

<b>CABINET</b>	<b>AGENDA ITEM No. 4</b>
<b>4 November 2019</b>	<b>PUBLIC REPORT</b>

Report of:	Acting Corporate Director of Resources	
Cabinet Member(s) responsible:	Councillor David Seaton, Cabinet Member for Finance	
Contact Officer(s):	Peter Carpenter, Acting Corporate Director of Resources Kirsty Nutton, Head of Corporate Finance	Tel. 452520 Tel. 384590

## **MEDIUM TERM FINANCIAL STRATEGY 2020/21 TO 2022/23-TRANCHE ONE**

R E C O M M E N D A T I O N S	
<b>FROM: Cabinet Member for Finance</b>	<b>Deadline date: N/A</b>
<p>It is recommended that Cabinet approves:</p> <ol style="list-style-type: none"> <li>1. The Tranche One service proposals, outlined in Appendix C as the basis for public consultation.</li> <li>2. The updated budget assumptions, to be incorporated within the Medium Term Financial Strategy 2020/21 – 2022/23. These are outlined in section 5.2 and 5.3.</li> <li>3. The additional resourcing required to deliver the outlined proposals, in order to achieve future financial benefits. These are outlined in section 5.4 (strategic approach) and section 6 (reserves) of the report.</li> <li>4. The revised capital programme outlined in section 5.5 and referencing Appendix B.</li> <li>5. The Medium Term Financial Strategy 2020/21 – 2022/23-Tranche One, as set out in the body of the report and the following appendices: <ul style="list-style-type: none"> <li>• Appendix A – 2020/21 – 2022/23 MTFs Detailed Budget Position-Tranche One</li> <li>• Appendix B – Capital Programme Schemes 2020/21- 2024/25</li> <li>• Appendix C – Budget Consultation Document, including Tranche One Budget Proposal detail</li> <li>• Appendix D– Equality Impact Assessments</li> <li>• Appendix E– Carbon Impact Assessments- draft</li> </ul> </li> </ol> <p>It is recommended that Cabinet notes:</p> <ol style="list-style-type: none"> <li>6. The future strategic direction for the Council outlined in section 5.4 of the report.</li> <li>7. The forecast reserves position, outlined within section 6 of the report.</li> </ol>	

### **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 2020/21-2022/23.

## 2. PURPOSE AND REASON FOR REPORT

### 2.1 Purpose

The report to Cabinet forms part of the council's formal Budget and Policy Framework. This requires Cabinet to initiate and propose service proposals and updated assumptions to set a balanced and sustainable budget for the financial years 2020/21 -2022/23. There is a legal requirement to set a balanced budget for 2020/21. The purpose of this report is to:

- Recommend that Cabinet approve the Tranche One service proposals;
- 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 2020/21-2022/23;
- Outline the strategic approach the Council is taking to close the budget gap over the three year budget planning horizon to deliver a sustainable budget;

Proposals will be agreed by Cabinet at this meeting, on 4 November 2019 and then will be recommended to Council on 18 December 2019 for approval.

This report is submitted for Cabinet to consider under its Terms of Reference No. 3.2.1, "To take collective responsibility for the delivery of all strategic Executive functions within the Council's Major Policy and Budget Framework and lead the Council's overall improvement programmes to delivery excellent services."

### 2.2 Executive Summary

At Council held on 6 March 2019, the 2019/20-2021/22 MTFS was approved. This MTFS set a balanced budget for 2019/20 whilst estimating budget gaps of £18.4m and £20.0m which required additional savings to be identified in 2020/21 and 2021/22 respectively in order to balance those financial years.

In summary, Tranche One of the 2020/21 MTFS process updated the financial position for the next and future years which are summarised in the revised budget position outlined in Table 1 below, with further detail shown in Table 7 to this report.

**Table 1: Budget position Summary**

	<b>2020/21 £000</b>	<b>2021/22 £000</b>	<b>2022/23 £000</b>
Budget Gap as reported in the MTFS 2019/20	18,409	20,056	18,721
Tranche One - MTFS 2020/21- 2022/23 budget changes	(12,908)	(13,160)	(13,287)
<b>Revised Budget Gap*</b>	<b>5,501</b>	<b>6,896</b>	<b>5,434</b>

*\*- note that part of the budget changes represent departmental targets and proposals which are still subject to finalisation*

The final position for the 2018/19 financial year was an overspend of £2.1m. This position was achieved through the use of £17.5m of one-off funding solutions, as outlined in Table 3. The achievement of a balanced position has continued in to 2019/20, with a £5.5m overspend being forecast in the April Budgetary Control Report reported to Cabinet on 10 June.

In July the Corporate Management Team (CMT) implemented a series of financial management controls designed to reduce the forecast overspend by enhancing the level of scrutiny applied to all expenditure activities to minimise non-essential spend. These controls include:

- a panel to review all recruitment and agency requests;

- business case requirement for all expenditure in excess of £10k;
- service based Heads of Finance providing additional scrutiny and challenge of the business cases in excess of £10k with regular review from the Chief Finance (section 151) Officer;
- more recently all expenditure over £1k requiring Chief Finance (section 151) Officer approval;
- a review of the effectiveness and operation of financial and human resource controls across the organisation;
- a thorough review of the appropriateness and robustness of all current budget assumptions.

As previously noted the Council's finance team have conducted a thorough review of all current budget assumptions. This resulted in a series of virements to re-profile the current years budget to reflect the Council's actual financial position. This exercise identified that the 2019/20 budget pressure was estimated to be £6.085m, with the ongoing underlying budget pressure of £9.764m. CMT agreed for directors to identify additional savings proposals to ensure that expenditure is within the Councils cash limits. The savings targets have been set at the ongoing pressure value, in order to achieve financial sustainability for the Council's future year's budget, by contributing to the total amount available in reserves. The overall approach and amendment to service budgets was reported to and approved by Cabinet at the meeting held on 23 September ([Item 9](#)) and by Council at the meeting on 16 October ([Item 9](#)).

Work continues with Budget Holders, Managers and Directors working collaboratively with the finance team to review specific expenditure types and to reduce any non-essential (non-business critical) expenditure. The most recent forecast position for 2019/20 as per the September Budgetary Control Report is a £5.8m projected overspend, which incorporates the achievement to date to meet the departmental savings targets, and the £3.6m reserves contribution which was agreed as part of the plan to rebuild resilience, and newly identified pressures including:

- Great Eastern Run £0.155m – through the cancellation of the race, due to suspicious activity close to the race course;
- Homelessness £0.513m –due to increased demand for temporary accommodation;
- Home to School Transport £0.166m- as the forecast reflects the contract changes for Academic Year 2019/20;
- Peterborough Serco Strategic Partnership, Annual Delivery Plan (ADP) & Business Transformation Variable costs £0.307m- ADP which is currently costing the Council £0.065m per month will create an adverse variance against the budget unless costs are switched off or charged to a budgeted project, this is currently under review;
- Energy for Waste Plant- £.0240m reduction in wholesale electricity prices;

On 9 October the Treasury announced an increase in the interest rate for the Public Works Loan Board (PWLB) by one percentage point, meaning the typical rate for a loan is now 2.8% instead of 1.8%. This effects the rate at which the Council is able to borrow money to fund capital investments, and therefore will increase costs for financing capital investment. The action by the Treasury is designed to discourage councils from borrowing to fund "risky" multimillion valued property investments, however it has been reported by the Local Government Association that *"This 1% PWLB rate increase could cost councils an extra £70m a year for borrowing to be undertaken in the next year"*.

Further detail on the progress against the savings targets is outlined within the Budgetary Control Report-September 2019, also being reported to Cabinet on 4 November. Table 2 outlines 2019/20 directorate targets and the savings identified to date. More work is under way across the Council to ensure that it delivers to the £9.7m target by the end of the financial year:

**Table 2: Management of the forecast overspend by directorate summary - 2019/20**

Directorate	Savings Target £000	Identified Savings £000	Remaining Target £000
Business Improvement	47	(47)	0
Chief Executives	120	(119)	1
Customer & Digital Services	562	0	562
Governance	298	(185)	113
People & Communities	5,876	(2,152)	3,724
Place & Economy	1,530	(879)	651
Public Health	226	(238)	(12)
Resources	1,105	(1,105)	0
<b>Total</b>	<b>9,764</b>	<b>(4,725)</b>	<b>5,039</b>

The Council outlined plans in the previous financial years to move towards a truly sustainable budget, by reducing reliance on the one-offs funding solutions. A challenging financial environment remains with demand for services increasing and service costs rising whilst funding from government reduces. In 2019/20 the Council budgeted to use £10.6m of capital receipts to balance the budget. As further budget pressures emerge alongside acknowledging the time required to implement new saving proposals, there is the need to ensure there is resilience with the level of reserves the Council holds, and therefore the Council plans to utilise the one off benefit of £1.4m from the sale of further assets through the generation of capital receipts. **This has not yet been factored in to the table above but could bring the remaining balance of the in year savings target down to £3.6m.**

The Council is working collaboratively with Grant Thornton to develop and implement savings proposals to balance the budget and create a more financially sustainable future. The following table outlines the one offs used in recent years, planned and unplanned.

