

<b>CABINET</b>	<b>AGENDA ITEM No. 9</b>
<b>26 SEPTEMBER 2016</b>	<b>PUBLIC REPORT</b>

Cabinet Member(s) responsible:	Councillor David Seaton, Cabinet Member for Resources	
Contact Officer(s):	John Harrison, Corporate Director: Resources	Tel. 452520

**MEDIUM TERM FINANCIAL STRATEGY AND BUDGETARY CONTROL REPORT – JULY 2016**

RECOMMENDATIONS	
<b>FROM :</b> John Harrison, Corporate Director: Resources Steven Pilsworth, Service Director: Financial Services	<b>Deadline date :</b> N/A
<p>That Cabinet notes:</p> <ol style="list-style-type: none"> <li>1. The financial pressures in the current financial year and the continuing work by CMT to deliver a balanced budget;</li> <li>2. The forecast budget gap for the financial year 2017/18 and onwards, and the key assumptions currently included in the MTFs forecast; and</li> <li>3. The proposed report to Council on October 12 that recommends updates to the Budget and Policy Framework to reflect the Council’s approach to a two-phase budget process.</li> </ol>	

**1. ORIGIN OF REPORT**

1.1. This report is submitted to Cabinet following discussion by the Corporate Management Team (CMT), Cabinet Policy Forum, and the cross-party Budget Working Group.

**2. PURPOSE & REASON FOR REPORT**

2.1. This report comes to Cabinet as part of the Council’s agreed process within the Budget and Policy framework that requires Cabinet to initiate and consider financial strategy and budget proposals in order to set a balanced budget for the forthcoming financial year.

2.2. This report:

- Provides Cabinet with a quarterly update of the Budgetary Control position (however, the information has been updated to 31 July 2016 to give the latest position); and
- To set out the proposed process and timetable for the 2017/18 budget process including dates for the ‘budget conversation’ with the public.

2.3. This report is for Cabinet to consider under its Terms of Reference No. 3.2.1 ‘To take collective responsibility for the delivery of all strategic Executive functions within the Council’s Major Policy and Budget Framework and lead the Council’s overall improvement programmes to deliver excellent services’ and 3.2.5 ‘To review and recommend to Council changes to the Council’s Constitution, protocols and procedure rules’.

**3. TIMESCALE**

Is this a Major Policy Item/Statutory Plan?	<b>Yes</b>	If Yes, date for relevant Cabinet Meeting	<b>26/09/2016</b>
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Date for relevant Council meeting	<b>12/10/2016</b>	Date for submission to Government Department	<b>N/A</b>
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#### 4. JULY BUDGET POSITION

- 4.1. The approved revenue budget for 2016/17 is £145m. The year-end outturn, based on reported departmental information as at end of July 2016, is currently forecast to be a £1.8m overspend.
- 4.2. At present a transfer to the Grant Equalisation reserve of £3.5m is included for capital receipts that were identified during the budget setting exercise and due in 2016/17.
- 4.3. In addition to a departmental level analysis, a line has been added to highlight any changes in the Council's financing throughout the year (e.g. changes to business rates, grants etc.)

Department	Budget 2016/17 £k	Actual Spend to date £k	Forecast Spend 2016/17 £k	Variance 2016/17 £k
Chief Executives Dept	279	101	277	-2
Governance	6,114	1,269	6,290	176
Growth and Regeneration	12,321	1,569	11,553	-768
People and Communities	73,830	24,660	76,154	2,324
Public Health	-78	-2,110	-78	0
Resources	52,083	7,792	48,685	-3,398
Contribution to GE reserve - Capital receipts	0	0	3,485	3,485
Financing	-144,549	-13,203	-144,549	0
<b>Overall position</b>	<b>0</b>	<b>20,078</b>	<b>1,817</b>	<b>1,817</b>

