

<b>CABINET</b>	<b>AGENDA ITEM No. 9</b>
<b>22 SEPTEMBER 2014</b>	<b>PUBLIC REPORT</b>

Cabinet Member(s) responsible:	Councillor David Seaton, Cabinet Member for Resources	
Contact Officer(s):	John Harrison, Executive Director Resources Steven Pilsworth, Head of Strategic Finance	Tel. 452520 Tel. 384564

## **MEDIUM TERM FINANCIAL STRATEGY 2015/16 TO 2024/25**

R E C O M M E N D A T I O N S	
<b>FROM :</b> Executive Director Resources	<b>Deadline date :</b> 12 September 2014
<p>That Cabinet:</p> <ol style="list-style-type: none"> <li>1. Note the financial pressures in the current financial year, the continuing work by CMT to deliver a balanced budget, and that the financial pressures widen the budget gap in 2015/16.</li> <li>2. Note that the current local government funding consultation and continued uncertainty on future years' government funding for local authorities increases the uncertainty of the council's medium term financial strategy.</li> <li>3. Approve the approach proposed for the budget process, including provisional resource cash limits, and that Cabinet will agree the approach to consultation with the cross party Budget Working Group, exploring the options to commence consultation at the earliest opportunity.</li> </ol>	

### **1. ORIGIN OF REPORT**

- 1.1 This report is submitted to Cabinet following discussion 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 within the Annual Budget Framework that requires Cabinet to consider the council's budget and financial strategy and to set provisional cash limits for the forthcoming year.
- 2.2 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 national issues which will need consideration within the medium term financial strategy for 2015/16 onwards, including funding consultations
  - to outline the approach to the budget process and budget consultation
- 2.3 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.

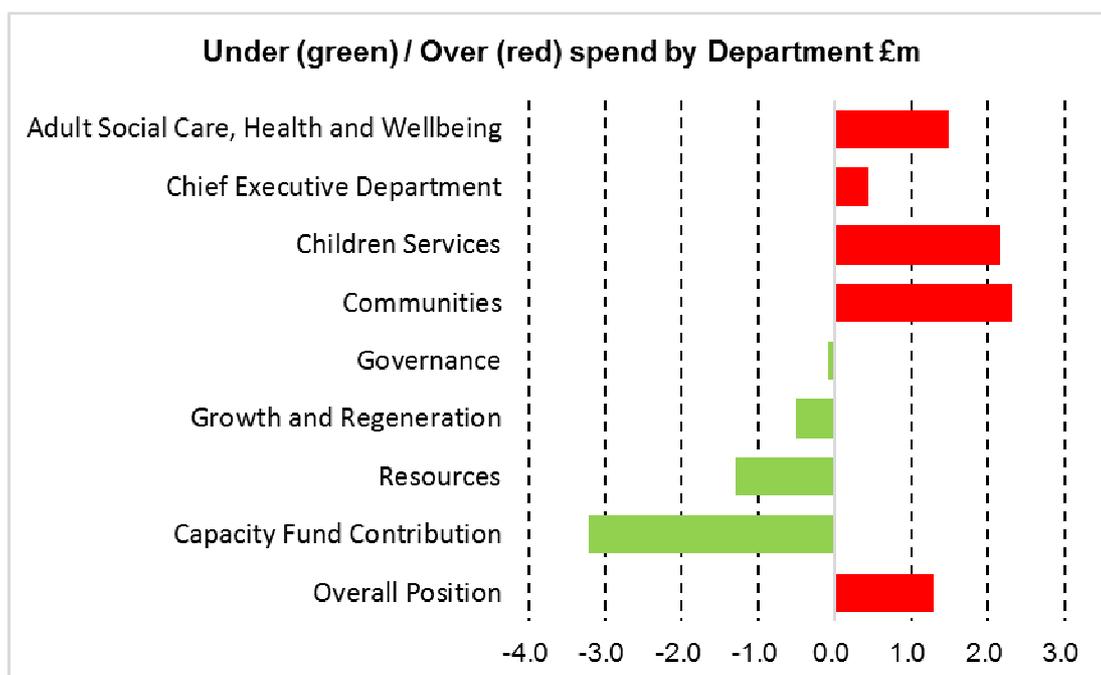
### **3. TIMESCALE**

Is this a Major Policy Item/Statutory Plan?	Yes	If Yes, date for relevant Cabinet Meeting	22 September 2014
Date for relevant Council Meeting	4 March 2015	Date for submission to Government department	10 March 2015

