.

The Savills *"Peterborough: A growing city"* report highlights that whilst the area is responding to strong residential demand and a healthy land supply, high levels of development are still required to meet housing need.

Both the adopted and emerging local plan targets for Peterborough are well in excess of 1,200 homes each year.

The largest share of housing supply will be on the city fringe with planning consent granted for 5,300 homes at Great Haddon. The residential market therefore offers a long term investment opportunity for the City Council as this land supply comes on stream.

The industrial market has benefitted from a shift towards online retailers, many of whom have established large distribution centers in the city. Due to strong demand, vacancy rates are at a historic low. Attracted by strong rail and road links, Amazon, Debenhams and Ikea have established large scale distribution centers in Peterborough. At present, there is just one unit of 100,000 sq.ft of industrial space available within a 50 mile radius of Peterborough and the opportunity exists to take advantage of second hand units to undertake refurbishments to bring poor quality stock up to standard. It is a similar picture in the office market with low vacancy rates creating upward pressure on rents.

## 4.0 Managing the Portfolio

### 4.1 Aims & Objectives

It is important to explicitly state the aims and objectives in developing a property investment portfolio. These are summarised in Appendix B along with basic operating principles for the portfolio. The overall aim has a dual purpose, both to create a financial return and to promote local economic prosperity, however these objectives may sometimes conflict. There is a risk that the pursuit of socio-economic aims through for example supporting job creation, may dilute the purely financial goals. However there should also be many opportunities where these objectives can be aligned.

### 4.2 Operating Principles & Governance Arrangements

In order to manage the portfolio effectively it is important to have a set of explicit operating principles which include a clear rationale for holding each asset and an understanding of the expectations, (financial or otherwise) for managing it. To do this the Council has a set of basic operating principles as shown in Appendix B and a simple framework for assessing the portfolio in terms of acquisition, performance and disposal.

In practice this will mean making judgements around the acquisition and disposal of assets, the portfolio structure, portfolio mix, holding period for individual assets and the performance of the portfolio. A framework for assessing individual assets and the portfolio as a whole is given in Appendix C.

Acquisitions & Disposals – The management of the portfolio will from time to time require the acquisition and disposal of individual assets. These must be undertaken in accordance with the Council's financial procedures, but will need to be expedited to take advantage of investment opportunities.

Development – the Council will seek to invest in developing commercial property assets or land which is already within their ownership either using internal resource or in partnership with existing suppliers, subject to a robust business case.

Portfolio Structure – the Council will seek to create a balanced investment portfolio that provides long term rental returns and capital growth. A core portfolio of property assets will be sought with a view to diversification in individual assets by sector (industrial, offices and retail), location and risk.

Portfolio Mix – the Council will take an opportunity led approach to investments but seek to maintain a balance between different assets types (office, industrial and retail assets) with a guideline approach of maximum of 50% of any type. Given that the portfolio is relatively small and a single transaction can adjust the balance significantly this is only seen as an initial guideline. The Council will seek to avoid investing in specialist asset types (such as hotel & leisure) or distressed property requiring extensive capital expenditure which would necessitate a higher risk investment strategy.

Holding Period – The Council will determine a 'holding period' for each property at the point of acquisition. This is so that provisions can be made where a property is likely to need refurbishment in the future and to ensure a formal periodic review of the rationale for holding individual assets.

Measuring Performance – Individual assets and the whole portfolio will need to be subject to periodic performance assessment.

A set of clear, simple governance arrangements will be required which will allow speedy intervention in the market whilst also ensuring consistency with financial regulations and robust business case appraisal. An outline of these is given in Appendix E.

## 4.3 Day to Day Portfolio Management

Effective day to day management of the portfolio is critical to its overall performance. This management needs to happen at both a strategic and operational level.

The key activities include:

At a strategic level:

- Annual refresh of strategy and measurement of performance;
- Effective financial management including rent collection;
- Effective void management and marketing;
- Identifying new investment opportunities;
- Minimise management costs associated with direct ownership;
- Ensure there is a regime of planned maintenance and statutory compliance where PCC manage.

At a property level:

- Preparation of strategies for individual properties;
- Identifying opportunities to add value for example by refurbishing premises or re-gearing leases;
- Identifying 'marriage value' arising from acquisition of adjoining properties;
- Identifying properties for disposal where performance prospects are poor;
- Ensuring premises are secure and safe and are regularly inspected.

### 4.4 Acquisition, Review & Disposal Criteria

Appendix C identifies a range of criteria that will be used in the acquisition of properties. The same criteria for selecting acquisitions can also be used for asset review. All assets will be reviewed on a periodic basis to ensure that the criteria in Appendix C are still met and in light of any wider portfolio considerations. It is recommended that a 'holding period' is identified for assets when first acquired which should act as a guide for subsequent disposal. Such an approach allows for the portfolio to be refreshed on a regular basis and promotes a long term perspective for portfolio management. Individual assets identified for disposal will follow the same governance procedures.

