

CABINET	AGENDA ITEM No. 3
26 FEBRUARY 2018	PUBLIC REPORT

Report of:	Marion Kelly, Interim Corporate Director: Resources	
Cabinet Member(s) responsible:	Councillor David Seaton, Cabinet Member for Resources	
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MEDIUM TERM FINANCIAL STRATEGY 2018/19 TO 2020/21

R E C O M M E N D A T I O N S	
FROM: Cabinet Member for Resources	Deadline date: N/A
<p>It is recommended that Cabinet notes:</p> <ol style="list-style-type: none"> 1. The statutory advice of the Chief Finance Officer outlined in section 6, The Robustness Statement. This is required to highlight the robustness of budget estimates and the adequacy of the reserves. 2. All the grant figures following the Local Government Final Finance Settlement, published on 6 February 2018 outlined in section 4.5. This details the following adjustments to the budget: <ul style="list-style-type: none"> • Adult Social Care Grant 2018/19- £0.496million • Business Rates compensation for limits increase in the NNDR £0.084million 3. The feedback received on the budget proposals, received via the consultation detailed in section 9 of the report and Appendix J. 4. The Treasury Management Strategy 2018/19-2020/21, detailed in Appendix L, which also includes an amendment following the Audit Committee meeting held on 12 February 2018. <p>It is recommended that Cabinet approves and recommends to Council:</p> <ol style="list-style-type: none"> 5. The Phase Two budget proposals, outlined in Appendix H, this includes a 5.99 per cent council tax increase, and a change in service delivery for the 0-25 Provider service. 6. The Medium Term Financial Strategy 2018/19-2020/21 as set out in the body of the report and the following appendices: <ul style="list-style-type: none"> • Appendix A – Budget Context highlighted in Phase One, MTFS for 2018/19-2020/21 • Appendix B – 2018/19 MTFS detailed position • Appendix C – 2018/19 MTFS by department • Appendix D – 2018/19 MTFS by Service • Appendix E – Capital Schemes • Appendix F – Council Grants • Appendix G – Fees and Charges • Appendix H – Budget Proposals (consultation document) • Appendix I – Equality Impact Assessments 	

- Appendix J – Budget Consultation Feedback
- Appendix K– December 2018 Budgetary Control Report
- Appendix L– Treasury Management Strategy 2018/19-2020/21
- Appendix M– Asset Investment and Acquisition Strategy, Capital Programme 2018/19-2020/21
- Appendix N– Asset Management Plan

1. ORIGIN OF REPORT

- 1.1 This report comes to Cabinet as part of the Council's formal budget process as set out within the constitution and as per legislative requirements to set a balanced and sustainable budget for 2018/19.

2. PURPOSE AND REASON FOR REPORT

Purpose

- 2.1 The report coming to Cabinet forms part of the council's formal Budget and Policy Framework. This requires Cabinet to initiate and put forward budget proposals to set a balanced and sustainable budget for the financial years 2018/19 to 2020/21. There is a legal requirement to set a balanced budget for 2018/19. The purpose of this report is to:
- Recommend that Cabinet approve the second phase of budget proposals for consultation to contribute towards closing the budget gap of £43.5million by 2020/21, before accounting for proposed savings.
 - Outline the financial challenges facing the council in setting a sustainable and balanced budget for Medium Term Financial Strategy (MTFS) 2018/19 to 2020/21.
 - Outline the approach the Council are taking to close the budget gap over the three year budget planning horizon to deliver a sustainable budget.
 - Outline the required statement of the robustness of the budget estimates and the adequacy of the financial reserves included within the MTFS.
- 2.2 The Council is facing a very difficult budget challenge due to increasing demands for services and reductions in government grants. Revenue Support Grant (RSG) will have reduced from £55million in 2013/14 to £10million in 2019/20, along with previous reductions, dating back to the initial Spending Review announced in June 2010. This is why the council launched the Stand up for Peterborough campaign as part of the budget process in November, to lobby for funding in specific high risk areas which include:
- Additional funding for Homelessness
 - Additional funding for the provision of School Places
 - Access to transitional funding to allow the Council to move to its longer term sustainable model.
- 2.4 In agreeing a balanced budget for 2017/18 one-off resources of £19.7million were used, £7.2million of reserves and £12.5million of one-off capital receipts. Over the medium term ongoing savings will need to be identified to cover this amount in addition to the grant reductions and service pressures.
- 2.5 The level of reserves is considered adequate on the basis that although the budget balances in 2018/19 and there are plans to enhance council processes, detailed plans to deliver a sustainable budget are to be formulated, and unless they deliver significant savings, reserves will not be at an adequate level.
- 2.6 The Council has a large amount of fixed costs in its budget, for example previous capital investment leading to capital financing charges and the pension deficit contribution, which cannot be reduced.
- 2.7 The Phase One proposals, included efficiencies and one-off reductions of £8.2million for 2018/19, leaving

£15.7million of additional savings to be found in Phase Two. Over the three year period, this left an additional £35.2m of ongoing savings to be identified.

- 2.8 This report sets out further budget pressures of £2.5million and reductions of £14.1million which have been identified in addition to those included within Phase One of the process. These newly identified budget proposals brings the gap down to £4.1million for 2018/19. Reserves will need to be used in order to set a balanced budget. This will reduce the Council’s reserves, which will need to fund the cost of downsizing and transforming the organisation.
- 2.9 The budget gap has reduced to £19.2million in 2020/21. Even though the budget gap has been reduced to £4.1million in 2018/19 and there are substantial budget reductions and additional income items in 2018/19, a high proportion of these remain one-off (£12.7million), such as the use of capital receipts, the Minimum Revenue Provision (MRP) re-provision and Council Tax surplus. The council still remains in a difficult financial position and will need to continue making decisions on how it can reduce the costs of its operations.
- 2.10 The scale of the task facing the council means that a sustainable budget can only be achieved by fundamentally reducing the nature of the services it offers and the cost of how it operates. However, the council must manage its services in available resources.
- 2.11 This is not a unique financial context for a Unitary Council. Indeed, this is the reality facing the sector. That context is challenging undoubtedly, especially given both the pressures and gearing of adult social care, homelessness and school places on a relatively small Unitary Council.

3. **TIMESCALES**

Is this a Major Policy Item/Statutory Plan?	YES	If yes, date for Cabinet meeting	26 FEB 18
Date for relevant Council meeting	7 MARCH 18	Date for submission to Government Dept.	N/A

4. **BACKGROUND**

- 4.1 This report sets out the process being followed for the delivery of the three year Revenue Budget and Capital Programme (2018/19-2020/21) for the council. Like in previous years the budget process has been divided into two distinct phases. This report sets out the outcomes from the second phase of the process for consultation along with the Council’s plans for bridging any remaining budget gaps.
- 4.2 The report also includes the draft Robustness Statement of the Council’s Chief Finance (section 151) Officer setting out the how sustainable the Councils financial position is over time.

2018/19-2020/21 MTFS Process

- 4.3 The MTFS process is ordinarily divided into two phases:

Phase One has been through a consultation process and approved at Council on 13 December 2017.

Phase Two sets out:

- Changes in funding/requirements from the Provisional Local Government Finance Settlement;
- Newly identified budget pressures and required reductions to balance the budget for 2018/19 and to help close the budget gap in following years.
- The Council’s Plans for closing the budget gap, which reduces to £19.2million at the end of the three year period.

- The Robustness Statement, which outlines the advice given from the Councils Chief Finance (section 151) Officer, setting out the robustness of estimates included within the budget, the adequacy of the reserves, as well as the sustainability of the councils financial position over the planning horizon.

4.4 Proposals will be agreed by Cabinet at its meeting on 26 February and then will be recommended to Council on 7 March for approval.

Budget Context

4.5 In total since 2010 the Council has made significant savings, however this is still not enough and Central Government continues to cut funding to Local Government. Therefore the Council will be required to make further savings, which may well impact on a range of services, because by law the Council has to set a balanced budget.

4.6 As part of the Phase One budget consultation for the 2018/19 MTFS, which was presented to Cabinet on the 20 November, the Council set out in detail the pressures it faces, along with some of the successes the council has been able to achieve throughout such a difficult time. These are outlined in Appendix A.

4.7 However, the main points underlying the council's position include:

- A reduction in Government Revenue Support Grant Funding of £45million between 2013/14 and 2018/19; in addition to funding reductions received prior to this, dating back to the spending review in June 2010;
- A 200 per cent increase in Homeless Families requiring temporary accommodation in two years;
- Increasing demand for Adult Services;
- An increasing amount of children coming into care, with numbers peaking at 381 in July 2017;
- Creating extra school places for a school population that has increased by 13 per cent between 2013 and 2017.

4.8 Despite these pressures the Council has:

- Invested £127.7million in school building schemes and school improvements in the last five years;
- Led on the Fletton Quays scheme to regenerate this part of the City Centre;
- Helped create 2,685 jobs in the City in 2016/17;
- Helped create 4,600 new homes for residents between 2011 and 2016.

Local Government Provisional Finance Settlement 2018/19

4.9 On 19 December The Ministry of Housing, Communities and Local Government, MHCLG issued the Local Government Provisional Finance Settlement. The most significant change was permitting county and unitary councils to increase their 2018/19 council tax by an additional 1 per cent, with the possibility of a further 1 per cent in 2019/20 following Government approval, the latter has not been built in to the budget. The referendum threshold for core council tax was increased from 2 per cent to 3 per cent and the Adult Care Social Care precept maximum increase remain at 3 per cent. It is proposed that the Council increase Council Tax by this additional 1 per cent. This will contribute circa £0.7million of income to the budget. Grant funding was as anticipated and did not change from that set out in 2016 as part of the multi-year settlement for 2016/17 – 2019/20.