**Table 3: Non repeatable One Off Savings**

Non Repeatable	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	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	-	-
<b>Total</b>	<b>20,105</b>	<b>12,041</b>	<b>13,924</b>	<b>-</b>	<b>-</b>
In year Use of Reserves (overspend reported in the 2018/19 outturn Report)	-	2,119	-	-	-
In year increased Use of Capital Receipts*	-	3,298	-	-	-
<b>Total</b>	<b>20,105</b>	<b>17,458</b>	<b>13,924</b>	<b>-</b>	<b>-</b>

\*Note- this table does not account for the £1.4m of additional asset sales being explored in the current financial year

### 3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	<b>YES</b>	If yes, date for Cabinet meeting	<b>4 NOVEMBER 2019 &amp; 9 DECEMBER 2019</b>
Date for relevant Council meeting	<b>18 DECEMBER 2019</b>	Date for submission to Government Dept.	<b>N/A</b>

#### 4. BACKGROUND

4.1 This report forms Tranche One of the budget process the Council previously agreed at Council on 24 July 2019 ([Item 13](#)), to aid the delivery of a three year Revenue Budget and Capital Programme from 2020/21 to 2022/23 for the Council.

#### 4.2 The 2020/21 to 2022/23 Budget Setting Process

In July Council approved the process and timetable for the 2020/21 Budget Setting. Due to the Council's challenging financial position an approach was approved which will allow the appropriate amount of time to develop proposals, ensuring they are deliverable, robust and collectively achieve financial sustainability.

The MTF process will be delivered over two tranches, a reduction to the previous year's process. Due to the nature and scale of the challenge the proposals include significant operational changes and will affect the way the Council delivers its services. The Council has been working collaboratively with Grant Thornton, on the development of these proposals within a Financial Implementation Programme. This programme has provided specialist expertise and ensured the budget proposals have received external financial verification with the aim of maximising the successes and minimising the risks. Table 4 sets out the budget timetable:

**Table 4: Budget Timetable**

Tranche	Cabinet	Joint Scrutiny	Cabinet	Council
Tranche One	04/11/2019	27/11/2019	09/12/2019	18/12/2019
Tranche Two	03/02/2020	12/02/2020	24/02/2020	04/03/2020

#### 4.3 Local Context

As outlined within section 2.2 this Council has an immediate and significant financial challenge, to build a bridge to long term financial security and sustainability. The Council must identify £33.5m (£18.4m opening budget gap plus £15.1m of identified pressures) of savings to be able to deliver a balanced budget in 2020/21 and meet the £9.8m directorate savings targets set as part of the plan to reduce the forecast overspend for the current financial year. The full breakdown of the budget position is outlined within Table 7.

The Council has had its Revenue Support Grant reduced by over 80%, from £55m in 2013/14 to £10.5m in 2020/21, whilst at the same time experiencing cost increases and rising demand for services. Over the years the council has delivered savings by redesigning services, reducing the workforce, driving income generation and being more efficient to keep the cost of service delivery in line with the reduced funding envelope. However, each year this has become more difficult and challenging for the Council to achieve.

Examples of the pressures that have put additional strain on the council's finances include:

- The population is growing older and people are requiring more complex care, which in turn is significantly increasing our costs of care. For example, the number of people the Council provides paid for care packages has increased by 402 between 2015/16 and 2018/19 - rising from 3,468 to 3,870;
- A rise in residential placements for children in care over the past two years. As a result, the Council has needed to identify an additional £3.2m in 2019/20 (£3.9m in 2018/19) to meet additional placement costs;
- There is a growing demand in special educational needs. In the past four years the Council has experienced a 39% increase in pupils with Education, Health and Care Plan (EHCP) in Peterborough's mainstream schools;

- Significant pressure to provide enough school places as a result of extensive new housing developments and demographic changes resulting from increased birth rates. The mainstream school population in Peterborough has increased from 28,257 pupils on roll in January 2006 to 36,759 in October 2018, an increase of 30%;
- The need for additional school places, has meant that the council has had to build new schools or extend current schools. The schools capital programme has totalling £91.3m of expenditure in the past five years. Not only does this increase the Councils Capital Programme but it also has an ongoing impact on the revenue budget, due to the cost of borrowing;
- An average of 900 new homes built per year for the last decade, although this attracts funding such as Council Tax and New Homes bonus, this growth comes with extra service demands;
- An increase in population over the last decade, 172,443 people lived in the city in 2007, in comparison to 198,914 in 2017 - a 15% increase in the amount of people requiring services;
- Increases to costs such as wages, in line with the national terms and conditions (NJC) and National Living Wage supporting the lower paid workers, energy prices and inflationary increases to contracts and every day products.
- In 2016/17 we saw a 43 per cent rise in the number of households needing assistance because they were homeless or threatened with homelessness, rising from 1,100 to 1,586. The Council still faces a significant demand for this area with 415 families or single persons currently in Temporary accommodation. The Homelessness Reduction Act has also placed new obligations on councils to provide support for certain categories of people at risk of homelessness and has led to increased spending on temporary accommodation.

These pressures are outlined in more detail within the Budget Consultation document (Appendix C).

The Council is not alone in this challenge, there are many other councils across the country that are facing similar increases in demand and severe financial issues, as reported in national and public sector media. The uncertainty surrounding the future funding levels also adds further complexity for Councils setting a Medium Term Financial Strategy.

## **Climate Change**

On 24 July 2019 the Council declared a 'Climate Emergency' that requires urgent action. Therefore the Council has agreed the following actions:

- Make the council's activities net-zero carbon by 2030 and ensure all strategic decisions, budgets and approached to planning decisions are in line with a shift to zero carbon by 2030;
- Achieve 100% clean energy across the Council's full range of functions by 2030;
- Ensure that political and chief officer leadership teams embed this work in all areas and take responsibility for:
  - reducing, as rapidly as possible, the carbon emissions resulting from the Council's activities;
  - ensuring that any recommendations are fully costed and that the Executive and Scrutiny functions review council activities taking account of production and consumption emissions and produce an action plan by 31 March 2020;
- Request that Council Scrutiny Panels consider the impact of climate change and the environment when reviewing Council policies and strategies;
- Work with, influence and inspire partners across Peterborough, Cambridgeshire and it's districts and the region to help deliver this goal through all relevant strategies, plans and shared resources by developing a series of meetings, events and partner workshops;
- Request that the Council and partners take steps to proactively include young people in the process, ensuring that they have a voice in shaping the future;

- Ensure that all reports in preparation for the 2020/21 budget cycle and investment strategy will take into account the actions the council will take to address this emergency. Seek Councils support for budget approval to assist with the co-ordination of this project;
- Call on the UK Government to provide the powers, resources and help with funding to make this possible, and ask local MPs to do likewise;
- Consider other actions that could be implemented, including (but not restricted to): renewable energy generation and storage, providing electric vehicle infrastructure and encouraging alternatives to private car use, increasing the efficiency of buildings, in particular to address fuel poverty; proactively using local planning powers to accelerate the delivery of net-zero carbon new developments and communities, increased tree planting, coordinating a series of information and training events to raise awareness and share good practice. Look to replace all council vehicles with electric or hybrids, including the mayors car, as soon this is practical and financially viable.

## **Fair Tax**

At the same Council meeting on 24 July 2019 the Council agreed to the Fair Tax Declaration from the Fair Tax Mark, which commits cities, towns and districts to pursuing exemplary tax conduct in their affairs, requires greater transparency from suppliers, and calls on the EU and UK governments to review legislation and support greater powers for the exclusion of tax dodgers from public procurement. The Council must consider it's supplier companies ethics and how they pay the tax (as well as value for money and quality of service provided) when undertaking procurement. The Council will now take steps to:

- Revise procurement policy to ask bidders for Council contracts to account for their past tax record and to self-certify that they are fully tax-compliant in line with central Government practise;
- Publicise this policy and report on its implementation annually, for the next three years to Audit Committee and formally report back to Council after that period to seek renewal or revision of the policy.

The following councils have passed the Fair Tax Declaration;

- Oxford City Council
- Cannock Chase Council
- Oldham Borough Council
- Peterborough City Council

More information on the Fair Tax declaration can be found [here](#).