#### 4. BUDGET 2014/15 AND CURRENT POSITION

##### Revenue

- 4.1 The approved budget for 2014/15 is £149.9m. Based on reported departmental information as at 31 July 2014, forecast spend is £154.4m, before inclusion of a one off contribution from the capacity fund of £3.2m as agreed by Cabinet on 30 June 2014. As a result, if no further action is taken to bring the budget back into balance, the potential overspend for this financial year would be £1.3m. The graph below illustrates by department the outturn position with further breakdown provided in appendix A.



- 4.2 Since the budget was set by Council on 5 March 2014 for 2014/15, the council has seen a variety of pressures against those budget plans. It has identified savings to mitigate the pressures, albeit the majority of the savings are one off actions. The key variances are summarised in appendix A, and continue to be reviewed to identify whether these are one off issues or will continue into future financial years as part of setting the budget strategy.
- 4.3 Since setting the budget for 2014/15, CMT have received regular updates on the in-year budget position including tracking the delivery of savings approved as part of the budget and management of identified budget risks. This information has been shared and discussed with Cabinet and the Budget Working Group as part of setting next year's budget. CMT continue to identify and implement specific actions to produce in year cost reductions to bring the current forecast overspend position back in line with budget.
- 4.4 Where these actions require Cabinet (or indeed Council) approval, they will be brought forward as soon as possible for approval. The Council has a good track record in recent years of managing financial pressures, and would expect to deliver proposals to balance the budget by year end.

##### Capital

- 4.5 The capital programme approved for 2014/15 within the MTFs was £260.8m and increased to £285.0m as a result from delays in projects from 2013/14 as summarised in the financial report to Cabinet in June 2014. Since the beginning of the financial year, there has been a further reduction in expected spend to £273.5m as at 31 July 2014. This is mainly due to a revision to the schools programme and deferring the affordable homes budget based on current schemes. The spend to date is £23.8m with further spend to the end of the financial

year still to be incurred of £249.7m if there is no change to the continuation of capital projects.

- 4.6 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. A list of schemes currently underway is included in Appendix B.
- 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. The latest forecast is included within appendix B.
- 4.8 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 March 2015. The split of the receipts over this status is:

<b>RAG Status</b>	<b>Amount Originally Expected (£000)</b>	<b>Updated figures (£000)</b>	<b>Received (£000)</b>	<b>Still to receive (£000)</b>
<b>Red</b>	1,800	400	0	400
<b>Amber</b>	6,884	6,699	0	6,699
<b>Green</b>	1,080	1,901	762	1,139
<b>Total</b>	<b>9,764</b>	<b>9,000</b>	<b>762</b>	<b>8,238</b>

## 5. LOCAL GOVERNMENT FUNDING ARRANGEMENTS

- 5.1 Government announced an illustrative settlement funding assessment for the Council for 2015/16 as part of the final 2014/15 funding settlement. This was based on announcements made by the Chancellor of the Exchequer during this parliament to date. Local government funding levels beyond this Parliament have not been announced, but is clear from all main parties that there will be further reductions in public spending. There remains considerable uncertainty over the scale of these reductions.
- 5.2 The recent summer technical consultation for the local government funding settlement 2015 to 2016 does not propose to make changes that would alter the current government funding assumptions included in the council's medium term financial strategy for 2015/16. The consultation mainly reaffirms the local government funding measures as previously announced and therefore only proposes a few technical changes as follows:

<b>Technical consultation proposal</b>	<b>Impact on council funding in MTFS</b>
1) Continued compensation for the reduced income from business rates as a result of the 2% cap on the small business rates multiplier announced at Autumn Statement 2013	No change - the council will continue to receive a S31 grant in 2015/16 to compensate for loss of business rate income through this measure.
2) Transfers of functions into the settlement. a) Continued protection for authorities which froze council tax in 2014/15 b) Efficiency support grant c) Rural service delivery grant	No change - the council assumed that it would continue to receive protection for freezing council tax in 2015/16 based on government announcements earlier this year. This grant was previously included in the MTFS 'Other Grants' section and will now be moved into the Revenue Support Grant section. The other two grants were not applicable to Peterborough.
3) Transfers of funding out of the settlement - Carbon Reduction Credits Energy Efficiency Scheme adjustment	No change – the council remains above the threshold for phase 2 after removing state schools from participation in the scheme. However the Council is concerned that this sets a precedent for future rounds, when the council would expect to drop below the threshold due to the energy efficiency projects it is implementing.

- 5.3 The consultation also makes the following comment on other aspects of local government funding that the council will continue to review and assess implications on the council's budget:

*1.1.9 Other aspects of future local government funding, including in particular the new burdens funding for the administrative changes required by the localisation of council tax support, will be discussed with the local government sector over the coming months. The Department for Health will also be formally consulting in parallel on the development of the formula for funding deferred payments for adult social care and assessment for the cap on payment for care, following the Care Act 2014.*

- 5.4 The consultation confirms that the provisional settlement for 2015/16 'will be issued in the usual manner at the end of 2014. We will consult on proposals for the 2016/17 settlement in the light of the Budget and Spending Review.' Based on this information, this suggests that the settlement will be received in late December, and consideration will need to be given on the council's budget consultation process for 2015/16 budget setting.
- 5.5 The council will submit a response to continue to raise concerns over local government funding. The draft 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.
- 5.6 CIPFA and the Local Government Association have created an Independent Commission to develop reforms to address key challenges and spending reductions impacting on local government. Over summer, as part of Independent Commission's review, local authorities have been asked to submit comments and practical suggestions on a range of government policies impacting on local government funding. Given the timescales, the council has submitted a general response (appendix C) but made an offer that it would be interested in feeding into some specific issues in more detail on their next stage of work to ensure the Councils issues are reflected.
- 5.7 The council is also a member of the key cities group. The key cities group is a collection of 23 small and medium sized cities from across England. Together they account for 11 percent of business and 13 percent of all jobs in England, and contribute £134 billion to the national economy. This means that key cities are large enough to play a considerable role in the national economy, but are also small enough to act as a test bed for new policy. As such the group is lobbying for greater devolution and increased financial autonomy from central government, in particular to assist the next government by working in partnership and trial different projects across their cities.

## 6. OVERVIEW AND FUTURE BUDGET PROSPECTS

- 6.1 At its meeting in March 2014, the council approved the ten year financial strategy for the years 2014 – 2024. The following table is a reminder of the budget strategy for the five financial years from 2015/16 onwards and has been refreshed to include known budget pressures arising during 2014/15 that continue into future financial years as outlined in the section 4 of this report. It does not include any new pressures arising from 2015/16, for example financial implications of implementing the Care Act.

	2015/16 £k	2016/17 £k	2017/18 £k	2018/19 £k	2019/20 £k
Budget Deficit b/fwd	17,603	22,236	23,593	26,107	28,610
In-year Pressures (2014/15)	4,399	4,538	5,132	5,465	5,948
<b>Budget Deficit (Expenditure budgets exceed funding estimates)</b>	<b>22,002</b>	<b>26,774</b>	<b>28,725</b>	<b>31,572</b>	<b>34,558</b>

- 6.2 The council will need to identify and implement at least £22m of savings in 2015/16 to deliver a balanced budget. Expenditure estimates will be refreshed in line with assumptions outlined in section 8 below.
- 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, cohesive and healthy

## **7. BUDGET SETTING APPROACH**

7.1 The council 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. In a change to previous years' budgets setting approach, Cabinet will work with the cross party Budget Working Group to seek views on all budget proposals and to see if any alternative options should be considered.