4.10 From 2020/21 councils will be allowed to retain 75 per cent of their business rates. This increase though will be used to incorporate existing grants, including the Revenue Support Grant which is £10million in 2019/20 and the Public Health Grant of £11million.

4.11 However, from 2020/21 a new fair-funding mechanism will be introduced with consultation starting on relative needs and resources in the New Year and at this stage there is no information to project a positive or negative impact to the council's funding.

- 4.12 Business rates will be “reset” from 2020/21 so any growth or loss up to this point will be removed and the overall sum will be redistributed according to the outcome of the new needs assessment through top-ups and tariffs.

Local Government Final Finance Settlement 2018/19

- 4.13 On 6 February The MHCLG published its final local government finance settlement for 2018/19. There are a small number of changes compared to the provisional settlement published in December 2017.
- 4.14 One key change was for additional one off funding of £150million for adult social care in 2018/19 to go directly to local authorities based on the adult social care relative needs formula. The Government expects councils to use the grant to support sustainable local care markets. The Council will receive £0.496million of this funding.
- 4.15 There have been adjustments to the amount of the grant to authorities to compensate them for limits to the increase in the NNDR multiplier. They are due to updated data and different calculation methodology, This will result in £0.084million financial benefit for the Council in 2018/19.
- 4.16 These newly announced funding changes have been incorporated within the budget and reduce the need to use reserves in 2018/19 by £0.6million.
- 4.17 Final confirmation of New Homes Bonus Allocations were included within the settlement figures, however there is no financial change from the Provisional figures for the council.

Revenue funding assumptions

- 4.18 The funding assumptions included in the 2018/19 MTFS process:
- General Council Tax is assumed to increase at 1.99 per cent per year for years two and three of the MTFS, which is below the proposed referendum limit for those years.
 - Following on from The Local Government Provisional Finance Settlement, flexibility was given to local authorities, allowing them to increase general council tax by 2.99 per cent, in 2018/19 and potentially 2019/20. The MTFS has been updated to include the additional 1 per cent increase in 2018/19 only.
 - The full Adult Social Care Precept of 3 per cent will be levied in 2018/19 only. This is the maximum the council can levy and there has been no assumption made for future increases.
 - This makes the total Council tax increase in 2018/19 5.99 per cent.
 - The Council Tax base is increased to reflect the growth in the city and a number of variables, such as Council Tax support, Council Tax exemptions and the banding of properties, of which Peterborough is largely weighted towards band A and B properties. The forecast increase in Council Tax base usually equates to an average of 1,000 new homes built each year. However in 2018/19, as a one off it is estimated that there will be a larger increase in the council tax base due to additional house building and a reduction in the levels of Council Tax support sought.
 - NNDR is assumed to increase at the rate of CPI, as announced in the Autumn Budget, this equates to a 3 per cent in 2018/19, 2.2 per cent in 2019/20 and 1.8 per cent in 2020/21. However the council will receive compensation for the difference between RPI and CPI via a government s31 grant.
 - RSG for 2018/19 is assumed to reduce by 25 per cent from the 2017/18 levels, and 32 per cent from 2018/19 to 2019/20. The figures for 2018/19 and 2019/20 remain fairly certain following the four year settlement deal secured by the council, covering the period 2016/17-2019/20.
 - As explained in section 4.4, RSG will be part of the 75% business rates retention and the fairer funding mechanism which will be introduced from 2020/21. At this stage MHCLG are consulting with local authorities and the level of funding to the council remains uncertain.

5. BUDGET DETAIL

2018/19 MTFS Phase One Summary

- 5.1 Phase One of the budget process for 2018/19 included a full review by service departments on the makeup of the base budgets contained in the 2017/18 MTFS for the 2018/19 to 2020/21 financial years. This has formed the starting point for the work that is being undertaken on the 2018/19 MTFS.
- 5.2 The Council then reviewed all budgets over the three year period of the MTFS to ensure that all known issues had been taken into account. This included a full assessment all one off savings and their applicability to ensure budgets are sustainable over time.
- 5.3 The 2017/18 MTFS assumed the use of £4.2million from the Grant Equalisation Reserve to support the 2018/19 budget, this has been added back into the position. Over the three year period an additional £10.9million of pressures have been identified, including a number of budgets across the Council where after careful analysis initiatives will not be delivered and as such it has been prudent to adjust the base budget accordingly.
- 5.4 Demographic and demand pressures included £1.7million rising to £5.7million in relation to housing homeless families and £0.6million rising to £2.6million by 2020/21 for Adult Social Care. Although there are currently demand pressures for Children's Services reported within the Budgetary Control Report for 2017/18, these are expected to be mitigated in full by 2018/19, although it will remain a potential risk.
- 5.5 Initial Phase One savings proposals were tabled and these amount to £8.2million, £6.5million and £4.5million in the respective three year period, resulting in the overall deficit figure reducing to £35.2million at the end of the three year period, this is outlined within Table 1.

Table 1- 2018/19 MTFS Phase One Budget Summary

	2018/19 £000	2019/20 £000	2020/21 £000
2017/18 MTFS Gross Expenditure	443,728	450,948	461,447
2017/18 MTFS Income	(296,449)	(298,044)	(297,548)
2017/18 MTFS Net Budget	147,279	152,904	163,899
2017/18 Total Funding	(132,492)	(131,658)	(135,046)
2017/18 MTFS Budget Gap	14,787	21,246	28,853
Add back use of Grant Equalisation Reserve	4,250		
Budget Gap without the Use of Reserves	19,037	21,246	28,853
Phase One			
Rebasing the Budget and Pressures	2,390	2,333	2,218
Demographic and Demand Pressures	2,279	4,112	8,460
Legislative and Other Changes	188	197	205
Revised Budget Gap	23,894	27,888	39,736
Budget Reductions and Additional Income	(8,194)	(6,528)	(4,526)
Revised Deficit after Accounting for Phase One Budget Pressures and Reductions	15,700	21,360	35,210
Incremental Budget Gap	15,700	5,660	13,850

New revenue pressures and savings proposals included within Phase Two

- 5.6 Following on from phase one the Council has continued to thoroughly review its budget position to ensure all pressures are recognised or mitigated where possible, efficiencies are sought and new budget

proposals investigated.

- 5.7 Within this phase, additional budget pressures of £2.5million and reductions of £14.1million have been identified. These newly identified budget proposals brings the gap down to £4.1million for 2018/19, where the balance of the Grant Equalisation Reserve and other reserves will be utilised to deliver a balanced budget. The sustainability of the budget is covered in further detail in section 6, the robustness statement.
- 5.8 The gap has reduced to £19.2million in 2020/21. Even though there are substantial budget reductions and additional income items in 2018/19, a high proportion of these remain one-off, such as the Minimum Revenue Provision (MRP) re-provision, additional capital receipts and council tax surplus, postponing the sustainable resolution of the budget gap to future years.
- 5.9 The consultation document, Appendix H – Budget Proposal, details the proposals in the Service Implications section and are summarised in **Tables 2, 3, 4, 5 and 6:**
- 5.10 Some of the key headline proposals included are:

- **Business Rates Forecast-** An increase in the amount of money retained by the council from business rates is expected, compared to what was previously forecast. This is due to a combination of factors, including changes to the way this figure is calculated by government and grants received by the government to address these changes and inflation. The forecast has been revised to also account for areas where we expect to see commercial growth such as Fletton Quays.
- **Council Tax Base, Surplus and additional 1 per cent-** The council tax base is calculated by looking at the amount of properties within the city, and considering other variables which would affect it. Due to the continued growth in the number of households paying council tax in Peterborough (caused by population growth and house building within the city), the forecast for the amount of council tax has increased by £792k in 2018/19 rising to £1million in 2020/21.

Following the Provisional Local Government Finance Settlement, additional flexibility granted gave councils the ability to increase general council tax by an additional 1 per cent. The council has included this additional 1 per cent increase within the budget for 2018/19, which will generate an additional £693k of income.

In addition to this following phase one an updated estimate on the council tax surplus has been calculated, providing an additional £183k in 2018/19.

- **Minimum Revenue Provision (MRP)** – MRP is effectively the principal repayment of the loans the council takes out to fund the capital programme. During the 2016/17 budget process, the council undertook a major review of its MRP policy, which resulted in the council approving to the reprofiling of the timing of the repayment of its debt. The review also identified that the council had repaid some of its debt early. This proposal is an accounting adjustment which utilises this early repayment to provide the council with a non-repeatable benefit for 2018/19.
- **Capital Receipts-**The asset management plan in 2017/18 assumed that a number of assets would be sold in 2018/19 and the income used to support that year's budget. The list of assets for sale has been revised to reflect an updated position based on new sale timescales and revised values, and from this the council expects to receive an additional £1.822m above what is already included within the Medium Term Financial Strategy.
- **Shared and integrated Services-** The council will be pursuing a programme of transformation to share and integrate services with Cambridgeshire County Council, health and other local authorities. In order to improve outcomes and manage demand on services, the programme will build on successful joint working to date. It would include sharing back office functions, reducing leadership

costs, maximising purchase power, reducing the duplication of systems and processes, reducing estate costs and building resilience.