## **Council Priorities**

Cabinet remains firm in its priorities this year against the funding challenges it faces. These are as follows:

- Growth, regeneration and economic development of the city to bring new investment and jobs. Supporting people into work and off benefits is vital to the city's economy and to the wellbeing of the people concerned;
- Improving educational attainment and skills for all children and young people, allowing them to seize the opportunities offered by new jobs and our university provision, thereby keeping their talent and skills in the city;
- Safeguarding vulnerable children and adults;
- Pursuing the Environment Capital agenda to position Peterborough as a leading city in environmental matters, including reducing the city's carbon footprint;
- Supporting Peterborough's culture and leisure offer;
- Keeping our communities safe, cohesive and healthy;
- Achieving the best health and wellbeing for the city.

#### 4.4 National Context

##### Spending Review 2019

On 4 September 2019 the Chancellor of the Exchequer, Sajid Javid announced a one year only Spending Review (SR19), including a real terms increase in spending of £13.8bn, across all government departments.

This means that the Government projects Local Government Core Spending Power (CSP) will increase by £2.9bn in 2020/21, a real terms increase of 4.3% (i.e. a cash increase of 6.3%). This compares to a cash increase in CSP of £1.7bn between 2015/16 to 2019/20. Overall Local Government should see an increase in its total funding package of more than £3.5bn. The following points outline the key local government headlines from the announcement:

- Business Rates Reset and the Fair Funding Review will be deferred until 2021/22, (no further consultation has been released on this);
- 75% Business Rates Pilots will end in March 2020 with only the 100% devolution pilots remaining in place - no new pilots planned for 2020/21;
- Revenue Support Grant (RSG) 2020/21 will be 2019/20 + CPI;
- New Homes Bonus - legacy payments for New Homes Bonus will be paid, however there was no confirmation regarding new payments going forward;
- Social Care and Public health:
  - Additional Social Care funding of £1bn delivered through grant, in addition to the funding currently received in 2019/20, meaning the current funding streams of Improved Better Care Fund, Winter Pressures Grant and Social Care Grant will continue for 2020/21;
  - Adult Social Care precept up to 2% and general council tax up to 2%;
  - Real terms increase in Public Health Grant, to be in line with the increase in the Better Care Fund and stated to be an additional £100m.
- Schools to receive an additional £700m High Needs 2020/21 on top of previous funding;
- Troubled Families Funding will continue, equating to £0.7m of funding for the council;
- Homelessness will receive an additional £54m, but detail of distribution method is unknown at present, it is assumed this will be on the same basis as the Homelessness Reduction Act funding;
- New Towns Fund £241m - Peterborough named one of the Towns to benefit from this.

Table 5, summarises the forecast additional financial benefit the Council could expect to receive from the settlement. Additional clarity as to the impact for the Council is expected with the Local Provisional Local Government Finance Settlement 2020/21 in December with confirmation expected in the final settlement in February 2020.

**Table 5: Forecast Financial benefit from the Spending Review 2019**

	2020/21	2021/22	2022/23
	£000	£000	£000
Additional 1% Council Tax*	783	817	844
Additional Social Care Funding	3,308	3,308	3,308
Continuation of IBCF (3 year ASC grant)	1,121	1,121	1,121
Homelessness	279	279	279
Public Health and Better Care Fund (NHS)	419	419	419
Tackling Troubled Families Grant extension	753	-	-
Revenue Support Grant (Current CPI- 2%)	205	205	205
<b>Total</b>	<b>6,868</b>	<b>6,149</b>	<b>6,176</b>

\*Council tax was assumed at a rate of 3% within the current 2019/20 MTFS agreed at Council on 6 March 2019. The SR19 allows for 4%, therefore, the Council is able to recognise the additional benefit of a further 1%.



## Provisional Local Government Finance Settlement 2020/21

The Provisional Local Government Finance Settlement 2020/21 Technical Consultation was issued on 4 October 2019. Within the document the Ministry of Housing, Communities and Central Government (MHCLG) have outlined the following key areas:

- An indicative individual authority funding allocations for the additional £1bn of social care funding announced within the Spending Round;
- Funding will continue at 2019/20 levels (with individual authority allocations unchanged) for the Winter Pressures Grant and the Social Care Support Grant;
- The Improved Better Care Fund funding will continue at 2019/20 levels; and use the same methodology to allocate the funding;
- New Homes Bonus Funding of £900m for 2020/21, but with only legacy payments from 2018/19 and 2019/20 paid for 2021/22 onwards;
- The Council Tax referendum limits, as set out in the spending review - core council tax referendum principle of up to 2% and an adult social care precept of 2% on top of the core principle; and no referendum principles for parish councils and mayoral combined authorities;
- MHCLG are aiming to hold the provisional settlement in December.

The Council will respond to the consultation, expressing concerns over the future treatment of New Homes Bonus, our views on social care funding allocation and the Council Tax referendum limit, noting the need for increased localised flexibility.

## The Local Government Landscape

The Local Government Association (LGA) has recently noted that between 2010 and 2020, councils will have lost almost 60p out of every £1 the Government had provided for services. Despite this councils have continued to deliver for their communities, providing vital services daily. A recent [report](#) published by the Trade Unions Congress (TUC) also outlines that there is a £25bn funding gap, as reforms mean grants are being cut to "almost zero", with the exception of a small amount of ring-fenced grants. It highlights that the few ring-fenced grants will account for less than a tenth of local authority expenditure by 2025, while councils' income from business rates will not match the shortfall. There is also the additional risk for Councils attached to business rates, such as non-collection and income levels could be reduced if economic decline is experienced. This summarises the significant funding shortfall councils are faced with, while demand for council services across the country is rising.

The Spending Review delivers a one-year settlement worth £3.5bn for local government, and provided confirmation that key grants will continue next year, thus providing some stability for councils. However, this only allows councils to plan in the short-term, and it is crucial that councils are able to plan ahead for more than 12 months at a time. Future funding levels beyond 2020/21 are unconfirmed and will likely change as a result of the implementation of the Fairer Funding, Business Rates Retention (75%) and baseline reset.

The LGA, County Councils Network and other Local Government service agencies continue with campaigns to lobby government to demonstrate the need for funding to ensure that vital services provided by councils are able to continue and improve.

## 5. BUDGET DETAIL

### 5.1 2019/20-2021/22 MTFS Summary

Table 6 outlines the position, detailing the amounts the council expects to receive from the key funding streams. It highlights the departmental budgets and the budget gap for each of the three years from the 2019/20 MTFS.

**Table 6: 2019/20 MTFS Budget Summary Position**

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
NNDR	(49,485)	(50,253)	(50,253)
Revenue Support Grant	(10,246)	(10,246)	(10,246)
Council Tax	(81,441)	(84,969)	(88,635)
New Homes Bonus	(4,191)	(4,301)	(4,301)
Improved Better Care Fund	(5,345)	(5,345)	(5,345)
Additional funding for Adult Social Care	(2,150)	(2,150)	(2,150)
<b>TOTAL CORPORATE FUNDING</b>	<b>(152,859)</b>	<b>(157,264)</b>	<b>(160,930)</b>
<b>PLANNED EXPENDITURE</b>			
Chief Executives	1,249	1,268	1,268
Governance	3,964	4,029	4,029
Place & Economy	20,095	21,107	21,107
People & Communities	89,659	92,802	92,802
Public Health	(193)	(193)	(193)
Resources	13,738	13,715	16,008
Customer & Digital Services	6,748	6,909	6,909
Business Improvement	210	213	213
<b>NET SERVICE EXPENDITURE</b>	<b>135,470</b>	<b>139,851</b>	<b>142,144</b>
Corporate Expenditure	5,070	5,082	5,082
Capital Financing Costs	30,728	32,387	32,425
<b>TOTAL PLANNED EXPENDITURE</b>	<b>171,268</b>	<b>177,320</b>	<b>179,651</b>
<b>REVISED DEFICIT/(SURPLUS)</b>	<b>18,409</b>	<b>20,056</b>	<b>18,721</b>

### 5.2 **Tranche One Budget Position 2020/21-2022/23**

Table 7 sets out the demand and savings proposals in Tranche One of the 2020/21 budget process. The major items included within these proposals are:

- Changes to the Serco Contract;
- Reviewing care packages and promoting independence;
- Reviewing the Special Educational Needs (SEN) transport provision;
- Reduction in the use of agency staffing;
- Review of Human Resources (HR) processes and policies;
- Reshaping a number of back office services;
- Funding changes because of the Spending Review 2019.