### 4.5 Performance Management

The performance indicators for the portfolio should be based on industry benchmark standards. These should be measured at an individual property and whole portfolio level with indicative targets set for each. A simple set of initial performance measures are presented in Appendix F. This is an evolving framework which will be need to be developed as the portfolio grows, especially given the changing regulatory and best practice environment identified in Section 2.2.

The return on investment (or property yield) is perhaps the single most important performance indicator and this should be judged against IPD (Investment Property Database) which is generally considered to be the most authoritative benchmarking index. Property should be considered as a long term investment and whilst its value can fluctuate in the short term due to specific circumstances, it will tend to provide stable long term returns. A degree of judgement will need to be used in evaluating the portfolio performance which will need to take into consideration the long term perspective.

## 5.0 Implementation

### 5.1 Action Plan

The lead officers with accountability for managing the investment portfolio will be the Executive Director Place and Economy and the Corporate Director of Resources.

**Governance:**

As detailed in Appendix E, the Corporate Property Officer will have delegated authority to approve investments up to a level of £20 million. For opportunities which are in excess of £20m a Cabinet Member Decision Notice would need to be completed.

### 5.2 Implementation Considerations

Effective and successful management of an investment portfolio requires a combination of skills including, but not restricted to building surveying, valuation, market intelligence, legal, financial and property management. It will also require specific senior officers to be accountable and appropriate capacity to ensure there is adequate focus on the portfolio.

### 5.3 Monitoring Arrangements

It is important to measure the overall progress in the management of the investment portfolio. Whilst property will be held for the medium to long term, there needs to be monitoring over shorter timescales to measure performance and the impact of any actions, such as building improvements. The portfolio will be kept under review by:-

- PCC head of property and financial director. NPS Property Consultants are to advise and seek agreement to decisions on specific actions (e.g. acquisitions or disposals).
- An annual report on performance of the portfolio, with the report based on a set of performance indicators as suggested in Appendix E.
- Formal review of each asset holding at least every two years using the acquisition and review criteria set out in Appendix C.
- Informal leader briefings by the joint venture property team as required.

## Appendix A – Summary of Risks and PCC Approach to Mitigation

| Risk | PCC Approach to Mitigation |
|---|---|
| **Costs** - Abortive costs, including legal costs, survey fees, officer time, may all be incurred in abortive transactions including costs for initial feasibility investigations. | PCC will adopt a 'whole portfolio' view of costs and accept risk associated with occasional abortive costs whilst also undertaking due diligence to reduce the likelihood of these. |
| **Market forces** - Fluctuation in demand and supply and in the wider economy may see the value of assets and income rise and fall, with a risk that the Council may not recoup the original amount invested in full. | To limit this risk due diligence will be followed for all transactions. PCC will adopt a 'whole portfolio' and medium term (10 year +) view of its investment to mitigate the potential losses from one individual investment asset. |
| **Competition** – Where the local market is very strong (for example Cambridge), there will be increased competitive activity for limited supply of high quality investment property. This means that the Council are likely to be one of several bidders for available assets. | PCC will adopt procedures which will allow them to compete in the market but with appropriate governance procedures covering the necessary delegated authority and decision making. |
| **Liquidity** - The process of buying and selling investment property is fairly lengthy (e.g. an investment disposal will usually take between 3 to 6 months from heads of terms to completion), making it a more illiquid than other asset classes such as equities or bonds. | PCC will manage the portfolio by adopting the Institute of Public Finance (IPF)'s best practice advice contained in "Readiness for sale - A guide for streamlining commercial property transactions". Furthermore PCC will identify a recommended 'holding period' for each investment which will be aligned with the strategic aim of long term income. |
| **Opportunity** - The availability of property stock for investment in the Council's administrative area may be limited. As the Council seeks to grow the portfolio it may at times be frustrated by a lack of opportunity. | To counter this PCC will seek out as many appropriate opportunities as possible, build relationships and communicate to the market the Council's requirement and ability to perform. |

