

CABINET	AGENDA ITEM No. 6
24 SEPTEMBER 2012	PUBLIC REPORT

Cabinet Member(s) responsible:	Cllr David Seaton	
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MEDIUM TERM FINANCIAL STRATEGY 2013/14 TO 2022/23

R E C O M M E N D A T I O N S	
FROM : Executive Director Strategic Resources	Deadline date : 14 September 2012
<p>That Cabinet:</p> <ol style="list-style-type: none"> 1. Note the position in the current financial year and approve the actions to manage in year budgetary pressures that will ensure that the Council reduces the overall overspend. 2. Note the current consultations affecting future local government funding arrangements and the implications on the Council's future settlements and medium term financial strategy (MTFS). 3. Approve the approach that is proposed for the budget process incorporating the MTFS and suggested approach to consult with Scrutiny and Stakeholders. 	

1. ORIGIN OF REPORT

- 1.1 This report is submitted to Cabinet following approval by the Corporate Management Team.

2. PURPOSE AND REASON FOR REPORT

- 2.1 This report comes to Cabinet as part of the council's agreed process for integrated finance and business planning. It continues the multi-year approach to budgeting to help plan for the financial challenges ahead. The drivers continue to be meeting the council's priorities by creating a sustainable budget strategy whilst responding to changes arising from decisions made in the distribution of local government funding.
- 2.2 The council's agreed Annual Budget Framework requires Cabinet to consider the council's budget and financial strategy and to set provisional cash limits for the forthcoming year.
- 2.3 The purpose of this report is to:
 - update Members on the likely financial situation of the council
 - to outline the approach to the budget process and budget consultation
 - to outline national issues which will need consideration within the medium term financial strategy for 2013/14 onwards, including funding consultations

- 2.4 This report is for Cabinet to consider under its Terms of Reference No. 3.2.1 which states 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 programme to deliver excellent services.

3. **TIMESCALE**

Is this a Major Policy Item/Statutory Plan?	Yes	If Yes, date for relevant Cabinet Meeting	24 September 2012
Date for relevant Council Meeting	20 February 2013	Date for submission to Government department	26 February 2013

4. **BUDGET 2012/13 AND CURRENT POSITION**

Revenue

- 4.1 Full Council approved a deficit budget within the MTFs 2012 in February 2012 on the basis that it would use reserves to balance the 2012/13 budget and bring forward and deliver further savings that would provide a surplus in 2013/14. Council were also updated with the particularly challenging financial position of 2011/12. Since the setting of this budget, demand on social care budgets has continued to place pressure on the council's finances; the local economic conditions are adversely impacting on parking and other income including the commercial property portfolio. The impact on resources across the Council required to resolve budgetary issues may compromise the Council's business transformation programme and a prudent view has been to include a 12 month delay into the current year with the expectation that these savings will be realigned into future financial years as part of the budget setting process.

Corporately, savings have been identified to partially offset the overspend and further work is continuing to reduce pressures across the council to ensure that the council can bring in a balanced budget.

- 4.2 The following table provides a summary view of the revenue forecast for 2012/13. A detailed breakdown by departments can be seen at appendix A:

Department	Forecast Outturn Variance £k
Deficit budget as per MTFP 2012	-2,700
One off use of reserves	2,700
Adult Social Care	-1,547
Chief Executive	283
Legal and Governance Services	51
Children Services	-992
Operations	-331
Strategic Resources	-470
Business Transformation	-1,896
Corporate Solutions	1,633
REVISED TOTAL – surplus (+) / deficit (-)	-3,269

Capital

4.3 Update on Capital Programme

- i. The capital programme is outlined in Appendix B. The revised Capital Programme for 2012/13 at the end of August is £269.7m. This has been amended since the Capital Programme was agreed in the Medium Term Financial Strategy (MTFS) at £244.6m due to slippage from the previous year and a refresh of the current position. Actual spend to date remains low at £32m. It should be noted that a refresh of the capital programme has been requested for both 2012/13 and the future 10 year capital programme. It is expected that as a result of this exercise the capital programme will reduce for 2012/13 as a more accurate profile of capital expenditure is ascertained.
- ii. A project where slippage is expected is on the Affordable Housing Project which has a budget of £3m for 2012/13. This has been discussed at Head of Service and Director level, and from these discussions the service are anticipating to reprofile some of this years budget to the following year of 2013/14. However, before this is built into a revised profile of expenditure, the service are investigating why submission of applications is slow, as this has wider implications for both Council Tax and the New Homes Bonus.