Further detail in respect of the savings proposals is outlined within Table 8 and the following appendices:

- Appendix A - 20120/21-2022/23 Tranche One MTFS Detailed Budget Position
- Appendix C - The Budget Consultation Document

- Appendix D - Equality Impact Assessments (where applicable)

**Table 7: Tranche One Budget Summary Position 2020/21-2022/23**

	2020/21	2021/22	2022/23
	£000	£000	£000
<b>Budget Gap from 2019/20 MTFS</b>	<b>18,409</b>	<b>20,056</b>	<b>18,721</b>
Pressures- from 2020/21 onwards - <i>note 1</i>	5,370	5,370	5,370
Budget Profiling Pressure - <i>note 2</i>	9,764	9,764	9,764
<b>Revised Budget Gap</b>	<b>33,543</b>	<b>35,190</b>	<b>33,855</b>
Building on successful transformation	(2,312)	(2,367)	(2,367)
Contract And Commercial	(1,167)	(1,278)	(1,278)
Changing services to reflect the council of today	(1,305)	(2,155)	(2,205)
Redesign of Service	(1,234)	(1,430)	(1,430)
Reduction of Provision	(1,061)	(1,061)	(1,011)
Using our assets	(646)	(586)	(586)
<b>Budget Gap - Tranche One</b>	<b>25,818</b>	<b>26,313</b>	<b>24,977</b>
<b>Items proposed and to be finalised in Tranche Two:</b>			
Spending Review 2019 and Corporate Savings (Per Council Tax base and LG Finance Settlement)	(9,068)	(8,119)	(8,216)
Changing services to reflect the council of today (Changes to the Serco Contract and HR Controls)	(5,866)	(5,915)	(5,945)
Redesign of Service (Review of school transport costs)	(501)	(501)	(501)
Budget Re-profiling savings (identified - Capital Financing restructuring) - <i>note 3</i>	(878)	(617)	974
Budget Re-profiling savings (to be identified) - <i>note 3</i>	(4,004)	(4,265)	(5,856)
<b>Final Budget Gap - Tranche One</b>	<b>5,501</b>	<b>6,896</b>	<b>5,434</b>

### Note 1: Budget Re-profiling Pressure

There are pressures which require recognition within the budget in order to ensure accurate assumptions are built in to the budget, these are as follows:

- A pressure of £0.9m is the contract pressure and a funding shortfall in respect of the health visiting contract, within the Public Health directorate. This pressure is recognised to ensure an accurate budget baseline, however there are savings proposals summarised in Table 7 and 8 to mitigate this pressure.
- A £4.5m pressure from back office savings where it proved difficult to design a robust plan of delivery. This saving was included within the 2018/19 MTFS and expected to increase over a three-year period. The first year of savings delivered close to target, however a pressure in the current financial year has emerged, which has been incorporated within the budget re-profiling (forecast overspend mitigation management plan). Embedded future years savings required amendment to ensure a robust MTFS. New plans are incorporated within the savings outlined in the previous table that focus on the back office functions and implement changes which will change the way the council operates.

### Note 2: Budget Pressures from 20/21 onwards

The £9.8m pressure represents the ongoing level of budget pressures identified as part of the budget re-profiling (forecast overspend management plan), which is detailed further in section 2.2 of this report or within the Budgetary Control Report - June, which was reported to Cabinet at the meeting held on 23 September ([Item 9](#)).

### Note 3: Budget Re-profiling Savings

Within the current financial year directorates have been set the task of delivering savings against a £9.8m target. As part of this plan a target equating to 50% of this amount, £4.9m was required to be ongoing, to help to ensure the sustainability of proposals and encourage the move away from one-off savings. To date the Council has reviewed and revised its capital investment financing model and developed an option based on short term borrowing which will generate a revenue benefit. Work continues on the delivery of this in year savings target and is being reported to CMT on a bi-weekly basis and as part the monthly budgetary control reporting cycle.

Table 8 details all of the proposals included within Tranche One, and the financial implications for the three years covering 2020/2021- 2022/23.

**Table 8: 2020/21- 2022/23 Tranche One budget proposals**

<b>Proposal</b>	<b>2020/21 £000</b>	<b>2021/22 £000</b>	<b>2022/23 £000</b>
<b>Building on successful transformation</b>	<b>2,312</b>	<b>2,367</b>	<b>2,367</b>
Review of care packages to promote independence	1,749	1,749	1,749
Dimming of street lighting between 9pm and 5am	100	100	100
Revised Services for low level support for older people discharged from hospital	45	45	45
Revised funding for Peterborough Community Assistance Scheme	418	473	473
<b>Changing services to reflect the council of today</b>	<b>7,171</b>	<b>8,070</b>	<b>8,150</b>
Changes to the Serco contract	4,536	4,536	4,536
HR Controls	1,487	1,536	1,566
Place and Economy directorate shared services progression	139	195	195
Reshaped Human Resources Function	450	663	663
Reshaping of departments and further shared services	483	1,061	1,111
Support provided for members	76	79	79
<b>Contract And Commercial</b>	<b>1,167</b>	<b>1,278</b>	<b>1,278</b>
Removal of unused project budget for road safety	30	30	30
Facilities management service costs within the Schools PFI	168	168	168
Joint commissioning of our Healthy Child Programme	541	541	541
Joint commissioning of our Integrated Lifestyle Services	80	100	100
Realignment of drug and alcohol budget	40	40	40
Reduction in the repair and maintenance budget through commercial review	80	80	80
Self-funding of Lifeline service after six weeks	57	124	124
Revised Extra Care Contract	47	71	71
City College Peterborough	74	74	74
Revised Stay Well in Winter campaign	50	50	50
<b>Corporate Savings</b>	<b>2,200</b>	<b>1,970</b>	<b>2,040</b>
Council Tax Base & Collection Fund	600	370	440
Inflation (Pension & Electricity)	1,600	1,600	1,600
<b>Redesign of Service</b>	<b>1,735</b>	<b>1,931</b>	<b>1,931</b>
Deprivation of Liberties Safeguards (DoLS) assessments	107	159	159
PAMS – reduction in outsourcing of assessments	22	22	22
Recommissioning children’s centre contracts	100	200	200
Redesigned commissioning team through shared working	60	60	60
Reduction in agency staff in children’s social care	173	217	217
Reduction in NHS Health Checks budget due to low uptake	55	55	55
Removal of social care lead practitioner post	50	50	50
Removal of vacant housing case worker post	40	40	40
Reshaping community and safety directorate	127	127	127
Restructure and remodelling of the Prevention and Enforcement Service (PES)	380	380	380
Review of school transport costs	501	501	501

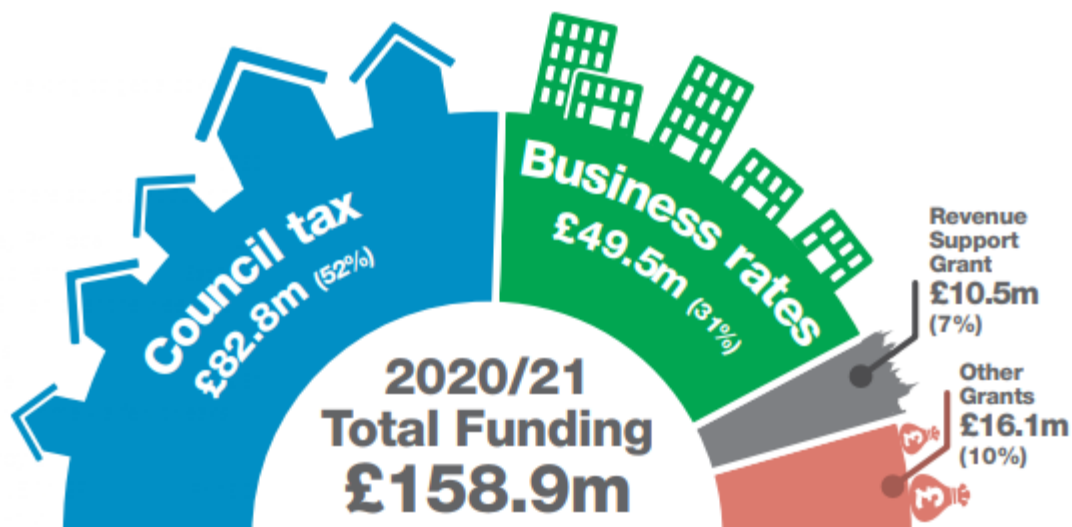
Review of security and cleaning at Sand Martin House	120	120	120
<b>Reduction of Provision</b>	<b>1,061</b>	<b>1,061</b>	<b>1,011</b>
Prioritising street cleansing work	129	129	129
Reduction in discretionary youth services budget	516	516	516
Reduction in response time to non-hazardous fly tipping	59	59	59
Vivacity	357	357	307
<b>Spending Review</b>	<b>6,868</b>	<b>6,149</b>	<b>6,176</b>
Additional 1% Council Tax	783	817	844
Additional Social Care Funding	3,308	3,308	3,308
Continuation of IBCF (3 year ASC grant)	1,121	1,121	1,121
Homelessness	279	279	279
Public Health and Better Care Fund (NHS)	419	419	419
Revenue Support Grant increase at (Current CPI- 2%)	205	205	205
Continuation of Tackling Troubled Families	753	0	0
<b>Using our assets</b>	<b>646</b>	<b>586</b>	<b>586</b>
Changing frequency of property condition surveys	67	67	67
Increase in income from council-owned commercial units	23	23	23
Introducing auto-scale product	45	45	45
Move from Educate system to Synergy	60	0	0
Reduction in property contingency budget	126	126	126
Vivacity People's Network support maintenance budget reduction	6	6	6
Income generation and business rates from Sand Martin House	319	319	319
<b>Grand Total</b>	<b>23,160</b>	<b>23,412</b>	<b>23,539</b>

### 5.3 Grants and Funding Assumptions

Table 9 outlines the Councils forecast core funding for the period 2020/21- 2022/23. It is expected that this will be confirmed as part of the Local Government Settlement in February, but at this stage it has been updated to reflect the most up to date information.

