

JOINT MEETING OF SCRUTINY COMMITTEES	AGENDA ITEM No. 4
12 FEBRUARY 2019	PUBLIC REPORT

Report of:	Peter Carpenter, Acting Director of Corporate Resource	
Cabinet Member(s) responsible:	Councillor David Seaton, Cabinet Member for Resources	
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MEDIUM TERM FINANCIAL STRATEGY 2019/20 TO 2021/22-TRANCHE THREE

R E C O M M E N D A T I O N S

FROM: Cabinet Member for Resources

Deadline date: Cabinet Meeting 25 February 2019

It is recommended that the Joint Meeting of Scrutiny Committees considers the following updates within the [Medium Term Financial Strategy 2019/20 to 2021/22- Tranche Three - Cabinet Report 4 February 2019](#) outlined in Appendix 1.

1. The Tranche Three service proposals, outlined in Appendix H, within the attached MTFS report;
2. The updated budget assumptions;
3. The revised capital programme approach;
4. The Robustness Statement, including the reserves position;
5. Future strategic direction for the Council;

Any recommendations made by the Joint Meeting of the Scrutiny Committees will be reported to Cabinet on 25 February 2019 for consideration.

1. ORIGIN OF REPORT

- 1.1 This report comes to Joint Meeting of Scrutiny Committees 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 2019/20-2021/22.

2. PURPOSE AND REASON FOR REPORT

2.1 Purpose

At the Cabinet meeting on 4 February Cabinet formally initiated and proposed service proposals and updated assumptions to set a balanced and sustainable budget for the financial years 2019/20 to 2021/22. There is a legal requirement to set a balanced budget for 2019/20. The purpose of that report is to:

- Recommend that Cabinet approve the Tranche Three service proposals for consultation.
- Recommend that Cabinet approve the budget assumptions to update the Medium Term Financial Strategy (MTFS), to ensure estimates reflect the most up to date information available.
- Outline the financial challenges facing the council in setting a sustainable and balanced budget for MTFS 2019/20-2021/22.
- Outline the progress and development on the delivery of the shared services programme with Cambridgeshire County Council and other partners. The delivery of this programme will allow the council to work differently and more efficiently, which will unlock financial benefits to enable the council to continue to provide the services which are important to Peterborough residents.
- Outline the approach the Council is taking to close the budget gap over the three year

budget planning horizon to deliver a sustainable budget.

- Outline potential avenues the Council is considering pursuing to ensure future budget sustainability.

2.2 This report comes to the Joint Meeting of Scrutiny Committees as part of the council's formal budget setting process. Any recommendations made by the Joint Meeting of the Scrutiny Committees will be reported to Cabinet on 25 February for consideration

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	YES	If yes, date for Cabinet meeting	4 February 2019
Date for relevant Council meeting	25 February 2019	Date for submission to Government Dept. (<i>Please specify which Government Dept.</i>)	N/A

4. Executive Summary

At Council held on 12 December 2018, Tranche Two of the 2019/20 MTFS was agreed, with deficits of £3.0m, £18.0m and £20.7m to be identified for 2019/20, 2020/21 and 2021/22 respectively. Tranche Three of the 2019/20 MTFS process has identified additional pressures and savings, reducing the budget deficit to a balanced position in 2019/20, with a deficit of £18.4m and £20.0m identified in 2020/21 and 2021/22. Table 1 summarises the current budget position over each Tranche.

Table 1: Overall 2019/20 MTFS Position by Tranche

	2019/20 £000	2020/21 £000	2021/22 £000
Budget Gap as reported in MTFS 2018/19	12,712	19,317	16,926
Service Pressures and Investment			
Tranche 1	1,692	4,562	5,463
Tranche 2	4,224	3,696	3,668
Tranche 3	5,173	5,592	5,641
Service Pressures and Investment sub-total:	11,089	13,850	14,772
Budget Position before Savings and Additional income	23,801	33,167	31,698
Savings and Additional Income			
Tranche 1	(4,177)	(3,841)	(61)
Tranche 2	(11,418)	(5,641)	(5,308)
Tranche 3	(5,122)	(5,276)	(6,273)
Savings and Additional Income sub-total:	(20,717)	(14,758)	(11,642)
Use Of Reserves	(3,084)		
Final Budget Gap	0	18,409	20,056
Incremental Budget Gap	-	18,409	1,647

Appendix B outlines an analysis of all budget changes included within Tranche One, Two and Three.