4.4 The capital programme is partly funded by the receipts generated through the disposal of capital assets. There are risks that not all assets expected to be disposed of during 2012/13 will happen in line the with the current budget strategy. Any resulting financial impact will be assessed in conjunction with the overall capital programme and revised accordingly. The Capital receipts have been risk assessed and the result of this is demonstrated by the table below.

RAG Status	Amount Originally Expected	Updated Figures	Received
	£000	£000	£000
Red	11,650	9,300	0
Amber	6,413	6,258	0
Green	1,863	1,624	442
Total	19,925	17,181	442

4.5 A further source of capital receipts for the Council is from former Council housing stock that was transferred to Cross Key Homes. Under the stock transfer agreement the Council receives a proportion of the sale receipt of each 'Right To Buy' house sold. The amount of receipt due to the Council is reported quarterly by Cross Keys and this information then informs the calculations required for funding of the capital programme, and resulting financing costs in revenue. Last financial year Cross Keys confirmed that total receipts due was £1.3m and during the closure process this receipt was used to fund the capital expenditure for the year of £77.3m. During August 2012 Cross Keys highlighted to the Council that an error had occurred whereby 'Right to Acquire' sale receipts had be included in the £1.3m, an overpayment of £0.3m. Repayment terms have been agreed with Cross Key Homes. However, of note is that errors of this nature have occurred in four of the last five years, with the total value of errors £0.9m. This in turn has meant additional borrowing costs for the Council to date of approximately £177k.

5. LOCAL GOVERNMENT FUTURE FUNDING ARRANGEMENTS

5.1 There are fundamental changes to local government funding arrangements for councils from 2013/14 which government have been further consulting over the past few months with legislation to implement these changes expected to be implemented later this financial year. As part of the consultations and Chancellor announcements since the Spending Review 2010, it is anticipated that council's will see a further reduction in their funding

distributed by government. All consultations impacting on council funding will continue to have a submitted council response.

- i. Localisation of Business Rates – This technical consultation which closes on 24 September seeks views on how council's can benefit from retaining a proportion of their growth in business rates in future years over and above their baseline funding levels. As part of the consultation government are seeking views on specific grants that councils receive and whether these grants should remain as separate identifiable grants from 2013/14. The consultation response will be shared with the relevant Cabinet Member, Scrutiny Chairman and Group Representatives for comment. The Cabinet Member for Resources, will submit the Council's response in line with his delegated powers.
- ii. Localisation of Council Tax Benefit – Each council is expected to implement their own scheme for managing council tax benefit from 2013/14 whilst ensuring that vulnerable groups continue to receive council tax benefit. As announced in the Spending Review 2010, the overall national benefit bill will be reduced by 10% in cash terms.
- iii. Academy Funding – LA Block (Local Authority Central Spend Equivalent Grant) LACSEG funding – This consultation closes on 24 September and links into the outcome of the localisation of business rates consultation. With more schools moving to academy status providing them with a broader range of responsibilities, the current funding arrangements between local authorities and academy funding is no longer sustainable. The consultation proposes a new funding methodology to remove the funding in formula grant in its entirety from local authorities assuming all schools had academy status and distribute back funding to local authorities for all non academy schools.
- iv. Early Intervention Grant – extending free education to more two year olds – closes 15 October. This consultation is referenced within the localisation of business rates consultation as it seeks views on the future distribution of two year old funding.

5.2 The impact of the above consultations and post Spending Review 2010 announcements will impact all local authorities and the council is not expecting to know the provisional impact until the provisional local government finance settlement later in autumn.

6. OVERVIEW AND FUTURE BUDGET PROSPECTS

6.1 At its meeting in February 2012, the council approved the ten year budget for the years 2012 – 2022. In setting this budget, the council recognised that the MTFs suggested a balanced budget until and including 2013/14. From 2014/15 onwards the council is forecasting a deficit bottom line position as seen in the below table. The council recognises that early action is required to mitigate significant service reductions in later years, whilst taking into account changes in local government funding anticipated from 2013/14. The following table is a reminder of the budget strategy for the first five financial years.

