

CABINET	AGENDA ITEM No. 7
23 SEPTEMBER 2013	PUBLIC REPORT

Cabinet Member(s) responsible:	Cllr David Seaton	
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MEDIUM TERM FINANCIAL STRATEGY 2014/15 TO 2023/24

R E C O M M E N D A T I O N S	
FROM : Executive Director Strategic Resources	Deadline date : 23 September 2013
<p>That Cabinet:</p> <ol style="list-style-type: none"> 1. Note the financial pressures in the current financial year and approve the approach to bringing forward savings plans to help deliver a balanced budget 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 proposed for the budget process, including the suggested approach to consulting 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, both within the current and future financial years
 - 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 2014/15 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 programmes to deliver excellent services.

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	Yes	If Yes, date for relevant Cabinet Meeting	23 September 2013
Date for relevant Council Meeting	19 February 2014	Date for submission to Government department	25 February 2014

4. BUDGET 2013/14 AND CURRENT POSITION

Revenue

- 4.1 Full Council approved a balanced budget for 2013/14 as part of the MTFS 2013 in March 2013. The current budget is £155,268k as set out in the table below alongside the full year forecast and variance as at the end of July 2013.

DEPARTMENT	Budget 2013/14 £k	Forecast Spend 2013/14 (at July) £k	Forecast Variance 2013/14 £k
Adult Social Care	48,713	49,011	-298
Children Services	31,321	32,369	-1,048
Operations	16,116	16,628	-512
Chief Executive Department	7,437	7,304	133
Strategic Resources	51,681	52,186	-505
TOTAL Under spend (+) / Over spend (-)	155,268	157,498	-2,230

- 4.2 The table shows the summary position for each department (further detail can be found in Appendix A) with the overall position for the Council now being forecast as a deficit (overspending) of £2,230k. This is the potential overspend if no further action is taken to bring the budget back into balance
- 4.3 The Council is facing a range of additional financial pressure in the year. Many of these relate to statutory services the council has to provide, including extra demand to support vulnerable people (within Adult Social Care in the Independent Sector Placement budget and in Childrens services with ongoing pressure of Looked after Children placements). In the Operations department there are pressures including street lighting energy costs (£390k) and within Neighbourhoods (£381k). The forecast overspend in Strategic Resources is due to the cost of the nationally agreed pay award across the Council being charged here.
- 4.4 The Corporate Management Team have received regular information on the position and have been asked to identify and implement specific actions to produce in year cost reductions to bring the current forecast overspend position back in line with budget.
- 4.5 Where these actions require Cabinet (or indeed Council) approval, they will be brought forward as soon as possible for approval for approval. The Council has a good track record in recent years of managing financial pressures, and would expect to bring forward proposals to balance the budget by year end.

Capital

- 4.6 Details of the current position on the capital programme are set out in Appendix B. The original level of investment for the year as agreed in the Medium Term Financial Plan (MTFS) was £252m, the movement between that position and the £260.7m currently shown as at 01/04/2013 was as a result of slippage from 2012/13. The current Capital Programme's budget for 2013/14 is £156.2m, following the deferral of some schemes into future years. Although the actual expenditure to date only represents about 48% of the profiled budget to date most major schemes are expected to be in line with budget.

- 4.7 The Capital Programme is funded via three core elements, external third party income (including grants), capital receipts generated from the sale of Council assets, and borrowing from the external market and the latest forecast is include within appendix B.
- 4.8 The current programme includes the budget for invest to save schemes (I2S). The I2S budget is for schemes that must cover the cost of borrowing from either income generation or from generated savings. The following schemes are currently utilising Invest to Save funds in 2013/14:
- Collective energy switching - as approved by Cabinet on 5th November 2013. The costs of setting up the scheme will be offset from fees from energy companies and from other Councils using the scheme
 - Energy Performance Contract (EnPC) – as approved by CMDN JUN13/CMDN/054. The set up costs, and investment in individual energy schemes, will be offset by the resultant energy cost savings, and from income from other Councils using the scheme

Any further projects will need to meet the criteria approved for the use of such funds.