Three work streams would be put in place:

1. Opportunities for shared services in back office functions
2. Further integration of services in the People and Communities directorates of each partner.
3. Additional opportunities for shared or integrated service delivery across Place based directorates.

- **Resources Service Cuts-** This department has reviewed options available to make service reductions from 2018/19 onwards, these include the following:
 - Finance Restructure- The financial services function will be restructured and there will be the removal of 8 vacant posts from the budget which creates a saving of £0.4million per year.
 - Business Transformation- Serco has agreed to making savings in its Transformation team. This will mean that future work completed will focus on corporate initiatives and additional control over resource have already been implemented.
 - Vivacity- reduction in council contribution to the Vivacity budget
 - Registration and Bereavement- The purchase of the register office property will mean a saving of £35k a year, due to a favourable cost model, from the lease it previously held.
- **Homelessness preventative work-** The council has continued to focus attention on the housing function to look at prevention models and housing solutions to reduce the pressure reported within Phase One. Officers now have a pipeline of housing solutions including 29 units at Midland Road and 43 at Bretton Court, and further developments in train. The Housing team has been restructured to allow for additional prevention officer posts, which will work with families to prevent them reaching a position of homelessness. There will also be a commissioner put in place to look at solutions working closely with letting agents and landlords to source suitable and available rental properties from the market, which may have been out of reach to some of these families. These measures will reduce the pressure by £0.259million in 2018/19, £1.354million in 2019/20 and £4.309million, which reflects the reduced use of Bed and Breakfast.
- **Peterborough Highways Services-** Peterborough Highway Services is a ten year partnership with Skanska to provide highway maintenance services. Since Phase One the council has made further progress with discussions with other councils to allow them access to the Peterborough Highway Services contract. This will allow these councils to contract Skanska using the council's framework for a fee. In addition revenue savings will be created by using capital investment to prevent further revenue maintenance expenditure.
- **0-25 Provider service change-** The Council currently runs two residential/respite homes for children with disabilities. More families are choosing to access non-residential provision and this has significantly reduced occupancy at the Manor respite care unit. The proposal is to stop using the Manor for residential care and increase outreach, direct payments, after school clubs and sports activities.
- **Schools Transport-** The number of children who need home to school transport has increased. Peterborough has one of the highest population growths in the UK and also the fourth highest birth rate. Pupils being taught in secondary and primary schools in the city has increased by 7,360 (26 per cent) since 2006. The pressure of £300k (2018/19) on this budget is due to the high levels of deprivation and child poverty in the city and increases in homelessness, meaning pupils rely much more on the council for home to school transport. In addition, due to the growing demand for school places, has led to a significant rise in the numbers of children being transported due to their nearest available school being over the statutory walking distance.

Table 2- 2018/19 Phase Two Budget Summary Position

	2018/19 £000	2019/20 £000	2020/21 £000
Budget Gap without the Use of Reserves	19,037	21,246	28,853
2018/19- Phase One			
Pressures	4,857	6,642	10,883
Budget Reductions and Additional Income	(8,194)	(6,528)	(4,526)
Revised Budget Gap	15,700	21,360	35,210
2018/19- Phase Two			
Pressures	2,494	3,691	3,779
Budget Reductions and Additional Income	(14,127)	(12,503)	(19,837)
Revised Budget Gap	4,067	12,548	19,152
One-off use of Reserves	(4,067)		
Final Budget Gap	0	12,548	19,152
Incremental Budget Gap	0	12,548	6,604

5.11 The following appendices outline further details on the budget position:

Appendix B - 2018/19 MTFS detailed position

Appendix C - 2018/19 MTFS by department

Appendix D - 2018/19 MTFS by service

Table 3- The overall gross and net budget gap for 2018/19- 2020/21

	2018/19 £000	2019/20 £000	2020/21 £000
2018/19 Final Net Budget Position	4,067	12,548	19,152
2018/19 Phase One Budget Reductions and Additional Income	8,194	6,528	4,526
2018/19 Phase Two Budget Reductions and Additional Income	14,127	12,503	19,837
Gross Budget Gap	26,388	31,579	43,515

Table 4- Phase Two Individual budget pressures

Budget Pressures	2018/19 £000	2019/20 £000	2020/21 £000
Housing Benefit Administration Subsidy	122	122	122
Energy	338	462	555
House Recycling Centre	152	152	152
Additional office accommodation costs	22	446	298
Terrorism Insurance	39	37	35
Street Lighting inflation	189	110	110
School Transport	300	340	350
Pay Award- additional 1% in 2018/19 and 2019/20	400	820	820
Loss of Rental Income	932	1,202	1,337
Total Budget Pressures	2,494	3,691	3,779

Table 5- Phase Two Individual budget reductions and additional income

Budget Reductions and additional income	2018/19	2019/20	2020/21
	£000	£000	£000
One-Off (non-repeatable)			
MRP Re-provisioning	(3,700)	164	164
Council Tax Surplus (additional amount)	(183)		
Capital Receipts	(1,822)		
One-Off (non-repeatable) sub-total:	(5,705)	164	164
Additional Income			
Council Tax base	(792)	(853)	(1,004)
Confirmed SEND grant for 2018/19	(127)		
Council Tax- additional 1% in 2018/19	(693)	(716)	(741)
New Homes Bonus	(31)	(46)	(27)
Adult Social Care grant 2018/19	(496)		
Business Rates compensation for limits increase in the NNDR multiplier	(85)	(85)	(85)
Business Rates Forecast	(935)	(483)	(515)
Peterborough Highways Services	(396)	(681)	(440)
Additional Income sub-total:	(3,555)	(2,864)	(2,812)
Service Changes			
Councillors- Paperless and removal of food and drink budget	(14)	(14)	(14)
Capitalisation	(50)	(50)	(50)
Training and Subscriptions	(200)	(200)	(200)
HR Savings	(12)	(12)	(4)
Serco Variable Spend reduction	(1,000)	(1,000)	(1,000)
Business Support	(100)	(100)	(100)
Capital Programme	(400)	(300)	(300)
Heltwate School (one year deferral)	(102)	(242)	(64)
Homelessness demand re-profile- relating to Phase one pressure*	(259)	(1,354)	(4,309)
Shared and Integrated Services Programme (exc Finance)	(845)	(4,500)	(9,000)
Resources Service Cuts	(740)	(740)	(740)
Events Tourism and Travel Choice Service Cuts	(145)	(167)	(290)
Growth and Regeneration Service Cuts	(585)	(654)	(644)
Public Health Service Cuts	(415)	(470)	(475)
Service Changes sub-total:	(4,867)	(9,803)	(17,189)
Total Budget Reductions and additional income	(14,127)	(12,503)	(19,837)

*The Homelessness demand pressure which was included within phase one has now been reprofiled following an identified housing pipeline and preventative activity.

Table 6- Phase One and Two Budget Reduction Summary

	2018/19	2019/20	2020/21
	£000	£000	£000
One-Off (non-repeatable)			
Phase One	(1,005)	0	0
Phase Two	(5,705)	164	164
One-Off (non-repeatable) sub-total:	(6,710)	164	164
Additional Income			

Phase One	(2,696)	(2,547)	(838)
Phase Two	(3,555)	(2,864)	(2,812)
Additional Income sub-total:	(6,251)	(5,411)	(3,650)
Service Changes*			
Phase One	(4,493)	(3,981)	(3,688)
Phase Two	(4,867)	(9,803)	(17,189)
Service Changes sub-total:	(9,360)	(13,784)	(20,877)
Total Budget Reductions	(22,321)	(19,031)	(24,363)

**The Homelessness demand pressure which was included within phase one has now been reprofiled following an identified housing pipeline and preventative activity. Excluding the reprofiled Pressure the 2020/21 service changes would total £16.6million.*

Grants

- 5.11 The Council receives a number of Grants such as Revenue Support Grant (RSG), Public Health, New Homes Bonus and Improved Better Care Fund. These are set out in detail in Appendix F.
- 5.12 The MHCLG published the local government final finance settlement on 6 February, confirming final grant allocations. There were a small number of changes from this. The most notable being the allocation of £150million of one off funding for Adult Social Care in 2018/19, from which the council will receive an additional £0.496million.
- 5.13 RSG remains as forecast, this was confirmed as part of the multi-year settlement deal Peterborough secured from the Ministry of Housing, Communities and Local Government (MHCLG) last year. In 2018/19 we will be in year three of this deal, with only one year remaining after that, leaving the future of the grant unknown.

Adult Social Care Precept

- 5.14 Background
In April 2016, Councils had the option of levying a 2 per cent 'Adult Social Care Precept. Then for 2017/18 this flexibility was increased to 6 per cent over the three years 2017/18 to 2019/20. To achieve this a maximum 3 per cent was allowed in 2017/18 and 2018/19.
- 5.15 Key Issues
The funding raised must be spent, and continue to be spent, purely on supporting Adult Social Care. Regulations stipulate that the Council Tax bill must show the precept separately on the face of the statement so that the taxpayer is aware of how much of the tax is ring fenced for Adult Social Care. It is also a requirement that the Council publish specific text in the Council Tax leaflet to explain the purpose of the precept to the taxpayer. Whilst additional text may be added, the prescribed wording must be shown.
For Authorities using the precept power, the Chief Finance (section 151) Officer and the Director of Adult Services (DAS) are required to certify that the precept will be spent only for the benefit of Adult Social Care via a quarterly return to MHCLG.
- 5.16 Peterborough and the Adult Social Care Precept
Between 2010 and 2021 it is predicted that the number of people in Peterborough aged 85 and over is set to increase by 52 per cent. As life expectancy increases, older people are living with multiple long-term conditions associated with ageing. For example, supporting people with dementia is a growing pressure on Adult Social Care budgets in the UK.