Cabinet continues to hold 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 2014/15 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 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 ensuring that decisions made reflect these community views. The Council has two key statutory deadlines it must meet:

- The council tax support scheme must be approved by the end of January
- The budget and council tax must be approved by 11<sup>th</sup> March

In accordance with the council's constitution, the consultation process will be included in the Forward Plan no later than the provisional settlement announcement and will be published at least one month before the budget is adopted in March 2015. Cabinet in conjunction with the cross party Budget Working Group will determine the consultation process to be followed, exploring the options to consult on the budget at the earliest opportunity.

## 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. An update of items included in the medium term financial plan for 2015 is being finalised to take account of any changes that have since materialised. Key assumptions are as follows:

### Key Assumptions:

1. The funding assumptions in the existing budget strategy is shown in the next table and will be refreshed as part of setting the budget.

	2015/16 £k	2016/17 £k	2017/18 £k	2018/19 £k	2019/20 £k
Revenue Support Grant	-33,172	-30,229	-29,424	-28,602	-27,765
Business Rates (Baseline + tariff + 2013/14 growth)	-46,191	-48,176	-49,154	-50,116	-51,096
Council Tax	-58,252	-60,091	-61,987	-63,943	-65,958
Parish Precept	-445	-445	-445	-445	-445
<b>Net Revenue Budget</b>	<b>-138,060</b>	<b>-138,941</b>	<b>-141,010</b>	<b>-143,106</b>	<b>-145,264</b>
Other Grants	-32,186	-31,503	-31,395	-31,220	-31,108
<b>Total sources of funding (excluding school funding)</b>	<b>-170,246</b>	<b>-170,444</b>	<b>-172,405</b>	<b>-174,326</b>	<b>-176,372</b>

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

- a. Pay inflation has been assumed at 1.5% in 2015/16 increasing to 2.5% per annum from 2016/17 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 2015/16 with an overall increase in income of 2.4%.

3. Interest rates used are based on the latest information available from our treasury advisors (July 2014). The council successfully applied to be one of the principal local authorities that would qualify for the Certainty Rate, during the period 1 November 2013 to 31 October 2014. 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. The table below shows the interest rates payable on borrowing and received on lending for the next ten years.

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21 Onwards
Borrowing Rates (50 years) - Published	4.55%	4.90%	5.08%	5.20%	5.20%	5.20%	5.20%
Reduced borrowing rate applied	-0.20%	-0.20%	-0.20%	-0.20%	-0.20%	-0.20%	-0.20%
net borrowing rate for the Council	4.35%	4.70%	4.88%	5.00%	5.00%	5.00%	5.00%
Interest Rates - lending	0.56%	1.00%	1.63%	2.00%	2.00%	2.00%	2.00%

4. The existing budget strategy assumes the following council tax base:

	2015/16	2016/17	2017/18	2018/19	2019/20
Council Tax Base - Band Ds	51,640	52,226	52,817	53,415	54,019
% increase from previous year		1.1%	1.1%	1.1%	1.1%

5. The existing budget strategy assumes a council tax freeze in 2015/16, increasing by 2.0% per annum from 2016/17 onwards for budget planning purposes.

8.2 The figures will be updated accordingly during the budget setting process, before final approval by council in setting the 2015/16 budget and medium term financial strategy.

8.3 The budgets that departments prepare in 2015/16 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 detailed 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 continues to be a significant risk to the council with insufficient detail from government beyond 2015/16. The present MTFs funding assumptions assume that the settlement funding assessment will remain static in that reductions in revenue support grant will be offset by baseline business rate increases. 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.
- Government grants such as new homes bonus, education support grant, council tax administration support, public health grant and other grants account for £32m in council funding during 2015/16. The council continues to review and use local intelligence on assessing the continuation of these grants to support the general fund (it has recently been confirmed that public health grant will be frozen for 2015/16).
- Business rates forecasts – future year forecasts do not include an increase in business rate income realised through growth, in part due to the infancy of the business rate retention scheme and managing the risk of collecting business rate income and outcome of appeals. There remains some significant appeals outstanding with large supermarkets and the pending Land Tribunal case on the power station due to be heard later this year. The power station appeal has the potential to cause significant variations in business rate income which is being monitored by the council. The council has no control over the outcome of appeals. The council is modelling growth forecasts for business rate income.
- Implementing new burdens, for example the implementing the Care Act in 2015/16. The funding provided by government may not be sufficient to cover these costs. The council is assessing implications.