In addition to these deficits, detailed work is also under way to deliver the Shared Services Savings targets of £4.5m in 2019/20 and a further £4.5m in 2020/21. Further detail on this transformation programme is outlined in section 5.10.

The move to a truly sustainable budget will require a reduction of the “One off” savings, as by nature, these are not repeatable. Within this Tranche of the budget process the Council is proposing to use £3.1m of reserves to balance the budget in 2019/20, this adds to the significant reduction in the balances of reserves. Over the period 2017/18 to 2019/20 the Council is expecting its balances on reserves to reduce by over 50% from £40.9m to £19.4m. Table 2 sets out the use of ‘one off’ savings included within the budget, and the in year unbudgeted use of one off measures, to a position in 2020/21, where the council is expecting to no longer rely on this funding option to support the budget.

Table 2: Non repeatable One Off Savings

Non Repeatable	Previous Year	Current Year	Years relating to this Medium Term Financial Strategy		
	2017/18 £000	2018/19 £000	Year 1 2019/20 £000	Year 2 2020/21 £000	Year 3 2021/22 £000
Capital Receipts	12,738	2,922	10,639	-	-
MRP Re-provision	-	3,700	-	-	-
Council Tax Surplus	173	1,188	201	-	-
Planned Use of Reserves	7,194	4,231	3,084	-	-
Total	20,105	12,041	13,924	-	-
In year Use of Reserves (as per November 2018 Budgetary Control Report)	-	3,900	-	-	-
In year increased Use of Capital Receipts	-	1,195	-	-	-
Total	20,105	17,136	13,924	-	-

As the council has used capital receipts from the sale of properties (assets) to support the budget for a number of years, the remaining value of assets is relatively low, especially with some of the higher value assets being sold in recent years. This now leaves the council with very little flexibility to use capital receipts in the future to support the budget, and also reduces the potential for the Council to generate property rental income.

The 2018/19 budgetary control position as at the end of November 2018, is forecasting an overspend of £3.9m, this has reduced from £6.5m reported in Tranche Two of the budget due to plans that have been put in place by senior management to manage and scrutinise expenditure throughout the Council, to mitigate the financial impact of the forecast overspend identified. This overspend is largely isolated in one area, children’s services, which was outlined in detail when reported at the Cabinet meeting on 23 July 2018, highlighting the full extent of the demand pressures, although there are a number of other key areas of overspend to be aware of. These are as follows:

- Demand within children’s services £4.5m;
- Demand within adults services £0.8m;
- Peterborough Serco Strategic Partnership -Transformation costs, Business Support and variable costs £2.0m;
- Amey contract extension £1.0m;
- Parking Services £0.5m;
- ICT £0.5m;
- Volumes within the Coroners service £0.2m.

These pressures are currently being mitigated in part by the one-off use of capital receipts. This is a result of the Council exceeding the level of receipts included within the budget, which for the current year is £2.9m, as highlighted in Table 2. The November 2018 position is outlined in detail within the Budgetary Control Report to this Cabinet (4 February 2019) meeting.