Like many other Councils, Peterborough has experienced pressure on its Adult Social Care budgets due to a combination of increasing demand for services, including those with more complex needs and also has had its grant funding cut.

It was agreed in the 2017/18 MTFs that Peterborough would levy the 3 per cent Adult Social Care Precept in 2017/18 and 2018/19, this is the maximum that can be levied in each year.

Authorities are required to report the per cent change in the Adult Social Care Budget excluding the precept compared to the per cent change in other non-ringfenced budgets. If the reduction in Adult Social Care was a higher per cent than for other services then more explanation would need to be provided to MHCLG. It is expected that because of the use of reserves and one-off measures in 2018/19 the Authority will be able to demonstrate the required differential in budget changes.

If levying 3 per cent rather than 2 per cent Adult Social Care Precept the council must explain how the additional 1 per cent is used to improve adult social care in its area. This is a process that is completed at the beginning of the financial year to which the increase applies through a specific S151 Return form. This form compares the changes to adult social care budgets with those of other non-ring fenced / non-statutory services with the additional Budget funding for adult social care.

Cambridgeshire and Peterborough Combined Authority

- 5.17 From March 2017 Cambridgeshire and Peterborough Combined Authority (CPCA) has been the Local Transport Authority. This is part of the devolution deal for CPCA, the functions comprise:
- Duty to produce a Local Transport Plan;
 - Production of a Bus Strategy;
 - Rights to franchise local bus services within its area, subject to the completion of the process set out in the Bus Services Act 2017;
 - Powers to enter into quality bus partnerships (QBP) and enhanced partnerships;
 - Responsibility for the provision of bus information and the production of a bus information strategy;
 - Role of Travel Concession Authority;
 - Financial powers to enable the funding of community transport
 - Powers to support bus services
- 5.18 However, in 2017/18 the functions have continued to be carried out by the council and Cambridgeshire County Council (CCC), under existing arrangements. The CPCA is yet to determine its approach to its transport responsibilities in 2018/19. Options include:
- Delivery in a 'Business as Usual' way by commissioning service delivery from the constituent councils; or
 - Delivering services directly by the CPCA; or
 - Delivery of the services on behalf of the CPCA through a third party; or
 - A hybrid of the above delivery arrangements.
- 5.19 The CPCA does not yet have the powers to charge the Council and CCC a levy for the cost of its transport responsibilities. The draft Statutory Instrument has yet to be approved and the timetable for approval is now uncertain. The Statutory Instrument (SI) determines the amounts of the transport levies to be issued by the CPCA to the council and CCC to deliver the Combined Authority's transport functions. The SI is drafted such that the CPCA shall apportion their estimated relevant expenditure in such a proportion as the upper-tier authorities agree. The default apportionment would be in the same proportion to the amount that each of the upper-tier authorities has spent on the relevant transport function in the financial year ending 31 March 2017. Alternatively the Constituent Authorities may agree that the transport funding can be met by contribution rather than relying upon the levy.
- 5.20 The Councils MTFs does not assume any additional costs from CPCA's transport functions in 2018/19.
- 5.21 The financial impact of any changes in 2018/19 will be clearer following the local government finance settlement and the CPCA decision on how it wishes to carry out its transport responsibilities in 2018/19.

5.22 The Council expects to continue to provide some support services to CPCA during 2018/19. The cost is expected to be fully reimbursed under a Service Level Agreement. The services include financial accounting, financial system support, VAT advice and treasury management. These services have already been provided successfully in 2017/18. They build on compatible service arrangements including the same external auditors (Ernst Young LLP) and bankers.

Fees and Charges

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

5.24 The full listing of Fees and Charges as set out in Appendix G – the number by department and range of the increases are summarised in the Table 6.

Table 6 – Fee and Charge Increases by Department

Department	Number of Services	Increase Range
Governance	2	0 – 2.6%
Growth and Regeneration	6	0 – 8.3%
People and Communities	16	(0.6) – 3.3%
Resources	27	0 – 6.2%
Total	51	

Strategic Approach to closing the Budget Gap

5.25 The council will continue to develop options to deliver a sustainable budget for the three year MTFs after Phase two has been considered.

5.26 The areas of search are outlined in the following section. Some of these areas of search will produce options that may lead to in year additional income or savings in 2018/19.

- In view of this and the seriousness of the council’s financial position, it is proposed to put an in depth budget review and any in year options to Cabinet and Council in July 2018. Consultation will take place over the summer, with results put to Cabinet and Council in September 2018. This process will continue on a rolling quarterly basis to ensure that proposals can be agreed, consulted on and implemented quickly.
- A revised Governance process is to be implemented across the Council in quarter one of 2018. A key driver of this change is to ensure that all decisions taken are made with the appropriate level of accountability and responsibility and that all phases of a project or initiative are considered properly in the decision making process. This should support a more focused allocation of resources to services that are the highest priority for the Council.

5.27 There are five fundamental areas in which the council will develop options to meet the requirement for a sustainable budget:

1) Expand Commercial Income

The council has a significant track record in delivering commercial income, both through individual projects and the commercialisation of procurement frameworks that have been developed such as Skanska. The council is developing a new commercial strategy in conjunction with Cambridgeshire County Council (CCC). In advance of that, the council will bring forward plans for debate to invest directly and significantly in property. A draft property strategy is being developed to underpin any investment, using external expertise to both develop and validate the approach. The strategy will have clear objectives, a sound legal

and financial basis, identification of delivery mechanisms and clear governance. It will also cover risk appetite.

2) Continue to innovate and develop efficiencies

The largest example of these initiatives being currently assessed is the exploration of shared service opportunities within the local area, building on the successful track record of sharing with CCC and other local authorities. A separate report will be brought back to Cabinet in 2018.

There is significant scope for sharing that could release funding without impacting on the front line, which includes:

- Savings arising from sharing management and leadership costs. The Chief Executive and the Leadership Team of People and Communities is already shared across the council and CCC;
- Back office costs at the council are in excess of £20million. A small number of other authorities have demonstrated that the opportunity to share and transform services such as ICT, Finance, Legal, HR, Business support and Democratic Services can lead to significant efficiencies;
- Procurement efficiencies and property savings, more detailed work will lead to an assessment of scale;
- If the council could share services, an opportunity exists to share transition and other costs. This could lead to significantly less demand on one-off resources to pump prime savings programmes in the future;
- The council will seek the development of new service delivery models and best practice.

3) Mitigation and Control of Service Demand Pressures

Reducing pressures that have been identified within the MTFS are critical to delivering a sustainable budget. The three largest pressures are:

- Homelessness represents the biggest financial risk to the Council and is being treated with the highest priority. In Phase One the budget for 2018/19 contained a pressure of £2million for homelessness, leading to £5.7million in 2021/22. This position has been revised within Phase Two, reducing the total service pressure in 2018/19 to £1.5million, and by 2021/22 it should have reduced to £1.5million. This pressure has been reduced as the council has looked at prevention models and housing solutions. Officers now have a pipeline of housing solutions including 29 units at Midland Road and 43 at Bretton Court, and further developments in train. The Housing team has been restructured to allow for additional prevention officer posts, which will work with families to prevent them reaching a position of homelessness. This still remains a key risk and will be closely monitored by officers.
- Pressures created in the revenue budget caused by borrowing, which is primarily to fund schools places. The pressure from borrowing to fund schools places is estimated to cost the Council £45m over the three years of the MTFS. The People and Communities department continue to review this estimate on an end to end basis to ascertain whether it is possible to reduce this pressure and still deliver the additional school places that Peterborough needs.
- Pressures in social care caused by demographic changes. To mitigate the demographic pressures in social care, service transformation opportunities will continue to be explored

It should be noted that growth of these pressures are not being funded by central government.

4) Continue to seek to maximise funding

The council has identified external funding of £147million (of which council tax and national non domestic rates account for £121million). The council is proposing to increase council tax and the precept by the maximum legally allowable (if it were proposed to increase council tax by more than 2.99 per cent, a referendum would be required).

- In order to ensure that this funding is maximised, the council has asked its service provider, Serco, to consider how the collection of NNDR and Council Tax can be improved. To give an idea of scale, an increased collection rate on Council Tax of 0.5 per cent would improve yield by £0.4million.
- The council has engaged external providers to review business premises. Over time, businesses may expand and that expansion might not have been fully captured. This may yield in the low

hundreds of thousands of pounds. Payment to the providers will only be made on identification of new rateable value.

- The same contractor has been engaged to ensure that New Homes Bonus is being fully identified. Fees and charges will continue to be reviewed, but opportunities to increase or expand fees and charges within the council's control are relatively limited. One exception is car parking. The council will be developing a new car parking strategy.

Additionally, one off sources of funding will continue to be explored as they arise.

5) Budget cuts

The Council has two options for further review:

- One is to review the level of discretionary expenditure within the council. From analysis carried out to date this is £12million and does contain many services which though discretionary, are vital to the city's wellbeing, such as expenditure on culture and the arts.
- The other option is to review service quality within non-discretionary areas. This covers the bulk of the Council's gross expenditure of £300million. The council will be establishing new governance, commissioning and procurement to test if any better value can be identified. However, savings that arise from that tend to be non-cashable. This leaves service cuts as a last option, with People and Communities and Growth and Regeneration with service budgets of £286million gross.