- Wind and solar - The council is pursuing wind and solar energy and income generation that will deliver savings to the council in future. The net income has been built into the budget. The council has assumed a twelve month delay in the MTFS of the existing projects to allow time for appropriate discussion and approvals to be sought. The schemes are currently being reviewed by Scrutiny and a Member working group. Any further delay or stopping of these projects, the council will need to find alternative savings to offset any reduction in income. If the projects do not proceed, then the budget gaps the council face will widen. The net income for 2016/17 is nearly £1m, increasing to over £4m in 2017/18. The council would also face having to write off development costs.
- 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.
- Council tax support scheme requires the Council to meet the costs of any increase in the level of support being paid.
- Capital financing estimates are developed using latest forecasts of interest rates for MTFS (which allow for a level of increase and assume continuation in 2015/16 of a scheme allowing the council to benefit from a reduction in borrowing rates). If interest rates increase beyond forecast levels then a review of the capital programme and debt portfolio will be required.

10.2 The level of reserves held by the council will have regard for the risks included within this section, and will be formally reported on as part of the MTFS.

## **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 An alternative option would be 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. The current MTFS for 2015/16 estimated a budget gap of £17.6m, as outlined earlier in the report, the council must set a balanced budget.

## **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

Local government finance settlement 2015 to 2016: technical consultation – website link:  
<https://www.gov.uk/government/consultations/local-government-finance-settlement-2015-to-2016-technical-consultation>

**Appendix A – Forecast Outturn 2014/15 based on departmental information as at 31 July 2014**

<b>New Department (showing previous department and service area)</b>	<b>Budget £k</b>	<b>Spend £k</b>	<b>Variance £k</b>
<b>ADULT SOCIAL CARE, HEALTH AND WELLBEING</b>			
Directors Office	472	472	0
Care Services	6,094	7,292	1,198
Independent Sector Placements	35,353	35,447	94
Quality and Information	967	1,188	221
Finance and Organisational change	-2,172	-2,185	-13
<b>TOTAL ADULT SOCIAL CARE, HEALTH AND WELLBEING</b>	<b>40,714</b>	<b>42,214</b>	<b>1,500</b>
<b>CHIEF EXECUTIVE'S DEPARTMENT</b>			
Chief Execs Office	338	338	0
Chief Execs Departmental Support	130	130	0
Commercial Operations	-1,427	-997	430
<b>TOTAL CHIEF EXECUTIVE'S DEPARTMENT</b>	<b>-959</b>	<b>-529</b>	<b>430</b>
<b>CHILDREN SERVICES</b>			
Social Care	8,721	10,880	2,159
<b>TOTAL CHILDREN SERVICES</b>	<b>8,721</b>	<b>10,880</b>	<b>2,159</b>
<b>COMMUNITIES</b>			
Strategy, Commissioning and Prevention	17,214	18,673	1,459
Strategic Commissioning (adult social care)	3,585	3,884	299
Communities and Targeted Services	4,335	4,897	562
Public Health	-2,170	-2,170	0
<b>TOTAL COMMUNITIES</b>	<b>22,964</b>	<b>25,284</b>	<b>2,320</b>
<b>GOVERNANCE</b>			
Legal and Governance	4,881	4,671	-210
Communications	562	682	120
Human Resources	865	865	0
Neighbourhoods	636	634	-2
<b>TOTAL GOVERNANCE</b>	<b>6,944</b>	<b>6,852</b>	<b>-92</b>
<b>GROWTH AND REGENERATION</b>			
Growth and Regeneration	900	900	0
Planning Transport and Engineering	13,422	12,908	-514
<b>TOTAL GROWTH AND REGENERATION</b>	<b>14,322</b>	<b>13,808</b>	<b>-514</b>
<b>RESOURCES</b>			
Director's Office	199	223	24
Corporate Services	21,486	19,122	-2,364
Environment Capital	-368	-368	0
Internal Audit	295	295	0
Insurance	41	41	0
Strategic Client Services	5,178	5,178	0
Peterborough Serco Strategic Partnership	8,822	8,822	0
ICT	3,832	3,832	0
Waste and Operational Services Management	13,326	13,326	0
Cultural Services	3,574	3,574	0
Registration and Bereavement	-1,077	-1,093	-16
Westcombe Engineering	7	7	0
Childrens Resources	1,424	2,479	1,055
School Transport	446	448	2
<b>TOTAL RESOURCES</b>	<b>57,185</b>	<b>55,886</b>	<b>-1,299</b>
<b>TOTAL GENERAL FUND</b>	<b>149,891</b>	<b>154,395</b>	<b>4,504</b>
Contribution from capacity fund			-3,219
<b>Forecast Financial Position - Overspend</b>			<b>1,285</b>