- 4.4. One of the Council's key pressures is a rise in the number of families presenting as homeless and requiring support.
- 4.5. It should be noted that the £3.5m Contributions to Grant Equalisation Reserve does not represent a genuine budget pressure but is actually related to the delayed realisation of capital receipts due to be contributed to reserve in the 15/16 financial year.
- 4.6. Any additional savings realised from existing budget items will be taken straight to the grant equalisation reserves to underpin the budget in future years.
- 4.7. The Council already has measures in place to control spending and staffing. Specific actions brought forward include:
- Options for mitigating pressures on the Council's homelessness budgets; and
  - Bids to secure additional external funding.
- 4.8. CMT is committed to taking management action to ensure that the budget position is balanced by the end of the financial year, and have taken a prudent view when monitoring the budget position.
- 4.9. Further information is provided in appendices A, B and C, which show the forecast for each service area, an explanation of key budget variances (those over £100k) and risks that have been identified.
- 4.10. CMT regularly receives updates on the in-year budget position. This information is shared and discussed with Cabinet and Budget Working Group as part of the process to formulate next year's budget proposals.

## Asset Investment Plan 2016/17

- 4.11. The revised Asset Investment Plan budget as at July 16 is £230.5m, which includes £116.5m for Invest to Save (I2S) Schemes. The agreed investment as per the Medium Term Financial Plan (MTFS) was £156.7m. The movement between the MTFS position and the £238.3m as at April 16 was a result of slippages mainly due to delays completing projects from 2015/16.
- 4.12. The actual investment expenditure as at July 16 is £13.2m (17.2% of the revised budget to date). The latest forecast provided by project managers predicts an overall spend of £227.7m, therefore the Council is expecting to spend a further £214.5 m before March 17.
- 4.13. The I2S budget is for schemes that must cover the cost of borrowing and minimum revenue provision (MRP) from either income generation or from generated savings.
- 4.14. The Asset Investment Plan can be 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. For the 2016/17 MTFS onwards the approved strategy is to use Capital Receipts as part of a contribution to the Minimum Revenue Provision (MRP) therefore they are no longer factored into the funding of the Asset Investment.
- 4.15. The following table shows the breakdown of the Council's Asset Investment over the directorates and how this investment is to be financed.

Directorate	MTFS Budget £000	1st April Budget £000	Revised Budget (Full Year) £000	Revised Budget (Year to Date) £000	Actual (Year to Date) £000
Governance	-	49	49	16	0
Growth & Regeneration	37,642	44,310	42,167	14,056	3,123
People & Communities	37,236	49,379	46,583	15,528	5,404
Resources	25,293	23,864	25,255	8,418	1,108
Invest to Save	56,524	120,661	116,481	38,827	3,548
<b>TOTAL</b>	<b>156,696</b>	<b>238,262</b>	<b>230,535</b>	<b>76,845</b>	<b>13,183</b>
Grants & Contributions	33,768	44,715	40,243	10,061	5,023
Borrowing	122,928	193,547	190,292	47,573	8,160
<b>TOTAL</b>	<b>156,696</b>	<b>238,262</b>	<b>230,535</b>	<b>57,634</b>	<b>13,183</b>

- 4.16. The movement of £7.7m between the budget as at April 16 (£238.3m) and the current budget of £230.5m is mainly the result of the re-profiling of expenditure for the new secondary school Hampton Gardens and works linked to the Fletton Quays office development, and the delay of expenditure on the Community Stadium Project.

### Borrowing and Funding the Asset Investment Plan

- 4.17. It is a statutory duty for the Council to determine and keep under review the level of borrowing it considers to be affordable. The Council's approved Prudential Indicators (affordable, prudent and sustainable limits) are outlined in the approved Treasury Management Strategy. The Council borrows only to fund the Asset Investment Plan. The current plan assumes that 82.5% of the budgeted expenditure will be funded by borrowing.
- 4.18. The Council's borrowing as at the end of July 16 was £376.7m (see table below). The debt is measured against the Council's Authorised Limit for borrowing of £721.5m which must not

be exceeded and the Operational Boundary (maximum working capital borrowing indicator) of £669.5m.