**Table 9: The Councils funding Summary Position 2020/21- 2022/23**

	2020/21	2021/22	2022/23
	£000	£000	£000
NNDR (Business Rates)	(49,485)	(50,253)	(50,253)
Revenue Support Grant	(10,451)	(10,451)	(10,451)
Council Tax	(82,825)	(86,156)	(89,920)
New Homes Bonus	(4,191)	(4,301)	(4,301)
Improved Better Care Fund	(6,466)	(6,466)	(6,466)
Additional funding for Adult Social Care	(5,458)	(5,458)	(5,458)
<b>TOTAL CORPORATE FUNDING</b>	<b>(158,876)</b>	<b>(163,085)</b>	<b>(166,849)</b>



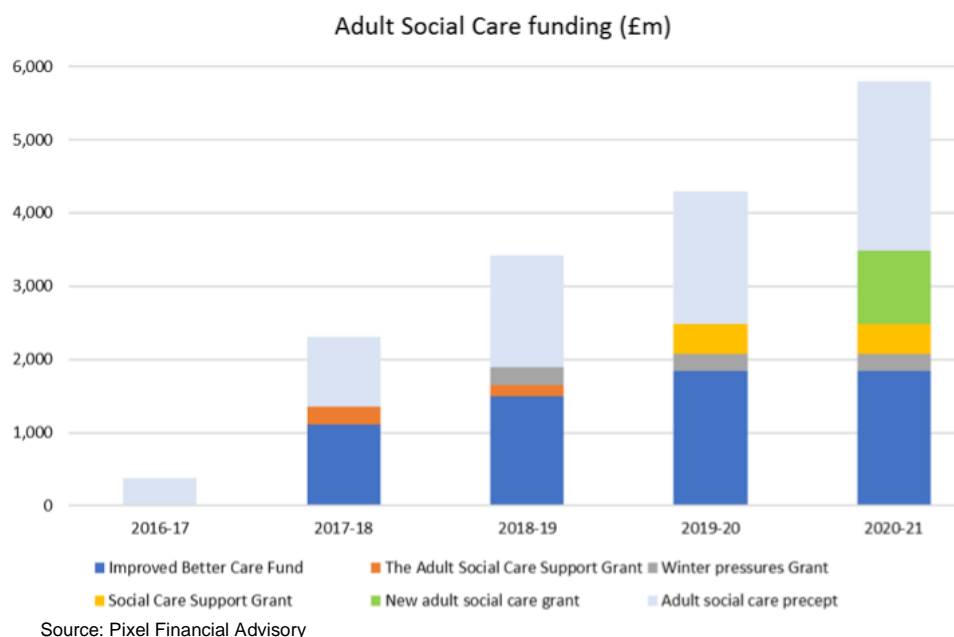
**Council Tax** - the forecast funding includes an assumption based on 1.99% general Council Tax, which is below the referendum limit and 2% Adult Social Care Precept as per the spending review announcement. The total proposed Council tax increase in 2020/21 is 3.99%, with a forecast increase of 2.99% thereafter.

**Business Rates** - business rates is a major source of income for the council providing some £49m. The forecast currently includes an increase of £0.6m in comparison to the 2019/20 budget, but this will be reviewed towards the end of 2019, once the multiplier rate has been confirmed. This forecast is currently based on the anticipated growth from businesses.

### Grants

- Revenue Support Grant has been increased by 2%(CPI) in comparison to 2019/20 as outlined within section 4.4
- New Homes Bonus Grant levels have not been revised since the 2019/20 MTFS, pending confirmation on new house figures as part of a October statistical return and further clarification from MHCLG on the future funding allocation methodology. The risk of an adverse impact in 2020/21 is low, however as indicated by MHCLG, within the provisional settlement consultation the future years funding will likely be reduced, and there will be a much higher risk to future funding levels.
- The Adult Social Care grants and IBCF have partially been confirmed, with the Council expecting to receive a combined £12m in 2020/21. Funding for this area has been increasing year on year, as a MHCLG's response to the increasing costs incurred by local authorities to continue providing caring for the older population.

The following graph demonstrates the rising level of funding for adult social care for the whole of local government, including the additional Adult Social Care Precept income raised as part of Council Tax. Over the course of five years the additional funding has gone from under £0.5bn to almost £6bn.



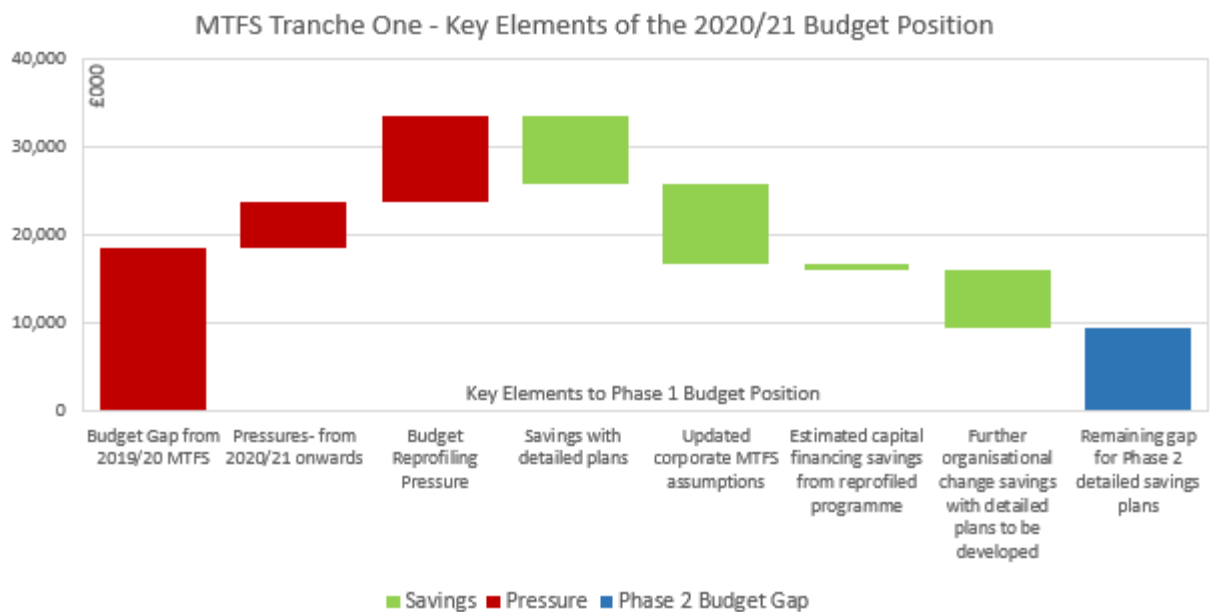
All of the funding figures are to be confirmed within the Local Government Final Settlement, the Council Tax forms, the CTB1 and CTR1 and the Business Rates NNDR1 form, and will be reported within the Tranche Two report.

As noted earlier in the report, the Council will only receive certainty over the level of funding for the next financial year, beyond that the position remains unconfirmed and subject to a number of different variables such as a further Spending Review, the Fairer Funding Review, Business Rates 75% Retention and the baseline reset.