### **Adult Social Care, Health and Wellbeing - £1.5m overspend**

- This includes one off project costs and interim support to support the delivery of an adult social care transformation programme and as reported to June Cabinet will be partly offset by a one off contribution from the capacity fund.
- The remaining pressure of £0.2m relates to a recent legal case, known as the West Cheshire judgement and is best outcome estimate. This means that Deprivation of Living (DOLS) assessments now need to be applied in domestic settings, such as extra care and supported living. Previously they were restricted mainly to residential and hospital settings. The costs could be higher dependent on national announcement on implications and this is currently being flagged as a risk. This issue will continue into future financial years.

### **Chief Executive Department - £0.4m overspend**

- Achieving income budgets within commercial operations is a challenge for the council, with a current forecast shortfall of £0.3m on car parking income and £0.1m on market income. An assessment of income budgets and service delivery is underway to mitigate income shortfalls in the current year and future financial years.

### **Children Services - £2.2m overspend**

- Demand for children social care services and the complexity of the cases has increased within Peterborough meaning that the demand for these services is over and above the budget and will impact on future years. These costs relate to the recruitment and retention of social workers including agency social workers to meet increased workloads, essential to support vulnerable children.

### **Communities - £2.3m overspend**

- The increased demand in children social care cases within Peterborough increases pressure on providing placements for children coming into local authority care resulting in an overspend of £1.4m. The council has a statutory duty to provide care.
- Staff costs relating to increased demand for respite care at Cherry Lodge and Manor is resulting in an overspend of £0.1m.
- The continued costs of supporting independent living clients within adult social care supporting people budget is £0.2m overspent and places a pressure on budgets in future financial years.
- Adult social care commissioning services indicates a £0.3m overspend related to the provision of mental health employment services, demographic pressures and the delay in reviewing provision of transport arrangements.

### **Governance - £0.1m underspend**

- The Coroners and Justice Act 2009 requires the council to employ a medical examiner. There has been a delay nationally in implementing the reforms and therefore there is a one off saving in 2014/15 of £0.2m.
- The council held local elections around the same time as the European elections during May 2014. A one off saving of £0.1m has arisen following a reimbursement of costs for the European elections.
- Following the 2014 elections, the costs of current Members has not increased, a one off saving of £0.1m has been confirmed. Savings in future financial years is dependent on the annual review of the members allowance scheme and may be impacted by the result of the local elections.

### **Growth and Regeneration - £0.5m underspend**

- The majority of underspend (£0.4m) relates to a contract saving mechanism within the concessionary fares budget which is not due for review until 2016 and demand and increased costs being lower than budgeted for.

### **Resources - £1.3m underspend**

- Since the budget was set, the funding assumption for the adoption reform grant has reduced resulting in a pressure of £0.6m on the council's financial position.