Taken as a whole, the areas of search do offer very significant opportunities but there is a requirement for work to begin quickly to ensure new savings can be properly delivered as soon as is possible and no later than the start of the 2019/20 financial year.

Capital Programme

- 5.28 The Council's Capital Programme is viewed over a five year period to ensure correct stewardship of assets and efficient use of budgets. The council is proactive in attracting external funding for as many schemes as is possible. An officer-led Capital Review Group has been set up to oversee the council's capital requirements, and will continue to do so on a fortnightly basis.
- 5.29 The Capital Programme includes estimated project costs and profiling of expenditure whilst detailed business cases and due diligence is completed on individual schemes such as the acquisition strategy.
- 5.30 The Capital Review Group have received early indications from Service Directors of new investment projects that will be required in the future which have not been included in the Asset Investment Strategy. Before these schemes can be agreed further work is required on the development of detailed business cases, to carry out due diligence and then approval through the Council's governance process before they are included. Future Asset Investment projects include; Car Park Strategy, Affordable Housing Strategy, Sports Strategy, ICT Strategy. If further projects are approved, further borrowing costs will need to be built in to the budget.
- 5.31 The following capital programme has been agreed by the group and the Corporate Management Team.

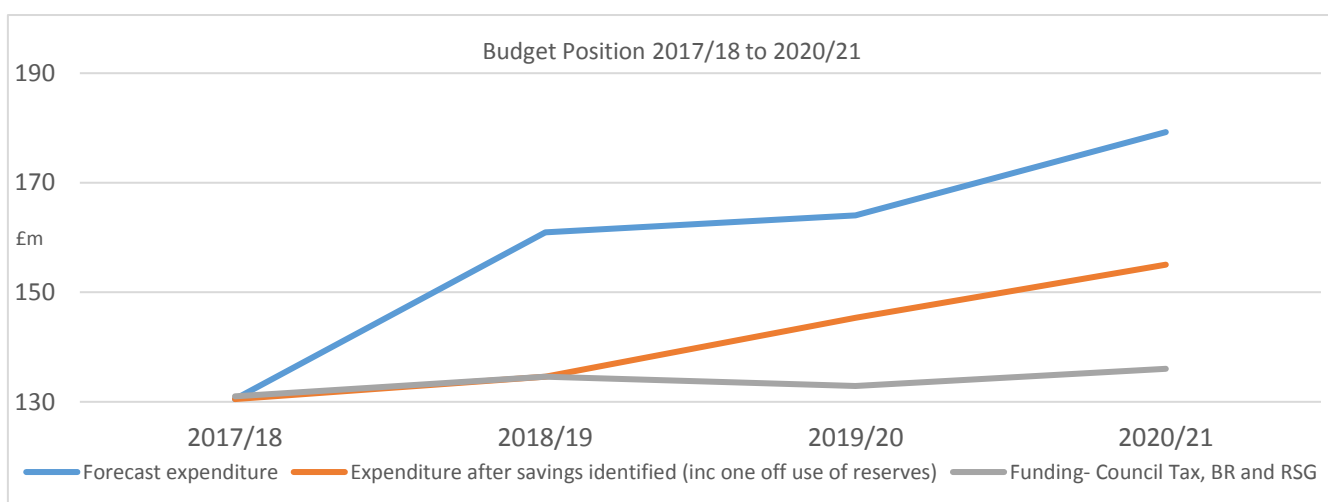
Capital Programme	2018/19	2019/20	2020/21
	Budget	Budget	Budget
	£000	£000	£000
Governance	49	0	0
Growth & Regeneration	57,235	25,398	12,507
People & Communities	55,649	50,759	14,413
Resources	2,433	1,947	1,984
Resources - Invest to Save	43,350	35,000	10,000

Total Capital Programme	158,716	113,104	38,904
Funded By:			
Grants & Third Party Contributions	40,486	32,113	7,133
Capital Receipts	24,200	15,000	-
Capital Financing Requirement (Borrowing)	94,023	65,991	31,771
Total Capital Financing	158,716	113,104	38,904

Appendix E - Capital Schemes, includes more detail on the individual schemes included within the capital programme.

The Budget Gap

5.32 The budget gap, taking account of budget pressures and reductions identified throughout Phase Two of the process stands at £19.2million. The following graph demonstrates the current forecast budget gap and progress made to close this by 2020/21.



5.33 The gap is derived from a number of different areas, some of these having a positive impact, but are outweighed by increased costs and pressures in other areas. The following are the key items contributing to the change in position:

- **Council Tax-** Over the period the forecast income generated from Council Tax income is increasing. This is due to the growth in housebuilding and population in the city, improved collection, council tax increases applied over recent years, including the Adult Social Care precept. These factors combined are forecast to increase the income generated by £13m over the period 2017/18- 2020/21.
- **Business rates-** Over the period we are expecting growth in business and the economy in Peterborough which translates to an increase of £9million over the period 2017/18-2020/21. Although this isn't reflected in the NNDR figure included within the funding assumptions, the council received s31 grants as compensation for changes MHCLG implement to the Business Rates scheme.
- **Reduction in Revenue support Grant (RSG)-** The RSG has reduced considerably from £55million in 2013/14 to just £10million by 2019/20. The current forecast for 2020/21 has remained at £10million, until further information is released by MHCLG on the fairer funding review and the business reforms, which are scheduled to be introduced that year.

- **Demographic and demand pressures-** This included pressures rising to £1.5million in relation to housing homeless families and pressures of £2.6million by 2020/21 for Adult Social Care. The Council is closely monitoring these areas and implementing solutions to reduce these pressures.
- **Capital financing and receipts-** The Council incurs high levels of financing (borrowing) cost, in relation to the delivery of the Capital Programme. As the Capital Programme progresses these costs are increasing each year. There has also been a reliance on capital receipts from the sale of assets, to provide one off support to set a balanced budget, £12.5million of these were factored in to the current year's budget, and £2.9million in 2018/19 and £4.3million in 2019/20. However this is a non-recurring solution, and postponed the budget gap to the future years.
- **One off use of reserves-** To enable the Council to set a balanced budget reserve balances have been used. This is only a one off action, and not a sustainable or permanent change to the budget, purely postponing the issue until the following year. In 2017/18 £7.2million was used to balance the budget, and in 2018/19 £4.1million is required.

6. ROBUSTNESS STATEMENT

Background

- 6.1 Section 25 of The Local Government Act 2003 includes the following statutory duty in respect of the budget report to Council:
“the Chief Financial Officer (CFO) of the authority must report to it on the following matters:
 a) *the robustness of the estimates made for the purpose of the calculations; and*
 b) *the adequacy of the proposed financial reserves.”*
- 6.2 The Council is required to take this report into account when making that decision. Section 26 of the same Act, places an onus on the CFO to ensure the Council has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget.
- 6.3 This report has been prepared by the CFO to fulfil this duty and gives the required advice relating to the 2018/19 financial year including a consideration of the budget proposal as a whole and all the financial risks facing the Council. It identifies the Council's approach to budget risk management and assesses the particular risks associated with the 2018/19 budget to inform the advice on robustness.

Overall Budget and Medium Term Financial Strategy 2018/19 – 2020/21

- 6.4 The Council is in a difficult financial position and without making immediate decisions on how it can plan to reduce the costs of its operations markedly in the medium term, 2019/20 and 2020/21, expenditure is estimated to exceed income with limited recourse to reserves.
- 6.5 In the opinion of the CFO the 2018/19 estimates are robust and the proposed level of financial reserves are adequate. However, in the absence of detailed savings plans being developed and implemented, concern remains over the sustainability of the budget position over the medium term.
- 6.6 While efficiency is always a preferred solution, the scale of the task facing the council means it can only be achieved if the council fundamentally faces three ways to close the gap, alongside mitigation and control of service demand pressures and expanding alternative income streams:
- a) additional monies from central government, such as through the Green Paper on social care though the budget assumptions do not rely on such funding
 - b) new operating models of service delivery
 - c) reduction in services delivered

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

Robustness of the 2018/19 budget estimates

6.8 The Medium Term Financial Strategy (MTFS) highlights that the current financial position is untenable. Whilst a balanced budget for 2018/19 has been achieved, it has made use of £11.9million of non-repeatable savings, as summarised in the following table:

Non Repeatable	2018/19 £000	2019/20 £000	2020/21 £000
Capital Receipts	2,922*	4,319	-
MRP Re-provision	3,700	-	-
Council Tax Surplus	1,188	-	-
Use of Reserves	4,067	-	-
Total	11,877	4,319	-

** includes £1,100k already built into the previous MTFS for 2018/19*

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

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

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

6.11 The MTFS position has been subject to reviews with the Council's Corporate Management Team, other officers and Members, including Cabinet, Budget Working Group and Scrutiny Committees, and has been out to consultation with the public as part of its two phase budget process.

6.12 For 2018/19 a balanced financial position is possible but only with risks and dependencies in delivery. The Council's General Fund remains at a £6million minimum balance. There is an additional £15.9million of Available Reserves which will facilitate the investment in major transformational change to service delivery. The remaining amount of £7.2million in reserves is ring-fenced for specific purposes such as insurance and so is not available for use.