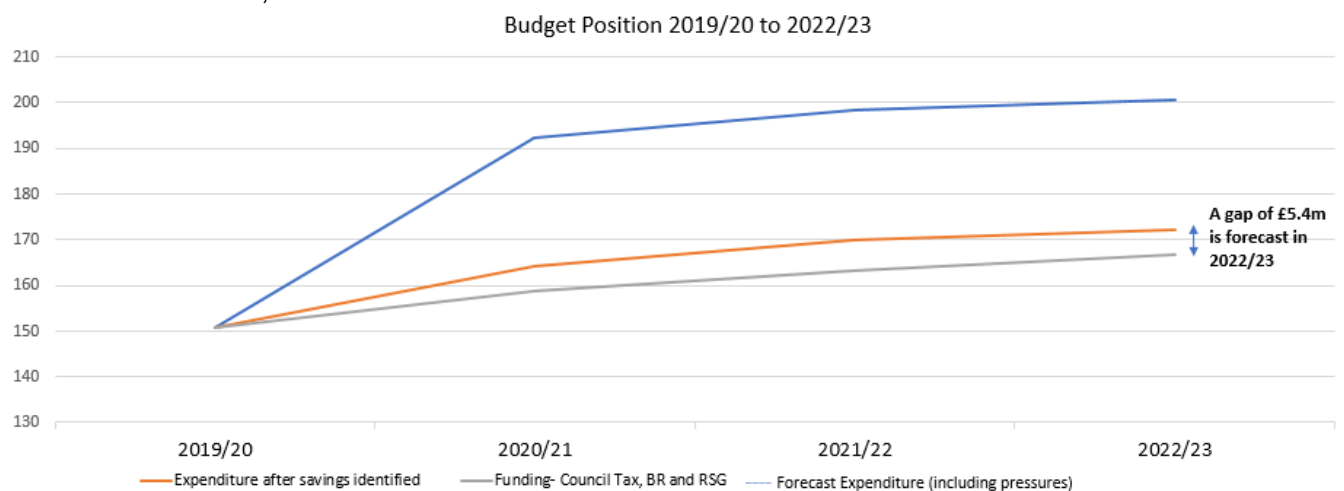
#### 5.4 Strategic Approach to closing the Budget Gap

The council has highlighted a budget gap of £33.5m in 2020/21. This budget position is the result of the opening gap of £18.4m, as highlighted in the 2019/20-2021/22 MTFs and the additional identified pressures of £15.1m.

The following graph outlines the key elements, which contribute to the final reported Tranche One position. The Council has identified, £24m of new funding and budget savings, some with detailed plans, while other plans are still under development, leaving the council with £9.5m gap where robust, detailed saving plans are required to be developed in order to balance the budget as part of Tranche Two.



The following graph highlights the financial challenge still facing the Council, and the progress, which is being made towards closing the gap and creating a sustainable budget. The Council still has budget gaps of £5.5m in 2020/21, £6.9m in 2021/22 and £5.4m in 2022/23.



*\*This graph includes an assumption that the targets set as part of the Budget reprofilling (forecast overspend mitigation management plan) will be fully delivered.*

### Strategic Approach

The Council's strategic approach to meeting this challenge is to consider how it can build on the following themes to generate a financial benefit which will enable the Council to provide the vital services to the residents and businesses within Peterborough:

- Building on successful transformation;
- Making its assets work even harder;
- Increasing commercial income and driving down the costs of contracts;
- Redesigning its services.



After it has exhausted all of the above, the Council will consider reducing non-statutory service provision, and even here wherever possible, only on a temporary basis. The council will only, as a last resort, make cuts to services. The Council will actively promote independence and improved outcomes for those adults with social care needs, providing better support for carers and promoting use of Tech Enabled Care, Equipment and short-term support.

The Council will be continuing to work collaboratively with Grant Thornton on the implementation of the savings programme. With support, being provided to officers delivering these changes and a strong monitoring programme in place to ensure the progress is regularly reported to the CMT, proposals remain on track for successful delivery and any required action to ensure that is taken at the earliest opportunity.

Grant Thornton will also be working closely with CMT and officers to develop detailed proposals and implementation plans for the following savings and to strengthen Council processes and controls:

- Human Resources - which will include changes to processes, systems, training and development and the use of interim and agency support;
- Review of the School Transport costs jointly with Cambridgeshire County Council, to ensure it can achieve value for money and economies of scale with costs across both councils;
- Changes to the Serco Contract to provide services in a different way and redesign the way business support is structured;
- Strengthen and improve financial and HR processes and controls.

As outlined within section 6- Reserves, a commitment has been made to account for the cost of delivering these actions. The commitment includes an element for redundancy costs and investment required to enable transformational change and implementation of the service proposals. The resource required for this is estimated to be up to £5m.

As there's still a significant challenge ahead the controls which have been put in place to add an additional layer of scrutiny to expenditure and recruitment will continue and will broaden if no improvements are visible.

As well as focussing on the implementation of proposals and applying additional scrutiny of expenditure, the Council will need to develop further proposals to deliver a balanced and robust the budget. This will include exploring the following options:

- Demand management across all service areas, in particular adults and children's social care and homelessness, which is an area where the Council has been experiencing rising demand since 2016/17;
- Disposal of assets - the Council will look to review its assets, which could be disposed to generate a capital receipt. This could then be used flexibly, as per the flexible use of capital receipts guidance, to fund service transformation and redundancy costs;
- Review the capital programme in future years to ensure it only includes essential and funded programmes;
- Strong contract management;
- Increasing commercial income across the council;
- Using technology and ICT solutions to promote independence in the home, streamline processes and increase automation, becoming a more efficient Council;
- If the Council feels that its financial position is fragile and unrecoverable, and every effort has been made to find solutions and every potential avenue exhausted, then the Council will open a line of discussion with MHCLG to seek future assurances or aids to ensure it will be able to continue financially.

Although some of these items represent one-off solutions, these may be required to bridge the funding gap, until confirmation of the settlement for 2021/22 onwards is announced. As outlined in section 4.4 the Council, along with all Councils across the country, only have confirmation of funding allocations for

2020/21. There is a significant amount of uncertainty around future funding levels. Peterborough has taken a conservative view and assumed that our funding levels will remain the same, with no increases. However, due to the level of growth within the City, in comparison to other areas it is thought that this should be reflected within the Fairer Funding methodology. There are further consultations due on this over the next year, which should provide further clarity as to what methodology MHCLG will be applying to allocate funding.

## 5.5 Capital Programme

The Council's Capital Programme is viewed over a five year period to ensure correct stewardship of assets and efficient use of budgets, with the first three years forming part of the MTFs. The council is proactive in attracting external funding for as many schemes as possible. An officer-led Capital Review Group oversees the council's capital requirements. All related strategies are scrutinised prior to full council by Audit Committee

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.

The Capital Programme contains funding for Invest to Save schemes. This budget is included on the basis that any projects funded via this budget will deliver savings to the Council, for example acquisition of investment properties, loans to strategic partners. Business cases for future proposals are required to demonstrate how the cost of borrowing will be covered, e.g. through income generation, reduction in service costs. Invest to save is shown separately due to the projects only proceeding where they lead to savings which cover the associated capital financing costs in the year they occur, and the capital financing costs are recharged to service budgets. Further information on the Invest to Save programme is included with the Council's Capital Strategy.

Work has been undertaken to reduce the capital programme to £80m per year. However, this excludes Invest to Save schemes as the inherent nature of these projects means that the expenditure is less likely to suffer from the same constraints as the Council not having the project officer capacity to deliver a programme over £80m and reducing the budget on these projects does not lead to revenue savings.

Tranche 2 will reflect a further review of the programme to reduce costs as well as some further investment in line with Council priorities eg Climate Change.

Additional investment schemes that have been added to the previous MTFs for approval are summarised in Table 10.

**Table 10: New Capital Schemes included within Tranche One**

Directorate	Schemes Included
Growth & Regeneration	<p><b>2019/20</b></p> <ul style="list-style-type: none"> <li>Reinstate £1m London Road Stadium lease obligations</li> </ul> <p><b>2020/21</b></p> <ul style="list-style-type: none"> <li>Additional CPCA grant (tbc) for University Access (£100k) &amp; A16 Norwood Duelling (£75k)</li> </ul>

Table 11 provides a summary of the capital programme the over the MTFs period. The full list of schemes is detailed in Appendix B - Capital Programme Schemes 2020/21- 2022/23. These tables includes the changes to the programme listed above and those agreed by 23 September Cabinet.

**Table 11: The Capital Programme 2020/21- 2022/23 Summary**

<b>Capital Programme</b>	<b>2020/21 £000</b>	<b>2021/22 £000</b>	<b>2022/23 £000</b>
Customer & Digital Services	3,800	5,000	3,500
People & Communities	27,867	26,189	22,247
Place & Economy	32,120	33,203	31,539
Resources	3,069	696	-
<b>Total Capital Programme</b>	<b>66,856</b>	<b>65,088</b>	<b>57,286</b>
Grants & Third Party Contributions	21,986	29,808	33,220
Capital Receipts repayment of loans	-	-	15,000
Borrowing	44,870	35,280	9,066
<b>Total Capital Financing</b>	<b>66,856</b>	<b>65,088</b>	<b>57,286</b>
Invest to Save	40,800	20,799	10,000
Invest to Save Borrowing	40,800	20,799	10,000

## 6. RESERVES

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 and resilience is hampered. It should be noted that reserves can only be spent once and the possibility of creating new reserves is now very limited. The council broadly categorised reserves as follows:

- a) A working balance to manage in year risks – the General Fund Balance
- b) Change Programme Funds – these are reserves for available for future commitments such as transformational investments
- c) Ring Fenced Reserves – to meet known or predicted requirements

The Council's General Fund working balance stands at £4.9m and ring-fenced reserves at £5.1m. They include the actuarial assessed £3.8m insurance reserve and £0.5m of reserves held on behalf of schools for capital expenditure.