- The support and education budgets transferred into the Resources department during 2013/14. Some of the budgets are demand led resulting in pressures in the following areas:
  - An increase in home to school transport provision requirements for secondary schools places is forecasting an overspend of £0.2m.
  - An overspend of £0.2m on the secondary school public finance initiative (PFI) contract energy costs being in excess of inflationary increases.
  - Increased demand for services to support children social care including business support and legal services.
- A refresh of the capital programme projects since the budget was set coupled with a reduction in forecast interest rates for the remainder of this year and borrowing requirements impacting on the minimum revenue provision has identified a one off underspend of £2.3m. The ongoing capital programme will be reviewed as part of the annual budget setting process.

## Appendix B – Capital Monitoring Report as at 31<sup>st</sup> July 2014

Capital Programme by Directorate	Budget 01/04/2014 £000	Budget as at 31.07.14 £000	Actual Expenditure £000
Governance	68	68	1
Chief Executives	672	671	0
Adult Social Care	3,062	1,569	13
Communities	4,752	4,661	1,039
Growth & Regeneration	46,496	44,256	3,967
Resources	110,803	103,716	18,097
Resources - Renewable Energy	26,200	26,200	194
Invest to Save	92,920	92,322	508
<b>Total</b>	<b>284,973</b>	<b>273,463</b>	<b>23,819</b>
<b>Financed by:</b>			
Grants & Contributions	37,081	36,786	9,169
Capital Receipts	9,764	9,100	762
Borrowing	238,128	227,577	13,888
<b>Total</b>	<b>284,973</b>	<b>273,463</b>	<b>23,819</b>

The following schemes are currently utilising Invest to Save funds in 2014/15:

The first Phase of Energy Saving Projects with a total Invest to Save budget of £2.0m were started at the end of 2013/14 which included the following Council Properties:

- Jack Hunt Swimming Pool
- Bushfield Sports Centre
- Regional Pool
- Central Library
- City Market
- Multi Storey Car Park
- Town Hall
- John Mansfield

There are two main types of proposals:

- Energy conservation measures (ECM's) – the savings generated more than offset the costs of delivering the scheme, and each project makes a surplus
- Pool Filters – these are schemes that the Council needs to undertake across its pools, and has made appropriate budgetary provision for this work. The energy savings do not fully offset the investment costs, but as the Council has budget for the works, all of the energy savings contributes towards the MTFS targets

A summary of these proposals can be seen below:

	Total cost (inc. borrowing and mtce)	cost saving	net
	£k	£k	£k
ECM's	1,835	2328	493
Pool filters	1,350	585	-765

The overall contribution to the Councils MTFS is £1.078m (ECM net surplus of £493K plus the pool filter savings of £585K). In addition should the guaranteed savings figure be exceeded to the levels expected by Honeywell then the savings could increase by £210k. The council will also save significant future maintenance costs by replacing the pool filters at this stage (estimated to be around £1.2m of cost avoidance).

The second Phase of Energy Saving Projects with a total Invest to Save budget of £0.7m were agreed in 2014/15 which includes the following Council and School Properties:

- Kingfisher Centre
- Regional Pool – Combined Heat and Power Unit

The total capital cost of these schemes is £359k. With borrowing costs and maintenance the total costs over the life of the projects will total £860k. The return generated will total £1,037k, meaning a net return for the council of £177k.

There are a further 8 Invest to Save projects which have been agreed which involve installing Solar Panels on the following eight Council properties:

- 49 Lincoln Road
- Museum
- The Grange Pavilion
- Chauffeurs Cottage
- Central Library
- Embankment Pavilion
- Peters Court
- 441 Lincoln Road

The total capital cost of these schemes is £248k. With borrowing costs and maintenance the total costs over the life of the projects will total £351k. The return generated will total £900k, meaning a net return for the council of £549k.

In addition to the invest to save schemes outlined above, three schools have commissioned replacement boilers under the ENPC framework agreement, funded through the children services asset management plan capital budget. This will improve energy efficiency for the schools. The schools will pay the council the energy savings resulting from the works and will enter into a separate agreement confirming this is the case.

## **Appendix C – Council response to Independent Commission – Call for Evidence**

### **Peterborough City Council response – Independent Commission on Local Government Finance – Call for Evidence**

Peterborough City Council welcomes the opportunity to feed into the Independent Commission's work on Local Government Finance. The council has for several years lobbied and raised concerns with government on the fairness of the formula grant methodologies and other government grants to support provision of local government services. Peterborough's continued significant population growth and previously held back funding through clawed back arrangements in previous finance systems that is now locked into the baseline make it challenging for the council to fund essential services.