| | |
|---|---|
| **Management** - The portfolio may have the risk of void periods or tenants may default on rent payment. Voids create holding and re-letting costs; if they persist for prolonged periods these costs can be significant. | Active portfolio management will be undertaken by PCC during the holding period to anticipate and reduce such risks where possible. |
| **Capacity & Expertise** - Management of an investment portfolio requires specific skills, expertise and capacity. Direct ownership and direct management means this can be resource intensive. As the portfolio grows, so the management burden will grow. | This specific issue along with knowledge of the local market opportunities will be critical. PCC will identify a 'lead officer' with appropriate expertise to provide a focus on the investment portfolio. |
| **Reputation** - How the Council acts to intervene in the market and deals with day to day management of its properties and tenants will have an impact on the Council's overall reputation. | PCC will seek to adhere to 'best practice' in all its transactions and ensure effective regular liaison with tenants. Reviews of individual assets and the portfolio as a whole will identify any works required to protect or enhance the fabric of buildings which may be needed in order to re-let a void property. |
| **Regulatory Compliance** - The Council should ensure it operates within the applicable regulatory framework and regularly takes steps to review that framework. | PCC will act in accordance with appropriate statutes and in line with current financial regulations and 'best practice' including the Chartered Institute of Public Finance and Accounting (CIPFA) Prudential Code, CIPFA's treasury management guidance for local authority funds and the Department for Communities and Local Government (DCLG) statutory guidance on local authority investment. |

## Appendix B – Summary of Aims, Objectives & Operating Principles

**Aim**

To acquire and manage investment property (the investment portfolio) in order to support the Council's revenue budget and its priority in ensuring the economic prosperity and well-being of Peterborough.

**Objectives**

- To acquire property that can provide long term income and capital growth.
- To maximise returns whilst minimising risk through sound property selection and effective governance.
- To prioritise investment towards property that can provide strong stable long term income.
- To maintain and enhance the condition of property to ensure long term income strength and income growth.

**Operating Principles**

The Council will retain direct ownership of all its investment property assets.

The Council will undertake the management of the investment portfolio in-house (as a landlord) or with established suppliers / joint ventures.

The geographical operating scope of the portfolio will be restricted to Peterborough City Council's administrative area and its immediate surroundings.

The council will seek to retain a 'balanced' portfolio through its mix of asset types and lease lengths with emphasis on industrial, office and retail uses.

To minimise management and risk, preference will be for single occupancy investments although multi-let properties may be considered.

Preference will be for full repairing and insuring (FRI) terms or FRI by way of service charge, meaning that all costs relating to occupation and repairs are borne by the tenant(s) during the lease term.

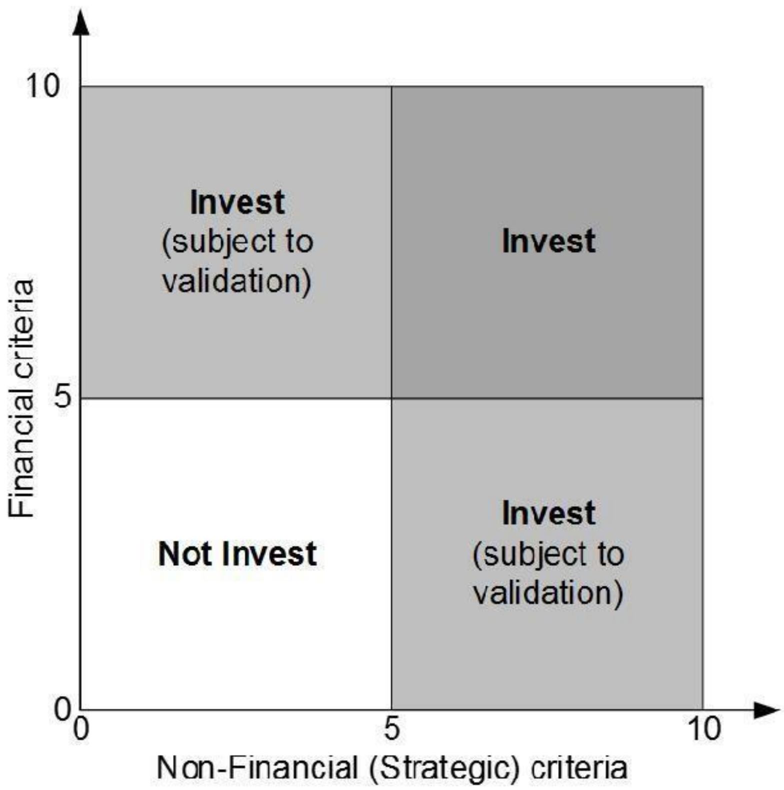
There will be an annual portfolio review with an executive summary report to the Audit Committee which will examine the portfolio's performance and allow for strategic decision making.