### The General Fund

The General fund is usually held at a balance of £6m, however as reported within the May Budgetary Control report a cash flow risk in respect of Business Rates had been identified, which will mean the 2019/20 income from Section 31 grants will be £1m lower than budgeted. This income will be received in 2020/21 instead; this represents a cash flow timing impact. It was agreed that the General Fund is used in 2019/20 and fully replenished in 2020/21 to mitigate the impact of this timing change.

### The Change Programme Fund

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. Reserves can only be spent once and the possibility of creating new reserves, in an era where budgets are tight and can become overspent, is now very limited.

The balance shown for the Capacity Building Reserve includes an element for redundancy costs and investment required to enable transformational change and implementation of the service proposals. The resource required for this is estimated to be up to £5m over the life of the MTFS.

The Capacity Building Reserve also has a commitment to cover the cost of demolishing Northminster car park. In July 2019 the Council received a structural review report of the Northminster car park. The report

highlighted significant concerns for the structural integrity of the car park, which could pose a risk to the general public. The Council has considered the options available and has concluded to demolish the carpark with the carpark closing to the public immediately, with the cost expected to reach up to £2.75m. The Council has sought approval for this action via [CMDN](#) published in August and has since published further information on the [website](#) including the structural review reports.

The Departmental Reserves are amounts set aside by departments, during the preparation of the accounts and is in accordance with financial guidance to minimise risk exposure to the Council in the following financial year. These reserves reduce significantly in 2019/20 due to a number of specific grants being used to fund expenditure which have been received for specific projects covering multiple years, this includes:

- Family Safeguarding Innovation Programme Pilot £2.0m
- Integrated communities £1.8m
- Controlled Migration Fund £0.7m

The following chart outlines the reducing balances of the reserves. It is forecast that the reserves balances will reduce by 60% in 2019/20, leaving the council with a balance equating to less than 10% of the net budget.

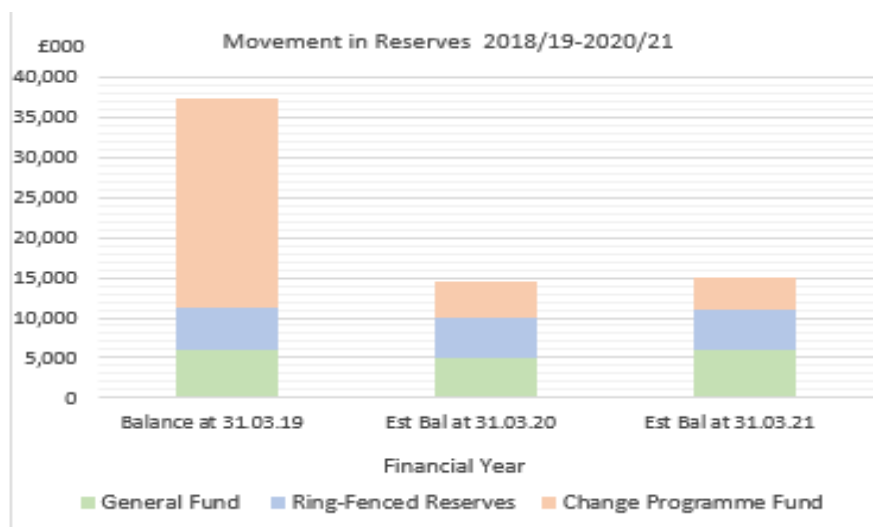


Table 12 outlines the forecast position on the General Fund (unallocated Reserves), the change programme and ring-fenced reserves (earmarked reserves).

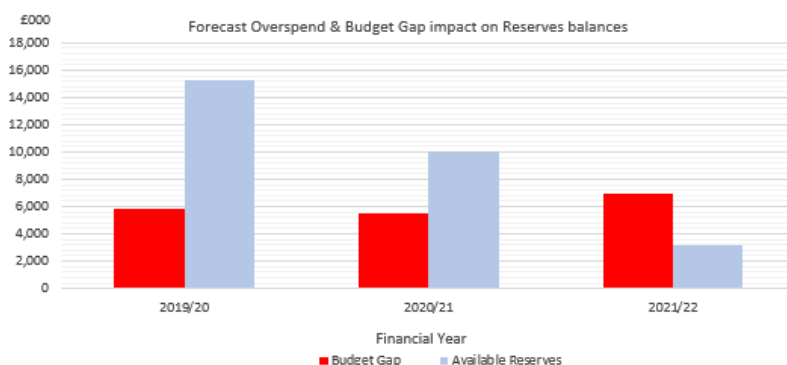
**Table 12: The Reserves Position 2018/19- 2020/21**

	2018/19	2019/20	2020/21
<b>Summary of Reserves</b>	<b>Balance at 31.03.19</b>	<b>Est Bal at 31.03.20</b>	<b>Est Bal at 31.03.21</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>General Fund</b>	<b>6,000</b>	<b>4,970</b>	<b>6,000</b>
<b>Change Programme Funds:</b>			
Capacity Building Reserve*	14,973	3,373	2,931
Grant Equalisation Reserve	4,214	-	-
Departmental Reserve	6,890	1,147	1,147
<b>Change Programme Fund</b>	<b>26,077</b>	<b>4,520</b>	<b>4,078</b>
<b>Ring-Fenced Reserves:</b>			

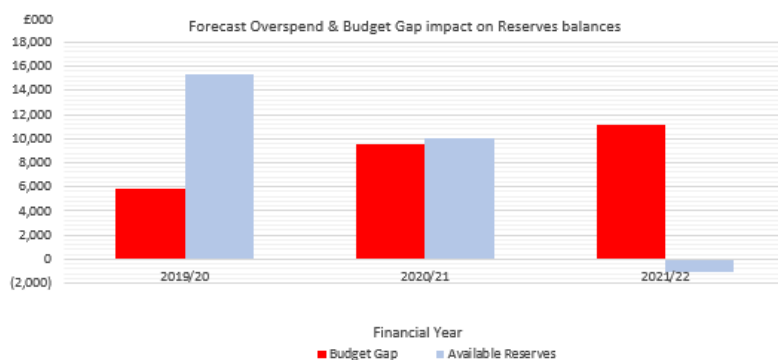
Insurance Reserve	3,398	3,775	3,775
Schools Capital Expenditure Reserve	482	482	482
Parish Council Burial Ground Reserve	54	54	54
Hackney Carriage Reserve	226	226	226
School Leases Reserve	615	574	495
Public Health Reserve	364	-	-
<b>Ring-Fenced Reserves</b>	<b>5,139</b>	<b>5,111</b>	<b>5,032</b>
<b>TOTAL Earmarked and General Fund Balance</b>	<b>37,216</b>	<b>14,601</b>	<b>15,110</b>

*\*this includes the assumption that the projected 2019/20 overspend of £5.8m is funded from reserves, and does not assume that the remaining budget gap in 2020/21 is funded via reserves.*

It remains crucial that the Council addresses the budget gap and replenishes reserves. Building the reserves level back up will increase the councils financial resilience and will enable the Council to adequately cope with an emergency or further budget volatility. The current financial position will be reliant on reserves to deliver a balanced budget. The following charts demonstrate the impact of the current budget gap on the General fund and the Change Programme Funds.



This chart illustrates the correlation between the budget gap and the reserves position. If the current year position remains overspent at the forecast level and the budget gap in the future is unresolved the reserves position will be depleted before the end of 2021/22. This assumes that the budget re-profiling targets from 2020/21 onwards are addressed.



This chart illustrates the correlation between the budget gap and the reserves position. It assumes that the budget gap remains and the budget re-profiling targets are not achieved. The council would run out of reserves at the end of before the end of 2020/21.

## 7. RISKS

### 7.1 Approach to Risk

The Council assesses financial risk within its budget and MTFS as part of its annual budget setting process and regular Budgetary Control process. Council Officers have put actions in place to review and mitigate exposure to identified risks, these are outlined in Table 13.

The Risk Management Board is led by the Acting Corporate Director of Resources. The purpose of the Board is to challenge and support risk management across the Council and partner organisations. The output from this Board is considered regularly at Audit Committee. The last meeting of this group was held on 24/09/2019.

The Board ensures that risk management is aligned with the overall organisational approach and that the identification of key issues are managed, reported and escalated appropriately and in a timely manner. Officer awareness of risk and capacity to manage risk is maintained, with a regular monitoring and reporting process to provide assurance in relation to the Council's overall governance and control environment.

## 7.2 Financial Risk Register

The most current substantial risks have been identified and considered as part of the budget process. Reasonable mitigating actions have been made where possible. Table 13 details the budget risks that Cabinet and Council should consider when reviewing the Tranche One budget proposals.