6.13 The position for 2019/20 onwards is dependent upon the development of deliverable saving plans being produced during 2018/19 affecting the base budget for 2019/20. It is noted that there are a number of strategic actions which should aid the delivery of saving proposals for 2019/20 onwards. These include:

- a) The enhancement of the governance structure to be implemented in early 2018. This will further support decisions taken are made with the appropriate level of accountability and responsibility and that all phases of a project are considered properly in this decision making process (staffing, change management, implementation and associated costs, savings, etc);
- b) Implementation of an enhanced budget process whereby the budget model is continually revisited and budget assumptions are revised. This will enable identified saving proposals and actions that mitigate new arising pressures to be implemented throughout the financial period;
- c) Enhanced monitoring and management of risk thorough Audit Committee (per 1.4 above). An updated Risk Strategy will be presented to Audit & Performance in the February reporting cycle;

- 6.14 In summary, the 2018/19 budget is balanced, through use of £11.9million of non-repeatable savings, including £4.1million utilisation of some reserves. In order to balance future years budgets, 2019/20 and 2020/21, significant service transformation and service reductions are required and need to be implemented as soon as possible in order to fully develop a sustainable future budget position. The 2018/19 budget position has enabled the council to put aside reserve amounts to be utilised to facilitate the development of transformational service delivery change. These plans need to be produced in the first half of 2018/19 for implementation to commence in 2019/20 at the latest.
- 6.15 If realistic transformational plans, for reducing the cost of service delivery required to deliver a balanced and sustainable budget for future years, are not developed and implemented during in 2018/19 the CFO may need required to consider the production of a Section 114 report.
- 6.16 Section 114 of the Local Government Finance Act 1988 requires a report to all the authority's members to be made by the s151 officer, in consultation with the Council's Monitoring Officer and Head of Paid Service, if there is likely to be an unbalanced budget. In this event the Council must consider the report within 21 days and decide whether it agrees or disagrees with the views in the report and what action it proposes to take to bring the budget into balance. The publishing of the report starts an immediate 'prohibition period'. This means that all persons that have delegated authority to enter commitments, that such powers are suspended during the prohibition period.

Adequacy of Reserves

- 6.17 Reserves are set aside to fund risks and one-off pressures over a number of years. If the Council minimises the level of reserves future financial planning is hampered. It should be noted that reserves can only be spent once and the possibility of creating new reserves is now very limited.
- 6.18 The council broadly categorises reserves as follows:
 - a) A working balance to manage in year risks – the General Fund Balance
 - b) Available Reserves – these are reserves for available for future commitments such as transformational investments
 - c) Ring Fenced Reserves – to meet known or predicted requirements
- 6.19 The Council's General Fund working balance stands at £6million and ring-fenced reserves at £7.3million. They include the actuarial assessed £4.9million insurance reserve, £1.3million of reserves held on behalf of schools for capital expenditure, Public Health that cannot be used on other activities and £4.1million of reserves that are anticipated to be used in balancing the 2018/19 budget.

General Fund Balance

- 6.20 Councils use two main approaches to determine the required minimum level of its General Fund; either a percentage of the Council's current spending, or an assessment of risks and the impact they will have on the council's overall financial position.
- 6.21 The General Fund balance of £6million is at the very minimum recommended amount given the level of risks and issues being managed in the current financial year and potential magnitude in budget fluctuations.
- 6.22 When compared to other unitary authorities across the country for the 2017/18 financial year 24 per cent have the same percentage of General Fund Balance to net revenue expenditure (4 per cent), whilst 73 per cent have a greater percentage (between 5 per cent-35 per cent).
- 6.23 In summary the £6million General Fund is at a minimum when the following is taken into consideration:
 - a) the proportion of volatile budgets, particularly in demand led services in both Adult and Children's Social Care is forecast to be an increasing proportion of the overall budget;
 - b) no contingency has been built into the general fund;

c) and there is no mechanism for additional funds to contribute to general fund balances or reserves

6.24 This level is considered at a minimum on the basis that although the budget balances in 2018/19 and there are plans to enhance council processes, these future years detailed plans are still to be formulated, as noted previously.

Available & Ring Fenced Reserves

6.25 It is crucial to bear in mind that the reserves are the only source of financing to which the council has access to fund risks and one-off pressures over a number of years. It should be noted that reserves can only be spent once and the possibility of creating new reserves in an era where budgets are tight and can become overspent, not just individually but corporately, is now very limited.

6.26 A forecast underspend of £2.5million on the 2017/18 revenue budget and the application of funds received from Planning Obligations Implementation System (POIS) for capital contributions of £4.2million, has led to a £6.7million estimated contribution to the reserves position.

6.27 The balance shown for the Capacity Building Reserve includes an elements for redundancy costs, which are currently estimated to be up to £2million over the life of the MTFs, and for any other investment required by the council to enable transformational change in service delivery.

Table 8 details the remaining level of estimated Available and Ring-fenced Reserves.

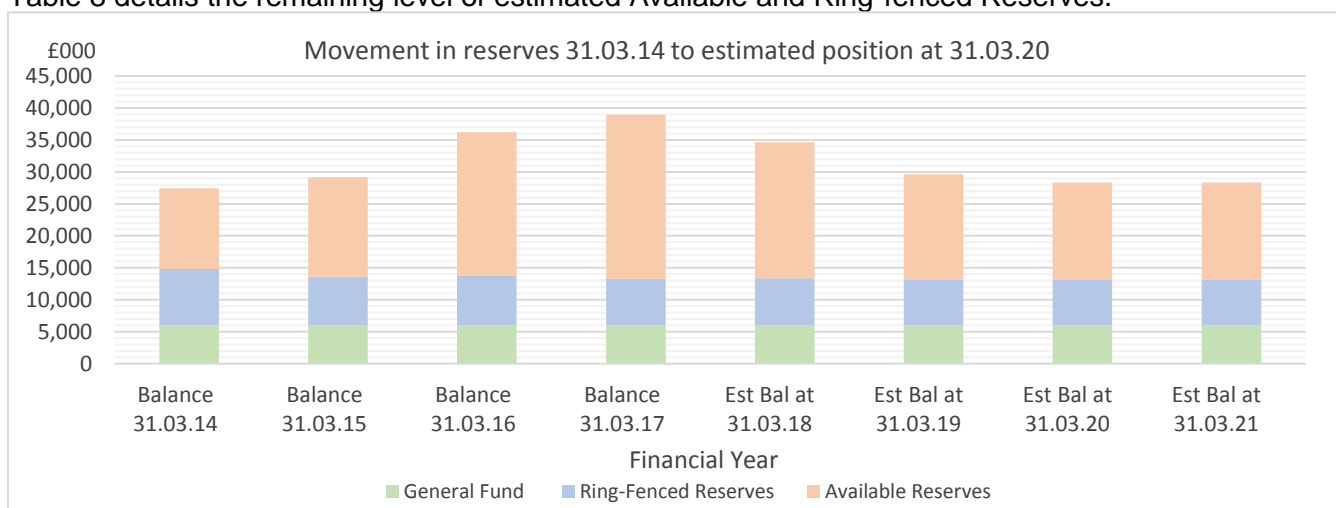


Table 8- Reserves position 2016/17- 2020/21

	2016/17	2017/18	2018/19	2019/20	2020/21
Summary of Reserves	Balance C/Fwd 31.03.17 £000	Estimated Balance at 31.03.18 £000	Estimated Balance at 31.03.19 £000	Estimated Balance at 31.03.20 £000	Estimated Balance at 31.03.21 £000
General Fund Balance	6,000	6,000	6,000	6,000	6,000
Available Reserves:					
Capacity Building Reserve	4,314	10,684	11,104	9,864	9,864
Risk Management Contingency	680	657	657	657	657
Grant Equalisation Reserve	15,639	7,812	3,745	3,745	3,745
Development Equalisation Reserve	1,233	544	0	0	0
Departmental Reserve	3,855	1,575	870	870	870
Subtotal	25,721	21,272	16,376	15,136	15,136
Ring-Fenced Reserves					
Insurance Reserve	4,425	4,936	4,936	4,936	4,936

Schools Capital Expenditure Reserve	1,287	1,287	1,287	1,287	1,287
Parish Council Burial Ground Reserve	53	53	53	53	53
Hackney Carriage Reserve	155	155	155	155	155
School Leases Reserve	336	339	324	274	274
Future Cities Reserve	569	0	0	0	0
Public Health Reserve	428	596	398	398	398
Subtotal	7,253	7,366	7,153	7,103	7,103
TOTAL Reserves	38,974	34,638	29,529	28,239	28,239

7. RISK ASSESSMENT

Approach to Risk

- 7.1 The Council as part of a recent budget review has considered all risks, which may have implications for the Council's budget. Council Officers have put actions in place to review and mitigate exposure to these risks, these are outlined in Table 9.
- 7.2 The council has recently established a Risk Management Board which will be led by the Director of Growth and Regeneration. This has been established with the purpose of challenging and supporting risk management across the council and partner organisations.
- 7.3 It will ensure that risk management is in line with the overall organisational approach and that the identification of key issues are escalated appropriately and timely. Officer awareness to risk will be improved, with a regular monitoring and reporting process in place.

Financial Risk Register

- 7.4 The most current substantial risks have been identified and considered as part of the budget process. Reasonable mitigation has been made where possible. Table 9 details the budget risks that Cabinet and Council should consider when reviewing the MTFs.