5.2 Tranche Three Budget Position 2019/20-2021/22

The following table sets out the demand and savings proposals in Tranche Three of the 2019/20 budget process. The major items included within these proposals are:

- Additional 1% Council Tax increase, taking the total increase to 2.99%
- Increased cost of financing the Capital Programme
- Additional Business Rates Income
- Increased income from Energy generated by the Energy from Waste (EfW) facility
- Cost of running Peterborough Ltd, the Local Authority Trading Company (LATco)

2019/20- 2021/22 Tranche Three Budget Position Summary

	2019/20 £000	2020/21 £000	2021/22 £000
Budget Gap as reported in MTFs 2019/20 Tranche 2	3,034	18,093	20,688
MTFS 2019/20-2021/22 budget changes:			
Pay and Pensions	269	269	269
Inflation and cost changes	605	677	646
Demographic and volumetric service demand	875	875	875
Grant and legislative changes	-	753	753
Efficiencies	(180)	(180)	(180)
Capital financing Changes	1,322	1,673	1,673
Service proposals (savings and additional income)	1,425	1,018	1,153
Revised Budget Gap	7,350	23,178	25,877
Funding changes	(4,265)	(4,769)	(5,821)
One-off resources (including capital receipts)	-	-	-
Use of reserves	(3,084)	-	-
Final Budget Gap	-	18,409	20,056
Incremental Budget Gap	-	18,409	1,647

The following appendices outline further details on the budget position and the proposals:

- Appendix A- 2019/20-2021/22 Tranche Three MTFs Detailed Budget Position (a), the Net and Gross budget position (b), Subjective analysis of the budget position (c).
- Appendix H- The Budget Consultation Document
- Appendix J- Equality Impact Assessments (where applicable)

The following table details all of the proposals included within Tranche Three, and the financial implications for the three years covering 2019/20- 2021/22.

2019/20- 2021/22 Tranche Three budget proposals

Proposal	2019/20 £000	2020/21 £000	2021/22 £000
Capital financing Changes	1,322	1,673	1,673
Axiom/Longhurst interest income reduction due to loan redemption	140	140	140
Capital Programme- Additional Cost of financing	1,182	1,533	1,533
Demographic and volumetric service demand	875	875	875
Pollution Control	120	120	120

Trees- Insurance Risk	250	250	250
Legal Child Protection Team Pressure	100	100	100
Materials Recycling Facility	300	300	300
Coroner Volume related pressure	105	105	105
Efficiencies	(180)	(180)	(180)
Repairs and Maintenance cost reduction (result of Community Asset Transfers)	(180)	(180)	(180)
Grant and legislative changes	-	753	753
Tackling Troubled Families (TTF) Grant	-	753	753
Inflation and cost changes	605	677	646
ICT	605	677	646
Pay and Pensions	269	269	269
Pay Scales- National Living Wage (EIA in Appendix J)	114	114	114
Across Back Office Efficiencies	155	155	155
Service proposals (savings and additional income)	1,425	1,018	1,153
St George's Hydrotherapy Pool- Vivacity Transfer	58	58	58
Peterborough Ltd (LATCo)	1,087	805	940
POSH Rental income budget (removal post sale)	380	380	380
Peterborough Highways Services Commercial Income Pressure	400	275	275
Energy From Waste Income	(500)	(500)	(500)
Use of reserves	(3,084)	-	-
Use of the Capacity Reserve to balance the Budget	(3,084)	-	-
Funding changes	(4,265)	(4,769)	(5,821)
Business Rates Forecast	(1,321)	(852)	(738)
Social care funding announced in the Autumn Budget £650m	(2,150)	(2,150)	(2,150)
Council Tax additional 1% and Tax Base Forecast	(770)	(1,594)	(2,705)
Council Tax Collection Fund Surplus (one-off)	(201)	-	-
New Homes Bonus	177	(173)	(228)
Grand Total	(3,033)	316	(632)

7. CONSULTATION

- 7.1 Cabinet have been working on the budget proposals and this has included meeting with the Cross-Party Budget Working Group to seek views on all budget proposals, including the opportunity to make alternative suggestions.