	2012/13 £k	2013/14 £k	2014/15 £k	2015/16 £k	2016/17 £k
Budget Bottom line	-2,700	2,265	-6,551	-12,861	-18,045

	2012/13 £k	2013/14 £k	2014/15 £k	2015/16 £k	2016/17 £k
Deficit	-2,700		-6,551	-12,861	-18,045
Less: Use of Reserves	2,700		2,265		
Surplus		2,265			
Less: Transfer of Reserves					
Overall Position	0	0	-4,286	-12,861	-18,045

- 6.2 Expenditure estimates will be refreshed in line with assumptions outlined in section 8 below. Our funding estimates will be significantly affected by the proposals in section 5.
- 6.3 The budget plans will maintain our commitment to delivering the Sustainable Communities Strategy, including:
- Improving educational attainment and skills for our children and young people. A key part of this vision is bringing established universities to deliver courses to students in Peterborough in a multi-versity approach. It will enable people to study a wider choice of higher education courses without having to leave the city;
 - Safeguarding children and vulnerable adults;
 - Growth, regeneration and economic development of the city to bring new investment, housing and jobs;
 - Environment Capital agenda including pursuing new income streams from solar energy and wind farm developments;
 - Delivering services at a neighbourhood level; and
 - Supporting Peterborough's Culture Trust, Vivacity, to continue to deliver arts and culture in the city.
 - Working with partners to promote community safety and cohesion
- 6.4 The council aims to maintain its commitment to meeting these priorities and ensuring community needs are met longer term whilst undertaking the necessary role of tackling the challenges it faces. To do so it will be focussing on the following key areas:
- i. Renewable energy – reduce the impact of climate change through the use of sustainable energy sources and investment in energy efficiency and renewable generation;
 - ii. Income generation - includes review of specific income streams as well as identifying opportunities for generating additional income into the council;
 - iii. Inflation – includes detailed review of inflation including benchmarking with other local authorities as well as measuring against latest forecasts for Consumer Price Index (CPI) and Retail Price Index (RPI), particularly with regards to energy costs
 - iv. Consider areas for potential saving proposals;
 - v. Identify areas within the council that could benefit from transformational change;
 - vi. Consider options with partnership working; and
 - vii. Consider growth opportunities and infrastructure requirements

7. BUDGET SETTING APPROACH

- 7.1 The council continues to adopt an integrated approach to service and financial planning and will incorporate where appropriate changes to national policies and local priorities to ensure that the council remains strategically well placed to support local business and communities. The council will continue to be an integral partner with other public bodies within the area in which it operates.
- 7.2 It is anticipated that the process will have two distinct stages (with discussions regarding the impact on priorities, performance and business plans underpinning all stages):
- I. Departments will finalise developing options that will contribute towards reducing the deficit budgets in future years. Cabinet has specific delegated responsibility under the part 3, section 3 of the constitution to ensure the council spends within its available resources.

3.2.7 To be responsible for the council's overall budget and determine action required to ensure that the overall budget remains within the total cash limit.

- II. It is anticipated that these proposals will be considered by Cabinet by early January 2013. Due to the fundamental local government funding changes, it maybe necessary for Full Council to approve an update to the council's constitution in reference to Part 4, section 6 on the Budget and Policy Framework Procedure Rules with regards to the budget setting and consultation timetable. Cabinet has specific delegated responsibility under the part 3, section 3 – '3.2.5 - To review and recommend to council changes to the Council's Constitution, protocols and procedure rules'. The budget will then be consulted upon to seek views from the public, businesses, Members, partners, unions, staff and other stakeholders prior to the budget being approved no later than the 11 March in accordance with current legislation, ensuring that decisions made reflect these community views. The current budget timetable assumes that the budget will be submitted to Full Council on 20 February 2013 for approval.