<b>Borrowings</b>	<b>Less than 1yr £000</b>	<b>1-2yrs £000</b>	<b>2-5yrs £000</b>	<b>5-10yrs £000</b>	<b>10+yrs £000</b>	<b>Total £000</b>	<b>Ave. Interest Rate %</b>
PWLB	-	-	-	22,448	290,439	312,887	3.8
Market Loans	-	-	-	-	17,500	17,500	4.5
Local Authority	5,000	13,000	24,500	-	-	42,500	1.9
LEP Loan	784	-	3,000	-	-	3,784	0.0
<b>Total Borrowing</b>	<b>5,784</b>	<b>13,000</b>	<b>27,500</b>	<b>22,448</b>	<b>307,939</b>	<b>376,671</b>	<b>3.5</b>
% of total Borrowing	2%	3%	7%	6%	82%		
Borrowing Limit (PI)	40%	40%	80%	80%	100%		

- 4.19. The majority of the debt is taken on a 10+yr basis. The Corporate Director: Resources believes it to be prudent to take advantage of a relatively low long term fixed rate of interest as it mitigates some of the risk of PWLB rate rises. Long term interest rates are currently at very low rates e.g. the standard PWLB rate for 50yr loans including the certainty rate was 2.24% at end of July 16. The historically low PWLB rates are a result of the investor fears and confidence creating an ebb and flow situation between favouring more risky assets i.e. equities, or the safe haven of bonds. The Council's treasury advisers, Capita, note that they remind clients of how...

*"unpredictable PWLB rates and bond yields are at present. We are experiencing exceptional levels of volatility which are highly correlated to emerging market, geo-political and sovereign debt crisis developments."*

- 4.20. The Council's treasury team's borrowing strategy, in line with Capita advice, in that as the outlook continues to be uncertain, borrowing is taken in tranches so as to benefit from the current rates but also to provide some flexibility if rates fall further.
- 4.21. The table below shows the activity in Loans held by the Council for the year to date:

<b>Loans Portfolio £000</b>		
<b>April 16 b/f</b>		<b>363,171</b>
repayment of loans to date	(18,200)	
new loans in year	31,700	
net increase/(decrease ) to date		<b>13,500</b>
<b>Loans portfolio as at July 16</b>		<b>376,671</b>

- 4.22. Total interest payable on existing loans for the year (£376.7m) is expected to be £13.1m.
- 4.23. As at July 16 the Council held £19.2m of S106 and Planning Obligation Implementation Scheme (POIS) funding available for funding Asset Investment projects. To date £4.3m has been earmarked for specific projects. The process for allocation requires project managers to successfully submit project plans meeting the criteria for which the contributions were intended. The S106 Officer is responsible for approving s106 allocations.
- 4.24. Capital Receipts are used as part of a contribution to fund the MRP however, close monitoring of the Capital Receipts is maintained as any significant change will now have a direct impact on the Revenue position.

- 4.25. The Capital Receipts are monitored on a monthly basis and each sale given a status of Red, Amber or Green to identify the likely receipt before March 17. The MTFS includes a contribution of £3.1m Capital Receipts (not including Investment Assets), with the revised receipts figure including a further £4.6m rolled forward from uncompleted disposals in 15/16. Any shortfall of actual cash receipts in year will therefore have a direct impact on the final Revenue position and in turn the underpinning of the MTFS approach
- 4.26. Given the lack of capital receipts received to date, the sales which are highlighted as a Red risk status of being achieved are no longer factored in the forecast outturn position as shown in the revenue BCR for this month, thus reducing the amount shown as transferred to the Grant Equalisation reserve.

<b>Capital Receipts</b>				
<b>RAG Status</b>	<b>Budgeted Income per MTFS £000</b>	<b>Revised Budget £000</b>	<b>Received to Date £000</b>	<b>Not yet received £000</b>
Green	550	1,466	16	1,450
Amber	1,180	1,385	-	1,385
Red	1,170	1,170	-	1,170
Other Assets	200	3,750	-	3,750
<b>Total (not inc Investment Assets)</b>	<b>3,100</b>	<b>7,771</b>	<b>16</b>	<b>7,755</b>
Investment Assets	2,575	2,575	-	2,575
<b>Total Capital Receipts</b>	<b>5,675</b>	<b>10,346</b>	<b>16</b>	<b>10,330</b>

### **Investments**

- 4.27. The Council aims to achieve the optimum interest on investments commensurate with the proper levels of security and liquidity. In the current economic climate the Council considers it appropriate to keep investments short term to cover cashflow fluctuations, and only invest with Barclays (the Council's banking provider) and Bank of Scotland (part of the Lloyds Banking Group), the Debt Management Office and Local Authorities.
- 4.28. As at July 16 the Council's external investments totalled £34.7m.