- 4.9 The capital receipts are monitored on a monthly basis and each receipt is given a status of Red, Amber or Green to identify the likely receipt before the 31/03/2014. The split of the receipts over this status is:

RAG Status	Amount Originally Expected (£000)	Updated figures (£000)	Received (£000)	Still to receive (£000)
Red	1,720	1,770	0	1,770
Amber	9,190	9,430	0	9,430
Green	1,600	2,028	540	1,448
Total	12,510	13,228	540	12,688

5. LOCAL GOVERNMENT FUNDING ARRANGEMENTS

- 5.1 From 1 April 2013, central government introduced significant changes to the local government funding system through the implementation of the localisation of council tax benefit and the localisation of business rates. The latter allows councils to keep a proportion of any growth in locally raised business rate income compared against a baseline confirmed with central government. Although the new system has been implemented, new secondary legislation on technical aspects of the scheme have been, or will be issued, during 2013/14. The council is currently assessing the legislation issued to date to fully understand the financial impact on the council's budget strategy.
- 5.2 Government announced the Spending Round 2013 on 26 June 2013, including the national spending envelope for local government for 2015/16 and indicative allocations for the following two years. This outlined further reduction in local government funding, with a significant additional reduction in 2015/16. Some of the announcements required government to consult. These consultations are as follows:
- a) Local Government Funding Settlement 2014/15 and 2015/16 – This technical consultation which closes on 2 October seeks views on a further reduction in local government funding in 2014/15 and 2015/16. Key aspects:
 - a. A further proposal to reduce the revenue support grant in 2014/15 by a further £45m to top up the amount set aside in the business rates scheme to pay for safety net payments for councils whose business rates income is below the threshold baseline business rates agreed by government. This is in addition to the 1% reduction in funding already announced by government in the Autumn statement 2012.
 - b. An overall reduction in 2015/16 in local government funding distributed via revenue support grant of £3.1bn (27.6%) after holding back funding for new homes bonus and safety net payment requirement. Council's will continue to

retain a proportion of locally raised business rate income. The overall national impact from Revenue Support Grant and retained business rates reduces local government funding by 13.1%.

- c. Proposal to baseline the 2013/14 council tax freeze grant in cash terms from 2015/16 into the revenue support grant.
- b) New Homes Bonus and the Local Growth Fund
- c) Proposals for the use of capital receipts from asset sales to invest in reforming services

5.3 The council will be submitting a response for each consultation. The consultation response for the local government funding settlement will be shared with the relevant Cabinet Member, Scrutiny Chairman and Group Representatives for comment. The Cabinet Member for Resources will then submit the council's response in line with his delegated powers.

5.4 The impact of the above consultations and Spending Review announcements will not be known until the provisional local government finance settlement is announced. Traditionally this has been announced in late November/early December. However the 2013/14 provisional settlement was not released until December 19th 2012. This late release by Government had a significant impact on the budget process for 2013/14, with consultation being released in January. Currently it is not known when the settlement for 2014/15 will be announced, but there have been some suggestions that it may not even be released until after Christmas.

6. OVERVIEW AND FUTURE BUDGET PROSPECTS

6.1 At its meeting in March 2013, the council approved the ten year budget for the years 2013 – 2023. The following table is a reminder of the budget strategy for the five financial years From 2014/15 onwards.

	2014/15 £k	2015/16 £k	2016/17 £k	2017/18 £k	2018/19 £k
Budget Bottom line	-7,269	-11,185	-13,831	-18,647	-20,626

6.2 The Council will roll forward these estimates to form the basis of the next MTFs. Expenditure estimates will be refreshed in line with assumptions outlined in section 8 below. Funding estimates will be significantly affected by the Government proposals in section 5, potentially leading to a further reduction in grant of around £1m in 2014/15 and in excess of £11m by 2015/16. A grant reduction of this scale would double the size of the forecast deficit in 2015/16.

6.3 The budget plans will maintain our commitment to delivering the Sustainable Communities Strategy and meeting the needs of the people of our city, against the backdrop of the challenging economic times. The budget will be set to deliver the Cabinet's priorities for the coming year as follows:

- Growth, regeneration and economic development to bring new investment and jobs. Supporting people into work and off benefits;
- 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.
- The Environment Capital agenda including pursuing new income streams from solar energy and wind farm developments.
- Supporting the city's culture trust Vivacity to continue to deliver arts and culture.
- Keeping our communities safe and cohesive.

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 and performance underpinning all stages):

- I. Departments will finalise developing options that will contribute towards reducing the deficit in the current and future financial years. Cabinet has specific delegated responsibility under 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.

Where proposals that deliver savings within 2013/14 are within the current budget and policy framework, Cabinet will approve those actions in line with their responsibility above. If it is considered that those savings proposed are outside of the Budget and Policy Framework, then they will be recommended to Full Council for approval.

- II. Cabinet will consider budget proposals for future years and consult with the public, Members, businesses, partners, unions, staff and other stakeholders prior to the budget being approved no later than 11 March in accordance with current legislation, ensuring that decisions made reflect these community views.