Table 9- Council Budget Risk Register

Risk Area	Detail	Action
Level of Reserves	Impact from low levels of reserves balances.	Reserves are reviewed and monitored during the year to ensure that the application of reserves are valid and appropriate.
Level of one-off (non-repeatable) savings	Impact from non-repeatable budget savings and income items.	To create a sustainable budget.
Service Delivery-Demand Led Services	The Council provides services in a number of areas where the need for support lies outside the Council's direct control, for example in children's, adult social care and homelessness. The demographics will remain under regular review throughout the year.	Reviewed through monitoring of budget and management information on a monthly basis Specific provision has been included in the budget plans for estimates of increased demand for Adult social care and homelessness. Demand for Children's Services is monitored through the Placement Model. The Council has implemented an

	<p>Universal Credit implemented by the DWP became live in Peterborough in November 2017, which could cause financial difficulty for residents due to the delayed first payment. The financial impact is not yet fully known.</p> <p>Being able to provide additional affordable housing and a supply of permanent and temporary housing to meet the increased demand in this service area.</p>	<p>innovative partnership with TACT for delivery of children's placements and foster care. Savings plans are also based intervention and prevention, aiming to reduce need and service demand.</p> <p>The housing team has been recently restructured to allow for additional posts to deliver preventative support to families that require housing and are at risk of homelessness. This should help to reduce the financial pressure on the councils budget and provide a more appropriate setting for these families.</p> <p>Regular reporting to the Corporate Management team will continue to take place throughout the course of the year as well as working groups with officers and members which have been established to help provide solutions.</p>
<p>Savings Delivery (current and new proposals)</p>	<p>The achievement of a balanced budget is reliant on a challenging savings programme and organisational capacity to deal with speed of change. There is a risk that both savings already extracted from budgets and the new savings programme will not be achieved.</p> <p>The council is looking go through a programme of transformation, to share and integrate services with Cambridgeshire County Council. There are a high level of savings built in to the MTFs in future years, however at this point it is in the early stages, therefore there is a risk attached to the timing of the delivery of this.</p>	<p>Progress will be monitored via the monthly budget monitoring process.</p> <p>Specific provision has been made in the budget to support the costs of change needed to provide capacity to deliver these savings.</p> <p>The progress on this will be reported to the Corporate Management Team on a regular basis, as well as regular meetings for management teams at both authorities to discuss progress and resolve any emerging issues directly with the project leads.</p>
<p>Income</p>	<p>Cost of provision of service outstrips returns or a reduced level of sales.</p> <p>Exit strategies associated with these ventures could prove to be costly.</p> <p>There is a financial risk attached to failure of commercial investment, either from default or exposure to wider economic changes.</p>	<p>Evaluation of benefits and outcomes throughout the monitoring of budgets. For example the income generated from car parking fees.</p> <p>Thorough due diligence of any commercial proposal in order for effective decision to be made.</p> <p>Then regular and detailed monitoring of the arrangements once implemented, with immediate action taken whenever concern arises.</p>

<p>Business Rates</p>	<p>Forecasts The council will benefit from any growth in business rates but will also have to share the risk of volatility of collecting business rates, changes to business rates during the financial year and administration costs associated with collecting business rates.</p> <p>Appeals The provision set aside for appeals by the council may not be sufficient. The claim by the NHS trust for mandatory relief if successful will have a major impact on income levels</p>	<p>The finance team will align forecasts using a more detailed approach with planning and revenue and benefit colleagues to monitor business and dwelling growth as part of the budget setting process and at regular intervals during the financial year. On a monthly basis reports will be available to monitor business rates income.</p> <p>The Council sets aside a provision to take account of the risk from appeals, based on a rate of 4%. The recommended rate based on the national average is 4.7%, however due to the high levels of small businesses within Peterborough receiving Small Business rates relief, the lower rate used is well justified. Officers have conducted analysis on this and will continue to monitor this.</p>
<p>Council Tax and Local Council Tax Support</p>	<p>Non-collection rates increase beyond the budget assumptions and / or increase in the levels of Local Council Tax Support eligibility, beyond budget assumptions.</p>	<p>Monthly updates will monitor the collection rates.</p> <p>The council will revise future year forecasts on council tax income accordingly.</p>
<p>Partnership Working/ Contractual Commitments</p>	<p>The council now outsources or contracts out a large proportion of services, on a long term basis to organisations, such as Serco, Amey and Vivacity. There is a risk that the council could be subject to increased costs from these contracts due to inflation or alternatively have little option to generate savings within the current budget due to the level accounted for via these contracts. The terms of the contracts may also restrict this.</p>	<p>The council is reviewing all contracts, with a view to achieving value for money.</p> <p>We will continue to work closely with our partner organisations to deliver the best services to our residents in the most effective and efficient manner.</p>
<p>Capital</p>	<p>Capital Receipts The agreed Minimum Revenue Provision strategy allows the Council to benefit from asset disposal proceeds in the year of sale. This does prevent a risk to the achievement of the bottom line if those receipts are not achieved.</p> <p>Capital Programme The proposed Capital Programme is partially reliant on developer</p>	<p>Regular monitoring of Forecasts for sale completion estimates and valuation changes.</p> <p>Developer contributions to be realised in line with approved policy.</p>

	<p>contributions being achieved, as well as successful grant bids. These funding streams are unclear and not guaranteed, they could be impacted by a downturn in development or reduced opportunity for central government funding.</p> <p>One area we heavily rely on grants is for schools, there is a risk that we may not receive grants in the future to fund new school buildings, despite increasing demand for school places.</p> <p>There is also a risk from asset management, in relation to insufficient resources to maintain adequately the councils existing and planned infrastructure.</p>	<p>Grant bids to be worked up in line with previous successful approach.</p> <p>The capital programme is closely monitored and reported by officers within the monthly monitoring. The council has also established an officer led Capital Review Group, which meets fortnightly to review the progress of the capital programme and evaluate new proposals or opportunities available to the council.</p> <p>Impact on property repairs / highways infrastructure are monitored and coordinated to balanced against any increases in legal claims / compensation issues.</p>
New Accounting Standards	IFRS 9 and IFRS 15 -Potential change in IFRS may impact on General Fund in year, and thus the amount required to be funded from Council Tax.	This is mitigated by staying abreast of technical accounting changes through use of experts, financial bodies, regular training and support of continued professional development of the Council's accountants.
Economic (Treasury) Risk	<p>Inflation- Increases above forecasts assumed within the budget.</p> <p>Interest Rates- a change in interest rates could impact on borrowing costs which may in part be offset by increased investment interest receipts.</p>	<p>Monitor inflation position and forecasts, and review impact on budget through budget monitoring process.</p> <p>Capital financing estimates developed using latest forecasts of interest rates for MTFs (which allow for a level of increase). Existing borrowing undertaken at fixed rates</p> <p>Review capital programme and debt portfolio if rates increase beyond forecast levels</p>

8. BUDGET VIREMENT LIMITS

- 8.1 The council's Budget and Policy Framework, paragraph 4.9 enables the council to specify the extent of virement within the budget and degree of in-year changes to the Policy Framework which may be undertaken by Cabinet. Virement allows the Council to move spend approved in the budget to another budget in accordance with Financial Regulations.
- 8.2 Having reviewed the existing framework and the council's Financial Regulations the principle remains that approved budget cannot be moved from one area of spend or project to another unless it meets Financial Regulations. This applies to both revenue and capital budgets.
- 8.3 The virement limits for 2018/19 are as follows:
- Directors, within their own area, can approve virements up to £500k.

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

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

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

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

3.13.2 The Chief Executive is authorised:

(d) to take any action, including the incurring of expenditure, where emergency action is required;

8.6 In the event that this applies to virements, it will be reported to the next relevant meeting in line with the limits in 8.3 above.

9. CONSULTATION

9.1 Cabinet has been working since September on the budget proposals and this has included several meetings with the Cross-Party Budget Working Group to seek views on all Cabinet budget proposals, including the opportunity to make alternative suggestions. As part of these meetings, the Budget Working Group explored options to commence consultation at the earliest opportunity.

9.2 Phase Two will be the formal process to set out a lawful and balanced budget for the budget proposals to be published on 1 February 2018 and recommended by Cabinet for approval by Council on 7 March 2018. This timeline is outlined in the following table:

	Phase 2
Consultation start date	01 February 2018
Cabinet	09 February 2018
Budget Joint Scrutiny Committee	20 February 2018
Cabinet	26 February 2018
Consultation close date	05 March 2018
Council	07 March 2018

9.3 These proposals will be considered in terms of their impact on service provision to user. Proposals which require consultation will be allocated timeframes appropriate to the level of consultation required. This will ensure stakeholder and resident's feedback is received and considered prior to recommendation to Council.

9.4 A revised budget process whereby the budget model is continually revisited and budget assumptions are revised will be implemented for the 2018/19 financial year. This will enable identified saving proposals and actions that mitigate new arising pressures to be implemented throughout the financial period.