8. SETTING OF PROVISIONAL REVENUE CASH LIMITS AND CONTROL TOTALS

- 8.1 Cabinet is required to consider the overall cash limits for the council each year, in line with the constitution. Local authorities will not know their individual provisional budget settlement figures until early December and will be based on the outcome of current government consultations on local government funding arrangements. However, since the government announced national local government spending for 2013/14 and 2014/15 as part of the spending review 2010, subsequent announcements made by the Chancellor and government make it clear that the national spending will be further reduced. The formula grant available for distribution to local authorities is likely to reduce by a further 10.8% in 2013/14 and 7.7% in 2014/15 on local government spending.
- 8.2 An update of items included in the medium term financial plan for 2013 is being finalised to take account of any changes that have since materialised. Key assumptions are as follows:

Key Assumptions:

1. Government committed to reducing Local Government Funding by 28% in real terms (24% cash terms) during the SR 2010. Subsequently, government have indicated further grant reduction within local government funding consultations and announcements, suggesting a further 10.8% reduction in 2013/14, with 7.7% reduction in 2014/15. Currently, the forecast for future year's grant reduction is in line with forecasts as indicated by government until 2014/15, and then frozen after this. Any increase in future years will be realised through growth in business rates locally. There is currently no impact from the Dedicated Schools Grant (DSG) included in budget proposals. Changes to grants currently under review will be modelled and included as appropriate.
2. Pay inflation has been assumed at 1.0% increase 2013/14 and 1.5% increase 2014/15, 2015/16 and 2.5% increase up to and including 2022/23. General inflation has been included at 2% per annum although subject to change through further detailed review e.g. for energy
Fees and charges has been included at 2.5% per annum although subject to change through further detailed review.
3. The council tax base assumes a 1.0% increase per annum and will be reviewed as part of the work on the localisation of council tax benefit and a review of the council's plan for future housing.

4. Interest rates used are based on the latest information available from our treasury advisors. The table below shows the interest rates received on deposits and payable on borrowing for the next ten years.

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19 onwards
Borrowing Rates (50 years)	3.99%	4.00%	4.35%	4.75%	5.13%	5.13%	5.13%
Interest Rates	0.50%	0.50%	0.69%	1.00%	1.00%	1.00%	1.00%

- 8.3 The figures will be updated accordingly during the budget setting process, before final approval by council in setting the 2013/14 budget and medium term financial plan.
- 8.4 The budgets that departments prepare in line will contain only inflation. Any additional adjustment for service changes, statutory activity changes (including new and changing grant streams), savings and other resource realignment will be considered corporately.

9. CAPITAL PROCESS

- 9.1 The planning process will include a review of the current capital programme and the calculation of the capital requirement in each year of the plan. This will include an assessment of likely levels of resources including capital receipts and asset disposals.
- 9.2 The capital programme needs to consider new programme options without compromising the external funding opportunities available and the council's ability to deliver strategic priorities.
- 9.3 The Asset Management Plan will also be refreshed to ensure that the council continues to make the most effective use of its assets

10. CONSIDERATION OF RISK

- 10.1 Key risks have been considered and will continue to be monitored throughout the budget setting process and next financial year. Many of the risks are a continuation from last year's budget setting process and reflect the uncertainty of future local government funding arrangements. Key risks identified include:
- The impact of the uncertainty of local government funding levels in future years has been mitigated as much as possible during current SR 2010 and future forecasts are in line with the trajectory as indicated by government. Modelling of the further grant reductions is in progress and growth modelling will need to be done for future years at a more detailed level and integrated with planning assumptions to ensure funding levels meet resource needs.
 - Resource implications on spending and saving proposals are considered in terms of the council's overall priorities, finances and human resource implications. Detailed budget analysis and human resource analysis has been undertaken for each budget area to support any decision made in preparation for consultation.
 - Growth within Peterborough in future years could be compromised if the Council has insufficient budget resources to meet these priorities. This will be reviewed and addressed through a challenging process during the budget setting period.
 - Inflation and fees and charges. These areas are undergoing a robust review to ensure that the expenditure and income applied to the council's budget is still appropriate given the change in service provision over the previous few years and outsourcing / partnership arrangements in progress.

- 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 and adult social care. Whilst specific provision has been included in budget plans for estimates of increased demand, the need for such services remains difficult to predict, and support must be provided where needed.
- Capital financing estimates are developed using latest forecasts of interest rates for MTFs (which allow for a level of increase). If interest rates increase beyond forecast levels then a review of the capital programme and debt portfolio will be required.

11. ANTICIPATED OUTCOMES

- 11.1 Following approval by Cabinet, Departments will develop budget proposals for consideration at the next stage of the budget setting process.

12. REASONS FOR RECOMMENDATIONS

- 12.1 The Constitution requires Cabinet to outline its approach to developing the MTFs. This process helps to ensure that the Council achieves a balanced budget, aligned to corporate priorities.