Due to the local government funding changes and the potential delay in the local government finance settlement referred to in section 5, it may be 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. The current budget timetable assumes that the budget will be submitted to Full Council on 19 February 2014 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 later this year (as outlined in section 5). The national impact includes:

Impacting 2014/15 budget:

1. A further reduction in local government funding of 1% (£219m) and possibility of up to a further £45m reduction subject to consultation outcome;

Impacting 2015/16 budget:

2. In addition to the 2014/15 grant reduction, a further 13.1% reduction (£3.1bn) subject to consultation outcome;
3. Incorporating the 2013/14 council tax base freeze grant into the council's baseline in cash terms;
4. New Homes Bonus grant - Subject to consultation outcome, council's would pay over 35% of new homes bonus grant to the Cambridgeshire and Peterborough Local Enterprise Partnership (LEP) to support growth and infrastructure. It is unknown how much the council could receive back if any from the LEP.
5. Education Services Support Grant – a reduction of 20% in the existing grant allocation

6. NHS Funding pooled arrangements – £2bn available through the NHS to join up local health and social care services and £335m for councils to prepare for reforms to the system of care funding.

Other announcements:

7. Announcements on council tax freeze grants being available in 2014/15 and 2015/16 if council's opt to freeze council tax in those years. The grant would be the equivalent of 1% council tax increase; and
8. Introduction of Universal Credit and associated impact with the housing administration and benefit grant.

8.2 An update of items included in the medium term financial plan for 2014 is being finalised to take account of any changes that have since materialised. Key assumptions are as follows:

Key Assumptions:

1. Government continues in its commitment to reducing Local Government Funding. The Spending Review 2010 reduced funding by 28% in real terms (24% cash terms). Subsequently, government have continued to reduce local government funding including specific grants such as new homes bonus and education support grant beyond the SR 2010 announcement. The change to local government funding arrangements from 2013/14 allows council's to retain a proportion of locally raised business rate income. NHS funding that may be available to local government in partnership with the health sector increases. There is currently no impact from the Dedicated Schools Grant included in the budget proposals. Changes to grants currently under review will be modelled and included as appropriate. The existing budget strategy is as follows:

	2013/14 £k	2014/15 £k	2015/16 £k	2016/17 £k	2017/18 £k	2018/19 £k
Schools Funding	133,388	133,388	133,388	133,388	133,388	133,388
Business Rates Baseline	36,701	37,826	38,583	39,354	40,141	40,944
Revenue Support Grants	55,166	45,801	44,510	42,560	41,773	40,971
Other Grants	27,120	29,355	29,422	30,634	30,737	30,796
Benefit Grants	70,202	70,202	70,202	70,202	70,202	70,202
Total Funding	322,577	316,572	316,105	316,139	316,241	316,301

2. The following inflation is assumed in the current budget strategy:

- a. Pay inflation has been assumed at 1.0% per annum from 2014/15 onwards.
- b. Pension inflation has been assumed at 2.0% of pay per annum
- c. General inflation has been included at 1% per annum, gas and electricity at 3.5% per annum and water at 3.0% per annum.
- d. Outsourced council services inflation is included in accordance with the contract arrangements with the providers and is dependent on the council's costs. On average across all contracts inflation is @ 2% per annum.
- e. Fees and charges – The current budget strategy published proposed fees and charges increases for 2014/15 and 2015/16 with an overall increase in income of 2.3% and 2.4% respectively.

3. Interest rates used are based on the latest information available from our treasury advisors (August 2013). The table below shows the interest rates received on deposits and payable on borrowing for the next ten years.

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20 Onwards
Borrowing Rates (50 years)	4.33%	4.55%	4.95%	5.18%	5.20%	5.20%	5.20%
Interest Rates	0.50%	0.50%	0.50%	0.69%	1.00%	1.00%	1.00%

4. Following the introduction of the localisation of council tax benefit from 1 April 2013, the council tax base calculation requires an adjustment to reflect the council's council tax benefit scheme as reflected in setting the current budget strategy. The existing budget strategy assumes the following:

MTFS 2013 new base	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Council Tax Base - Band Ds	50,158	50,966	51,547	52,131	52,722	53,318
% increase from previous year		1.6%	1.1%	1.1%	1.1%	1.1%

5. The existing budget strategy assumes a 2.0% council tax increase per annum.

- 8.3 The figures will be updated accordingly during the budget setting process, before final approval by council in setting the 2014/15 budget and medium term financial plan.
- 8.4 The budgets that departments prepare in 2014/15 will contain only inflation and previous budget decisions in prior medium term financial plans. 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 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 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 there the council has to provide services if vulnerable people need support, 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:

1. Local Government Funding Settlement 2014/15 and 2015/16
2. New Homes Bonus and the Local Growth Fund
3. Proposals for the use of capital receipts from asset sales to invest in reforming