## **5. MEDIUM TERM FINANCIAL STRATEGY – CURRENT POSITION**

- 5.1. At its meeting on 9 March 2016, the Council approved the ten year financial strategy for the years 2016/17 – 2025/26. This showed an initial budget gap of just over £4m for 2017/18. It was also made clear in the Budget Report that any further reductions in public spending would further increase the budget gap – further information will be available following the publication of the Autumn Statement.
- 5.2. The table below shows the pressures faced by the Council as at the start of this financial year:

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
<b>Opening Budget Gap</b>	<b>11,330</b>	<b>14,710</b>	<b>17,760</b>	<b>19,510</b>
Total Grant Reductions	16,305	21,124	23,214	23,214
Total Budget Pressures	6,311	6,219	6,957	8,484
Total Investments	660	650	640	640
<b>Overall budget gap</b>	<b>34,606</b>	<b>42,703</b>	<b>48,571</b>	<b>51,848</b>
Overall Savings Proposed	- 19,317	- 18,356	- 17,401	- 18,041
<b>Budget gap before application of reserves</b>	<b>15,289</b>	<b>24,374</b>	<b>31,170</b>	<b>33,807</b>
Contribution To/(From) Grant Equalisation	- 11,188	0	0	0
<b>Final budget position</b>	<b>4,101</b>	<b>24,347</b>	<b>31,170</b>	<b>33,807</b>

- 5.3. The budget gap for 2017/18 is relatively small compared to 2018/19 onwards due the Council following a deliberate strategy of realising one-off underspends in 2015/16 to support future year budgets. However, the underlying budget gap remains substantial, and further strategic action is essential.
- 5.4. This forecast assumes a 2% per annum increase in Council Tax in 2017/18 and each year thereafter. The Council will therefore need to identify and implement at least £4.1m of savings in 2017/18 to deliver a balanced budget, with substantial additional savings being required from 2018/19.
- 5.5. Cabinet will consider the first tranche of Budget proposals on 7 November 2016.

## **6. MEDIUM-TERM FINANCIAL STRATEGY 2017/18-2026/27 – PROCESS**

- 6.1. This section of the report sets out a proposed approach and timetable for the 2017/18 budget-setting process. It is proposed that, as in previous budget rounds, the budget process will have two phases for Cabinet to put forward budget proposals for Council approval.
- 6.2. As the Council's constitution does not currently allow for this approach, a report will be presented to Council on October 12 2016 which will update the Budget and Policy Framework to reflect the two-phased process.
- 6.3. A two-phased approach will allow the Council to give the maximum time possible for public consultation on its budget proposals.
- 6.4. An additional benefit of this approach is that the early agreement of Phase 1 budget proposals in the December before the start of the new financial year gives Departments more time to implement these proposals, some of which may require long lead in times to achieve successful implementation.
- **Phase 1:** Departments will work on budget options that will contribute towards reducing the budget gap in future financial years. These options will be discussed with Cabinet Members and with the Cross-Party Budget Working Group. Following feedback from Joint Scrutiny and a budget conversation with residents, partner organisations and businesses, Cabinet will recommend the first tranche of budget proposals to the Council meeting on 14 December 2016.

- **Phase 2:** Cabinet will recommend further budget proposals to enable Council to set a lawful and balanced budget, along with the 2017/18 Council Tax, at its meeting on 6 March 2017. These further budget proposals will again be consulted on during February 2016 to ensure that decisions made reflect community views.

6.5. The proposed timeline for the process is outlined in the table below. This incorporates the two key statutory deadlines the Council must meet during this process namely:

- The Council Tax Support Scheme must be approved by the end of January.
- The budget and Council Tax must be approved by the 11th March.