The council has often been at the forefront within local government to deliver efficiencies and has a successful track record to demonstrate this. However the Council is reaching the stage where options for further efficiencies have been exhausted. The growth in business rates alone will not be sufficient for council's like Peterborough experiencing unprecedented population growth to provide all services without further service reductions.

The council would like to be involved in further contributions and possibly feed into some specific detailed issues that the Independent Commission has sought views on that has not been possible on this occasion. The response below therefore provides general comments on the local government finance system.

#### **Strengths and weaknesses**

- *The strengths and weaknesses of the current local government finance system*

The crux of the issue still remains, distributing limited resources fairly across all local authorities will still create winners and losers and there will therefore nearly always be differing views with regard to the current local government finance system.

The council was supportive of the move towards localised business rates. We included within our responses the belief, that whilst the principle was sound, there was a fundamental weakness in that the proportion of business rates retained locally coupled with the levy mechanism means that Councils see too little of the potential benefit. The council believes that this acts as a disincentive to growth and it would be a greater incentive if the council could retain significantly more than half of locally raised business rate income helping to bring forward business cases and viable projects to deliver growth working with the businesses and investors.

The timing of finance settlement announcements over recent years has become later and later increasing the challenge for local authorities to consult and remain accountable to its businesses, residents and staff. This encourages short term decision making and hinders the council's approach to longer term planning. This issue is further highlighted with the announcement of further grant reductions in 2015/16. Delivering transformational change to services with this level of grant reduction requires a lead time to implement change effectively. If efficiencies are to be delivered through partnership arrangements or alternative delivery models, effective decision, planning, negotiation and procurement processes must be coupled with sufficient lead time to ensure sustainability of future service delivery.

An existing strength of the finance system is the provision of the New Homes Bonus grant and continues to believe that this funding should be retained by the council whilst continuing to work with the Local Enterprise Partnership. The council has embraced the growth agenda and committed to building 25,000 homes by 2026. Peterborough has continued to facilitate dwelling growth despite the challenges of the economic downturn. The council is well placed to deliver housing growth and has appropriate planning mechanisms in place to continue to drive forward the growth agenda, identifying revenue and capital investment as part of its medium term financial plan. For Peterborough experiencing significant population growth and the amount held back in previous years of government funding, fully utilises the New Homes Bonus grant received to help provide services to support growth and meet the costs associated with providing services. Any attempt to unwind the New Homes Bonus grant mechanism would have significant implications.

### **Problems and Opportunities / Potential Reforms**

- *The problems and opportunities it creates in tackling the challenges (economic growth, housing supply, welfare that encourages people into work and provides effective social protection, affordable health and social care, and early support to families and children)*
- *Potential reforms that would make it easier to tackle these challenges*

Peterborough is well placed to support economic, housing and business growth and this is evidenced by Peterborough's strength during the economic downturn performing above national average on growth. The majority of the benefit in delivering growth does not result in additional direct funding for the council but does contribute towards central government through taxation. An opportunity exists for government to review taxation policy alongside business rates to allow local authorities to retain greater benefits locally to support economic growth and would welcome an increase in the 50% local share of retained business rates.

However, Peterborough does have continued significant challenges in above average population increase, demand for adult social care and children social care services, and demand for housing and welfare support.

### **Solutions**

- *Specific practical solutions for changing the system that can be implemented by an incoming government from May 2015*
- An increase in the local share of business rates
- A spending review that covers the next parliament and a commitment from government to provide stability in formula grant announcements that support robust local decision timeframes and longer term planning
- A commitment from government that the New Homes Bonus will continue to be distributed to local authorities and the continuation of the policy. If this policy is withdrawn then this funding should be returned to local authorities in its entirety based on current grant allocations as an increase in local share of business rates to protect medium term plans. Any surplus grant should also be returned to local authorities.