Tranche Three will be the final tranche of the 2019/20 budget process. The Tranche Three budget proposals were published on 25 January 2019 and will be recommended by Cabinet for approval by Council on 6 March 2019. The timeline for the final budget tranche is outlined in the following table:

2019/20 Budget consultation timetable

	Tranche Three
Consultation start date	25/01/2019
Cabinet	04/02/2019

Budget Joint Scrutiny Committee	12/02/2019
Audit Committee (to approve revised Capital Programme and Prudential Indicators)	11/02/2019
Cabinet	25/02/2019
Consultation close date	04/03/2019
Council	06/03/2019

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

7.2 Methods of Consultation

Hard copies of the budget consultation document (Appendix H) will be available in all libraries and Town Hall and Bayard Place receptions. The Council will also seek to raise awareness of the budget proposals via use of social media on Facebook and Twitter, and aim to make the presentation more visual and easier to understand via the use of information graphics.

The Council has published the budget consultation document on the website and on the internal intranet site 'insite' for residents and staff to view and provide responses via an online survey.

The stakeholder groups outlined in the following table have been contacted and offered a briefing on the budget position during the Tranche Three budget consultation period, to enable residents, partner organisations, businesses and other interested parties to feedback on budget proposals and Council priorities:

Stakeholder groups and events

Forum/Group	Meeting Date	Presenter
Connect Group (Churches Together)	22/02/2019	Adrian Chapman and Gillian Beasley
Disability Forum	18/02/2019	Fiona McMillan
Peterborough Community Assistance Scheme (PCAS)	Virtual consultation	Ian Phillips
Discussion with Trade Unions Joint Consultative Forum (JCF)	30/01/2019	Peter Carpenter and Mandy Pullen
Youth Council	26/02/2019	Emma Riding
Parish Council	13/02/2019	Peter Carpenter
Joint Scrutiny of Budget meeting	12/02/2019	Peter Carpenter
Schools Forum	Virtual consultation	Jon Lewis
Peterborough Living Well Partnership	30/01/2019	Caroline Townsend
Health Care Executive	12/02/2019	Liz Robin and Wendi Ogle-Welbourn

8. ANTICIPATED OUTCOMES OR IMPACT

- 8.1 Following the release of Tranche Three of the 2019/20 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 2019/20 within the financial resources it will have next year and the feedback received will help inform Cabinet in

considering budget proposals.

Therefore approval will enable the Council to undertake consultation on its budget plans for 2019/20 and the MTFs covering the period 2019/20- 2021/22.

Cabinet will have a further opportunity to review feedback on the proposals and the MTFs on 4 February 2019, before making a final recommendation to Council on 6 March 2019.

9. REASON FOR THE RECOMMENDATION

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

10. ALTERNATIVE OPTIONS CONSIDERED

10.1 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.

11. IMPLICATIONS

Elected Members

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

11.2 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

11.3 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.

11.4 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.

11.5 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.

- 11.6 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.
- 11.7 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.
- 11.8 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.

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.

Once an 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.

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

11.9 Redundancies

There are no proposals for staffing reductions in Tranche Three. In previous tranches and years, the Council has reduced its staffing and now has very streamlined teams. To reduce staffing further at this stage would have an impact on the council's ability to carry out the savings highlighted for 2019/20.

National Living Wage

As detailed in National Living Wage proposal, outlined within the Budget Consultation Document (Appendix H), the council is legally bound to adhere to new pay scales for employees on the NJC pay scales that will be coming into effect on 1 April 2019.

Closer working with Cambridgeshire County Council

The Council is continuing to drive efficiencies and work closer with Cambridgeshire County Council to share, integrate and align back office services, where this makes sense.

Equality Impact Assessments

- 11.10 All budget proposals published in Tranche Three 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 J - Equality Impact Assessments, of the MTFs report.

12. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

12.1 Tranche One Cabinet Report- [Budget Book- Cabinet 16.07.2018](#)

Tranche Two Cabinet Report- [Budget Book Cabinet 15.10.2018](#)

13. APPENDICES

13.1 Appendix 1- [Medium Term Financial Strategy 2019/20 to 20021/22- Tranche Three - Cabinet Report 4 February 2019](#)

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