## Appendix C - Acquisition & Review Criteria for Investment Assets

| Criteria | Scoring 1 Poor | 2 Marginal | 3 Acceptable | 4 Good | 5 Very good | Score |
|---|---|---|---|---|---|---|
| **Location** | Tertiary | Micro Secondary | Major Secondary | Micro Prime | Major Prime | 1-5 |
| **Tenancy Strength** | Tenants with unstable or poor financial covenant | Multiple tenants with good financial covenant | Multiple tenants with strong financial covenant | Single tenant with good financial covenant | Single Tenant with strong financial covenant | 1-5 |
| **Tenure** | Lease less than 20 years | Lease between 20 & 50 years | Lease between 50 & 125 years | Lease 125 years with option to buy freehold | Freehold | 1-5 |
| **Lease Length** | Less than 2 years or Vacant | Between 2 & 4 years | Between 4 & 7 years | Between 7 & 10 years | Greater than 10 years | 1-5 |
| **Repairing Terms** | Landlord | Internal repairing – non recoverable | Internal repairing – partially recoverable | Internal repairing – 100% recoverable | Full repairing & insuring | 1-5 |
| **Physical Condition** | In a poor state of repair with significant liabilities | In a poor condition with some repairs required | In a reasonable condition with limited repairs required | In a good condition with only limited repair issues | Fit for purpose, well maintained with no outstanding repairs | 1-5 |
| *Note: This is an initial framework which will be updated and refined in use. The exact criteria and scoring approach is subject to review* | | | | | **Maximum Score** | **30** |

**Appendix D – Initial Investment Appraisal 'Scorecard'**

| Financial Criteria | Strategic Criteria |
|---|---|
| Does the net yield exceed PCC agreed target? | Does the investment support local community vibrancy? |
| Is the location classified as major prime, micro prime or major secondary? | Will the investment support local job creation or retention? |
| Is the property freehold or have a lease in excess of 150 years? | Will it facilitate strategic site assembly / increase scope for intervention? |
| Is the lease an 'operating lease' so all income can be treated as revenue? | Will it support improvement in infrastructure? |
| Can it be let on full repair & insuring terms or with 100% recovery of internal repairs? | Will it support local place shaping in line with PCC objectives? |
| Is the occupier's lease length greater than 5 years? | Does it support equity of prosperity & opportunity across Peterborough? |
| Is there a single tenant with good or strong covenant? | Does it support anti-poverty or deprivation policies? |
| Does the location reflect good potential for rental growth & high letting prospects | Will it support education, skills or apprenticeship policies? |
| Does the asset improve the balance of the PCC portfolio (risk management)? | Is it in a specific priority area for regeneration or growth? |
| Does the asset have good market exit (sales) prospects? | Does it contribute to better balance within and between 'places'? |



**Appendix E – Governance Arrangements**

The Council will acquire assets where it can demonstrate:

- An investment return can be generated
- Value can be added to existing assets held by the Council
- There is a strategic benefit from acquiring the assets.
- A contribution to the maintenance of a balanced commercial property portfolio.

All acquisitions will be assessed through a robust business case and with particular reference to the cost, benefit, impact and risk of the property. How it relates to the Council's corporate objectives and its assessment against the acquisition and review framework (See Appendix C) will also be key. In all cases an independent valuation will be obtained by a member of the Royal Institution of Chartered Surveyors to ensure that the transaction represents market value.

Acquisitions and disposals relating to the commercial portfolio, whilst needing to be consistent with the Council's financial strategy, will need to be completed quickly. This is even more likely to be in the case of acquisition, as securing a good investment will require the ability to respond and act quickly to secure it ahead of the competition.

Acquisitions and disposals will, under the Council's Rules of Financial Governance require consultation with and agreement of the Section 151 Officer. In all cases, they will need to be supported by a financial appraisal setting out all the financial and budgetary implications. Under the Council's practice of delegated authority nominated senior officers along with the Corporate Property Officer can approve acquisitions or disposals subject to a maximum value of £20M. Acquisitions over this value will be identified as 'key decisions' and included in the Council's standard processes around key decisions.

**Appendix F – Performance Measures**

| Indicator | Target | Actual |
|---|---|---|
| Rate of Return | 5% - 8% | |
| Revenue Growth (over 5 years) | To be defined | |
| Capital Growth (over 5 years) | To be defined | |
| Management & Ownership Costs (as a % of gross income) | To be defined | |
| Average portfolio score under 'Acquisition & Review Criteria' | 20+ | |

Below is a list of further possible performance indicators that could be used to measure the performance of the portfolio.

| | |
|---|---|
| Debt to net service expenditure (NSE) ratio | *Gross debt as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.* |
| Commercial income to NSE ratio | *Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate NSE.* |
| Investment cover ratio | *The total net income from property investments, compared to the interest expense.* |
| Loan to value ratio | *The amount of debt compared to the total asset value.* |
| Target income returns | *Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.* |
| Benchmarking of returns | *As a measure against other investments and against other council's property portfolios.* |
| Gross and net income | *The income received from the investment portfolio at a gross level and net level (less costs) over time.* |
| Operating costs | *The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.* |
| Vacancy levels and Tenant exposures for nonfinancial investments | *Monitoring vacancy levels (voids) ensure the property portfolio is being managed (including marketing and tenant relations) to ensure the portfolio is productive as possible.* |

**References**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