13. ALTERNATIVE OPTIONS CONSIDERED

- 13.1 The alternative option was to do nothing. This was rejected because the constitution requires the council to outline the approach to next year's budget setting by the end of preceding month of September.

14. IMPLICATIONS

14.1 Elected Members

Members must have regard to the advice of the 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 Legal Implications

These are considered within the main body of the report.

14.3 Human Resource Implications

These are considered as part of setting the budget in accordance with HR policies and procedures.

15. BACKGROUND DOCUMENTS

Council Constitution - Part 3, Section 3 – Executive Functions – Executive Delegations
 Council Constitution - Part 4, Section 6 - Budget and Policy Framework Procedure Rules

Government Consultations:

- i. Business Rates Retention consultation
- ii. Localising Support for Council Tax in England
- iii. Early Intervention Grant – Extending free education to more two year olds
- iv. Academy Funding – LA Block (Local Authority Central Spend Equivalent Grant) LACSEG

Appendix A – Budget Monitoring Report as at 31 July 2012

	Budget 2012/13 £k	Forecast Spend 2012/13 £k	Forecast Variance 2012/13 £k
ADULT SOCIAL CARE			
Director of Adult Social Care	386	382	4
Strategic Commissioning	34,463	35,239	-776
Care Services Delivery	8,493	9,441	-948
Quality, Information and Performance	2,006	1,916	90
Finance and Organisational Change	-1,203	-1,286	83
TOTAL ADULT SOCIAL CARE	44,145	45,692	-1,547
CHILDREN SERVICES			
Education and Resources	-1,517	-1,169	-348
Strategy, Commissioning and Prevention	19,401	21,513	-2,112
Safeguarding Family and Communities	9,836	10,336	-500
Departmental Action Plan	0	-1,968	1,968
TOTAL CHILDREN SERVICES	27,720	28,712	-992
OPERATIONS			
Business Support	406	402	4
Commercial Operations	-1,436	-547	-889
Directors Office	895	874	21
Neighbourhoods	6,066	6,372	-306
Planning, Environment, Transport and Engineering	14,206	14,239	-33
Departmental Action Plan		-872	872
TOTAL OPERATIONS	20,137	20,468	-331
CHIEF EXECUTIVE'S DEPARTMENT			
Chief Executive's Office	339	336	3
Legal and Governance Services	3,711	3,660	51
Chief Executive Departmental Support	203	173	30
Growth and Regeneration	2,189	1,939	250
Communications	517	517	0
Human Resources	957	957	0
TOTAL CHIEF EXECUTIVE'S DEPARTMENT	7,916	7,582	334
STRATEGIC RESOURCES			
Director's Office	198	198	0
Corporate Services	16,128	15,897	231
Environment Capital	774	774	0
Internal Audit	327	316	11
Insurance	61	61	0
Strategic Client Services	-1,553	-1,086	-467
Peterborough Serco Strategic Partnership	8,779	8,779	0
ICT	3,700	3,700	0
Waste and Operational Services Management	12,978	13,223	-245
Cultural Services	4,279	4,309	-30
Registration and Bereavement	-1,232	-1,262	30
Westcombe Engineering	3	3	0
TOTAL STRATEGIC RESOURCES	44,442	44,912	-470
Business Transformation		1,896	-1,896
Corporate Solutions		-1,633	1,633
TOTAL GENERAL FUND	144,360	147,629	-3,269

Appendix B – Capital Monitoring Report

Capital Programme by Directorate	Budget 01/04/2012 £000	Budget as at August 2012 £000	Budget to Date £000	Actual Expenditure £000	Total Spent Against Profiled Budget
Adult Social Care	4,524	4,536	1,615	134	8%
Chief Executive Department	14,517	15,162	6,379	831	13%
Childrens Services	72,911	90,053	33,021	22,941	69%
Operations	20,529	21,021	8,979	1,963	22%
Strategic Resources	39,339	38,977	18,396	4,933	27%
Invest to Save	100,000	100,000	1,785	1,262	71%
Total	251,820	269,749	70,175	32,064	46%
Financed by:					
Grants & Contributions	35,232	45,534	19,125	13,755	72%
Capital Receipts	15,495	19,925	451	0	0%
Borrowing - Invest to Save	100,000	100,000	1,785	1,262	71%
Borrowing	101,093	104,290	48,814	17,047	35%
Total	251,820	269,749	70,175	32,064	46%