Stakeholder groups

9.5 The following stakeholder groups will be contacted and offered a briefing on the budget position during the phase two consultation period, to enable residents, partner organisations, businesses and other interested parties to feedback on budget proposals and Council priorities:

Group	Meeting Date	Council Representative
Youth Council	06/02/18	Emma Riding
Parish Councils	07/02/18	Peter Carpenter
Peterborough Living Well Partnership	12/02/18	Oliver Hayward
Peterborough Community Assistance Scheme	13/02/18	Ian Phillips
Discussion with the trade unions	14/02/18	Peter Carpenter/ Mandy Pullen/ Gillian Beasley
Joint Budget Scrutiny Committee	20/02/18	Marion Kelly
Connect Group (Churches Together)	23/02/18	Adrian Chapman/ Gillian Beasley
Disability Forum	27/02/18	Fiona McMillan

9.6 The following stakeholder groups will be contacted directly via email with a press release and further details on how they can contribute by providing feedback during the consultation period:

- Interfaith Council
- Muslim Council of Peterborough
- Older Peoples Partnership board
- Carers Board
- Cambridgeshire Police and Crime Commissioner – Electronically distributed
- Cambridgeshire Fire and Rescue Service
- The Hospital and the CCG's
- Opportunity Peterborough
- Greater Peterborough City Leaders Forum (Business Community)
- Schools Forum

9.7 Hard copies of this report and all appendices including the Phase Two budget proposals and the Budget Proposals consultation document (Appendix H) will be available in all libraries and Town Hall and Bayard Place receptions. The council will also receive responses via an on-line survey on its website.

9.8 A copy of the Phase Two budget proposals will be published on Insite, and will be available to all staff to enable them to provide responses.

9.9 The council will also promote the Budget Consultation through the local media and through the council's Facebook and Twitter accounts to encourage as many people as possible to have their say.

9.10 The Budget Consultation questions are outlined within the Budget Proposals consultation document in Appendix H. This will form part of the hard copies available and the online survey.

Consultation Feedback Received

9.11 As aforementioned the consultation has been open since 1 February 2018, with feedback being gathered via an online survey, hard copy forms and stakeholder group meetings. The feedback received up to 15 February 2018 has highlighted the following points as key topical areas of concerns to residents:

- The Manor service delivery change, was mentioned by 8 respondents. The responses display clear support for this service, and concerns raised by families that use this on a regular basis.
- Council Tax Increase was mentioned by 5 respondents, rising concerns about the rate of increase being higher than inflation, putting additional pressure on the cost of living
- Brown bin increased charge and DIY waste reduction at the Household Recycling Centre was mentioned, with relation to fly tipping and leaf clearance.

9.12 Respondents also put the following ideas about how the council could save money, with the following being the most popular:

- Review the level of officer and Councillor pay included within the budget
- Opportunities for the council to obtain sponsorship to save services or become more commercial.
- Improved use of properties, including utilising empty properties or the sale of assets.

9.13 The full details of the consultation responses and feedback received are outlined within Appendix J.

9.14 Further feedback will be collated for consideration and an addendum reported to the Cabinet meeting on 26 February. Final feedback received between this date and the consultation close date on 5 March 2018, will be reported to Council on 7 March 2018.

10. ANTICIPATED OUTCOMES OR IMPACT

10.1 Following the release of the second phase of budget proposals to address the financial gap, and outlining Peterborough's challenges and successes, Cabinet is seeking the opinions of all residents, partner organisations, businesses and other interested parties to understand which council services matter most. The council must set a balanced budget for 2018/19 within the financial resources it will have next year and the feedback received will help inform Cabinet in considering budget proposals within the second phase.

10.2 Therefore approval will enable the council to undertake consultation on its budget plans for 2018/19 and the MTFS covering the period 2018/19- 2020/21.

10.3 Cabinet will have a further opportunity to review feedback on the proposals and the MTFS on 26 February 2018, before making a final recommendation to Council.

11. REASON FOR THE RECOMMENDATION

11.1 The Council must set a lawful and balanced budget. The approach outlined in this report work towards this requirement.

12. ALTERNATIVE OPTIONS CONSIDERED

12.1 No alternative option has been considered as the Cabinet is responsible under the constitution for initiating budget proposals and the Council is statutorily obliged to set a lawful and balanced budget by 11 March annually.

13. IMPLICATIONS

Elected Members

13.1 Members must have regard to the advice of the Chief Finance (Section 151) Officer. The Council may take decisions which are at variance with this advice, providing there are reasonable grounds to do so.

13.2 Section 106 of the Local Government Finance Act 1992 applies whereby it is an offence for any Members with arrears of council tax which have been outstanding for two months or more to attend any meeting of the Council or its committees at which a decision affecting the budget is made, unless the Members concerned declare at the outset of the meeting they are in arrears and will not be voting on the decision for that reason.

Legal Implications

13.3 In terms of the Council's executive arrangements, the adoption of the Council's Budget is a role shared between the Cabinet and the Council, whereby the Cabinet (Leader) is responsible for formulating the budget proposals and full Council is responsible for then approving (or not) those proposals and setting

the budget and council tax requirement.

- 13.4 For the remainder of the year, the principal purpose of the Budget is to set the upper limits of what the executive (Leader, Cabinet or officer under delegated executive authority) may decide to spend the Council's resources on. The Council cannot through the budget overrule an executive decision as to how to spend money, but the Budget will require the Cabinet to exercise their responsibilities for decision making so as not to make a decision where they are 'minded to determine the matter contrary to, or not wholly in accordance with the authorities budget'. This means that a decision that leads to excess expenditure, a virement from one budget heading to another over the amount allowed by Council in the Budget Book or expenditure of unexpected new money outside the Budget is required to have approval of the Council before the Leader and the Cabinet can make that decision.
- 13.5 When it comes to making its decision on 7 March 2018, the Council is under a legal duty to meet the full requirements of Section 31A of the Local Government Finance Act 1992 which includes the obligation to produce a balanced budget.
- 13.6 The principle of fairness applies to consultation on the budget proposals, both consultation required under s65 of the Local Government Finance Act 1992 and more generally as proposed here, which operates as a set of rules of law. These rules are that:
- Consultation must be at a time when proposals are still at a formative stage;
 - The proposer must give sufficient reasons for any proposal to permit intelligent consideration and response;
 - Adequate time must be given for consideration and response; and
 - The product of consultation must be conscientiously taken into account in finalising any statutory proposals.
- 13.7 Added to which are two further principles that allow for variation in the form of consultation which are:
- The degree of specificity with which, in fairness, the public authority should conduct its consultation exercise may be influenced by the identity of those whom it is consulting; and
 - The demands of fairness are likely to be somewhat higher when an authority contemplates depriving someone of an existing benefit or advantage than when the claimant is a bare application for a future benefit.
- 13.8 It should be noted that the consultation to be undertaken as a result of this report is on the Budget proposals, and consequently the Cabinet's general approach to the savings requirements, and not on the various decisions to take whatever actions that may be implicit in the proposals and later adoption of that budget, each of which may or may not require their own consultation process.
- 13.9 By virtue of section 25, Local Government Act 2003, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance Officer (CFO), as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. It is essential, as a matter of prudence that the financial position continues to be closely monitored. In particular, members must satisfy themselves that sufficient mechanisms are in place to ensure both that savings are delivered and that new expenditure is contained within the available resources. Accordingly, any proposals put forward must identify the realistic measures and mechanisms to produce those savings.
- 13.10 Where the CFO makes a judgement that the council is unable to set or achieve a balanced budget, or there is an imminent prospect of this they have a responsibility to issue a section 114 notice (s114) of the Local Government Act 1988.
- 13.11 Once a s114 notice has been served the council has 21 days to meet and consider the report. During the 21 days the council must not incur any new expenditure unless the CFO has specifically authorised the spend.

- 13.12 This suspension of spending will trigger external scrutiny from the council's auditors. However, failure to act when necessary could result in the council losing its financial independence with its powers potentially passed to commissioners appointed by government.

Human Resources

- 13.13 There are 7 proposals which will incur staffing implications. The majority of staffing reductions will happen during 2018/19. However, as sharing opportunities develop with Cambridgeshire County Council, there could be further impact in future years. The best estimate is that staff numbers will reduce by 4 during 2018/19, the table outlines the full staffing implications:

Staff Impact	Headcount
Total number of affected post	33
Less vacant posts	10
Less Redeployment	19
Therefore posts anticipated to be redundant	4

- 13.14 The council's approach to minimising any compulsory redundancies will be the same as in previous years, including the deletion of vacant posts and redeployment of affected staff.

- 13.15 This information relates to council staff only. The budget proposals will also impact on the council's partners.

Equalities Impact Assessments

- 13.16 All budget proposals published in Phase Two of the budget process have been considered with regards to equalities issues and where appropriate equality impact assessments have been completed and available on the council's website. These have also been included within Appendix I - Equality Impact Assessments.

14 BACKGROUND DOCUMENTS

- 14.1 Medium Term Financial Strategy 2018/19 to 2020/21 Consultation – Cabinet 20 November 2017
Medium Term Financial Strategy Phase one consultation response – Cabinet 4 December 201

15 APPENDICES

- 15.1 Appendix A – Budget Context highlighted in Phase One, MTFS for 2018/19-2020/21
Appendix B – 2018/19 MTFS detailed position
Appendix C – 2018/19 MTFS by department
Appendix D – 2018/19 MTFS by Service
Appendix E – Capital Schemes
Appendix F – Council Grants
Appendix G – Fees and Charges
Appendix H – Budget Consultation Document
Appendix I – Equality Impact Assessments
Appendix J – Budget Consultation Feedback
Appendix K– December 2018 Budgetary Control Report
Appendix L– Treasury Management Strategy 2018/19-2020/21
Appendix M– Asset Investment and Acquisition Strategy, Capital Programme 2018/19-2020/21

Appendix N– Asset Management Plan