Meeting	Content	Date
<b>Phase 1 – Budget Conversation 09/11/16 – 12/12/16</b>		
Cabinet	Consider the first tranche of budget proposals	7/11/16
Scrutiny	Formal scrutiny of Phase 1 budget proposals	16/11/16
Cabinet	To recommend the first tranche of budget proposals to Council, having regard to feedback from Scrutiny and the public	05/12/16
Council	Approve the first tranche of budget proposals	14/12/16
<b>Phase 2 – Budget Conversation 27/01/17 – 06/03/17</b>		
Cabinet	To recommend the 2017/18 Council Tax Support Scheme to Council having regard to feedback from Scrutiny and the public. To agree the Council Tax Base, estimated position on the Collection Fund and the NNDR 1 Tax Base position.	16/01/17
Council	Approve the 2017/18 Council Tax Support Scheme	25/01/17
Cabinet	Consider the second tranche of budget proposals	06/02/17
Scrutiny	Formal scrutiny of Phase 2 budget proposals	08/02/17
Cabinet	To recommend the 2017/18 Budget & Council Tax to Council having regard to feedback from Scrutiny and the public.	27/02/17
Council	Approve the 2017/18 budget and Council Tax.	08/03/16

6.6. This process for setting the 2017/18 budget requires Council approval (to be sought at the Council meeting on 12 October 2016) as it differs from that included in the Council's Constitution. A report will shortly be brought forward to Council that will recommend an update to the Constitution to reflect a two-phased approach.

6.7. The following budget discussions will be held during the two budget conversation phases in order to enable residents, partner organisations, businesses and other interested parties to feedback on budget proposals:

- Discussion with the Trade Unions.
- Discussion with the business community
- Borderline Peterborough Local Commissioning Group
- Peterborough Housing Partnership
- Greater Peterborough Partnership City Leaders Forum
- Disability Forum
- Connect group
- Schools Forum
- Parish Councils
- Peterborough Community Assistance Scheme
- Youth Council

6.8. A hard copy of the budget proposals and the Budget Conversation document will be available in all libraries as well as the Town Hall and Bayard Place reception desks. The Council will also receive responses via an on-line survey on its website.

- 6.9. The Budget Conversation will be promoted through local media and through the Council's Facebook and Twitter accounts to encourage as many people as possible to have their say.
- 6.10. The budget will be set to deliver the Council's priorities for the coming year as follows:
- Drive growth, regeneration and economic development
  - Improve educational attainment and skills
  - Safeguard vulnerable children and adults
  - Pursue the Environment Capital agenda
  - Support Peterborough's culture and leisure trust Vivacity
  - Keep all our communities safe, cohesive and healthy
  - Achieve the best health and wellbeing for the city

## **7. ANTICIPATED OUTCOMES**

- 7.1. Consider the anticipated outcome of consideration of this report. For example, it may be CMT will develop budget proposals in order to meet the budget timetable and process proposed in this report.

## **8. REASONS FOR RECOMMENDATIONS**

- 8.1. The Cabinet is responsible for initiating Budget Proposals within the Council's Budget and Policy Framework Procedure Rules. The proposed approach and timetable for the 2017/18 budget-setting process contained within this report varies from that contained within the Procedure Rules and Cabinet is being asked to put forward this alternative, two-stage process, for Council approval. The two stage process was used last year and was successful in enabling the Council to set a lawful and balanced budget. Another benefit of the two stage approach is that the early agreement of Phase 1 budget proposals in the December before the start of the new financial year gives Departments more time to implement these proposals, some of which may require long lead in times to achieve successful implementation.

## **9. ALTERNATIVE OPTIONS CONSIDERED**

- 9.1. No alternative option has been considered as the Cabinet is responsible under the Constitution for initiating Budget Proposals and the Council is statutorily obliged to set a lawful and balanced budget by 11th March annually.

## **10. IMPLICATIONS**

### **Finance**

- 10.1. As outlined in the body of the report

### **Elected Members**

- 10.2. Members must have regards 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.

### **Risk**

- 10.3. CMT review the Budgetary Control Risk register on a fortnightly basis. This register has also been presented to the Budget Cabinet Policy Forum and the Cross-Party Budget Working Group for thorough scrutiny by Members.
- 10.4. In-year budget risks have been identified in Appendix 3.
- 10.5. CMT have identified actions to mitigate the risk of overspending in the current year and any actions taken will be formally reported via the Budget-setting process.



## **11. BACKGROUND DOCUMENTS**

11.1. Appendix 1 – Detailed Revenue Budgetary Control Report

11.2. Appendix 2 – Analysis of Variances <>£100k

11.3. Appendix 3 – Budget Risks

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