**Table 13 : Council Budget Risk Register**

Risk Area	Detail	Action
Level of Reserves	<p>As set out in the 2019/20 MTFS, Robustness statement (Section 6.4), and within section 6 of this report the Council has limited recourse in reserves and balances. This presents a risk to the financial sustainability of the organisation over the medium term.</p> <p>The general fund is temporarily reduced due to a cash flow timing difference on business rates income, meaning the General Fund will fall below 3% of the net revenue budget. The recommended level should be at 5%.</p>	<p>Robust financial control within 2019/20 and future years will be exercised through regular budget monitoring, tracking of the delivery of approved savings plans, and the development of further savings proposals.</p> <p>The use of available specified reserves will be closely managed and controlled to ensure targeted application to achieve the required reduction in the overall cost of operations over the period of the MTFS.</p> <p>Reserves and balances will be reviewed regularly to ensure that they remain adequate in light of the Council's overall financial position, they will also be reviewed to ensure that any commitments are:</p> <ul style="list-style-type: none"> <li>• Essential and necessary to deliver future financial benefit;</li> <li>• Represent value for money;</li> <li>• could be funded via the flexible use of capital receipts if the investment meets the criteria.</li> </ul>
Level of one-off (non-repeatable) savings	<p>The Council has relied upon non-repeatable budget savings and income items in order to balance the budget, in 2019/20 and previous years. This is not a sustainable approach.</p>	<p>Measures will be taken to reduce the Council's reliance upon one off measures to balance future budgets. The plan to eliminate one off budget savings and move to a sustainable budget over the medium term is set out at section 5.2 of this report.</p>
Service Delivery-Demand Led Services	<p>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. Demographic growth and demand pressures present significant financial risk for the Council over the medium term.</p>	<p>Budgetary provision has been made for estimates of increased demand for adult and children's social care and homelessness.</p> <p>The Council will continue to take measures to review and modify its service provision to respond to increasing demand for services, through more cost effective operating models and working with client groups and partners to manage demand for services.</p> <p>Regular monitoring, forecasting and reporting of financial and service performance and anticipated pressures will be undertaken to ensure that corrective management action is taken to control expenditure within the approved budget. Savings plans are based on intervention and prevention, aiming to reduce need and service demand.</p>

	<p>The Council needs to increase the supply of both temporary housing and permanent affordable housing in order to meet the increased demand for housing within Peterborough.</p>	<p>The Council is actively pursuing a housing strategy, to ensure there is affordable housing available within the City. The Council has been buying properties to help reduce the immediate pressure within this area with the proposal to set up a housing revenue account (HRA), being reported to Cabinet on 23 September <a href="#">(Item 8)</a>.</p> <p>Regular reporting to the Corporate Management Team (CMT) 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 and sustainable MTFS is reliant upon the successful delivery of agreed savings plans and the identification of new plans. A number of ambitious savings plans had previously been agreed which have creates structural budget problems, leading to in year forecast overspends.</p>	<p>CMT and the finance team have reviewed all budgets for appropriateness and robustness, and rebased the budgets to create a sustainable and realistic base. Savings are now being developed against directorate targets which have been established and this is being reported to and scrutinised by CMT on a regular basis.</p> <p>Delivery of savings will be monitored on a regular basis to CMT and highlighted within the monthly Budgetary Control Reports to Cabinet and in turn Council.</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><b>Debt</b> There is also a risk from the non-payment of invoices from our suppliers. The Clinical Commissioning Group (CCG) and other smaller NHS organisations currently account for 61% of the Councils debt. This is monitored regularly to CMT and disclosed within the Statement of accounts. However presents a cash flow risk to the Council</p>	<p>Commercial proposals will require the production of a robust business case that will be subject to appropriate evaluation and due diligence by relevant professional disciplines (i.e. technical, legal and finance).</p> <p>The management of costs, risks and benefits including service outcomes and financial implications will be achieved through regular monitoring and reporting via the Shared Services core group to the programme board, as part of joint corporate management team meeting and through to Cabinet.</p> <p>Delivery of planned income generation (and savings) will also be tracked through regular budget monitoring reports.</p> <p>Programme and project governance will require recovery plans to be prepared where projects are identified as varying adversely from plan.</p> <p>The Council continues to work closely with senior officers at the CCG to resolve this issue and manage the payments to allow the effective management of the Councils cashflow and debt levels.</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 new government ‘Check, challenge and appeal’ system seems to have reduced the level of open appeals however there is a provision set aside for appeals by the council, and there is a risk that this may not be sufficient</p> <p>The claim by the NHS trust for mandatory relief if successful will have a major impact on income levels</p> <p>Business Rates 75% retention and Business Rates baseline reset, both to be introduced from 2021/22, at present it is not clear how this could impact on the Councils funding levels.</p>	<p>Officers are in discussion with Serco to agree increased targets for the collection of Business Rates to improve the financial position on the Collection Fund.</p> <p>The finance team will align forecasts using a 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.</p> <p>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, depending on whether it is a 2010 or 2017 valuation rate being appealed. The provision for 2010 assesses each appeal lodged with the Valuation Office. The provision has been calculated at 4% using MHCLG methodology. The recommended rate based on the national average is 4.7%. Due to the high levels of small businesses within Peterborough receiving Small Business rates relief, the lower rate used is justified. Officers have conducted analysis on this and will continue to monitor.</p> <p>Officers are monitoring all announcements, publications and consultations from MHCLG and from Local Government advisors. This will include networking and attending events to keep abreast of the latest information.</p> <p>Officers will feedback to all consultations, to ensure all concerns are communicated and considered.</p> <p>As information becomes available officers will model the financial impacts, and ensure the budget reflects the appropriate funding levels.</p>
<p>Fairer Funding Review (FFR)</p>	<p>The Fairer Funding Review presents a risk for the Council as it means there is significant uncertainty surrounding its future funding levels. The impact of this could be significant for the Council as it could mean additional savings would need to be achieved. At present the MHCLG have issued number two of three consultations, however the implementation has now been postponed until 2021/22, with a one year spending review outlining departmental expenditure limits for 2020/21.</p>	<p>Officers are continuing to monitor all announcements, publications and consultations from MHCLG and from Local Government advisors. This will include networking and attending events to keep abreast of the latest information.</p> <p>Officers will feedback to all consultations, to ensure all concerns are communicated and considered.</p> <p>As information becomes available officers will model the financial impacts, and ensure the budget reflects the appropriate funding levels. This will include using the modelling tools which are available to us from LG Futures, PIXEL and the LGA.</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</p>	<p>Officers are in discussion with Serco to agree increased targets for collection of council tax to improve the position on the Collection Fund. Monthly updates will monitor the collection rates.</p>



	<p>Tax Support (LCTS) eligibility, beyond budget assumptions. The LCTS is currently out to consultation with a number of changes proposed. These changes are yet to be approved by Council and the impact of these will be unclear until they are live on the system</p>	<p>The Council will revise future year forecasts on council tax income accordingly.</p>
Partnership Working/ Contractual Commitments	<p>The council now outsources or contracts out a large proportion of services, on a long term basis to third party organisations, such as Serco, Aragon, Skanska 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 improved value for money through strengthened contract management arrangements and negotiation of variation to services to be delivered. The Council is also looking to put stronger contract management processes in place, to ensure contracts are performing as intended (this is outlined in section 5.4).</p> <p>The Council will continue to work closely with its partner organisations to deliver the best services to its residents in the most effective and efficient manner.</p>
Capital	<p><b>Capital Receipts</b> The agreed Minimum Revenue Provision (MRP) policy allows the Council to repay its debt through the application of receipts from asset disposal to repay debt. This represent a risk to the final outturn position if those receipts are not achieved.</p> <p>The Council will also be looking to use Capital Receipts flexibly for transformation and redundancy costs, where the expenditure meets the criteria.</p> <p><b>Capital Programme</b> The proposed Capital Programme is partially reliant on third party contributions and grant allocations. These funding streams are not always guaranteed, such that they could be impacted by a downturn in development or reduced opportunity for central government funding.</p> <p>The council has been successful in obtaining funding via grants for development in</p>	<p>Regular monitoring and reporting through budgetary control to Capital Review Group (CRG), CMT, Cabinet, of the latest forecasts for sale completion, estimated receipt level and market environment operating under.</p> <p>The capital programme is closely monitored and reported by officers within the monthly budgetary control monitoring and reporting cycles. The council operates an officer led CRG, which meets regularly to review the progress of schemes contained in the capital programme and evaluate new proposals or opportunities available to the council.</p> <p>All capital investment proposals require a business case which assesses funding options and associated risks and mitigating actions.</p> <p>Developer contributions to be realised in line with approved policy.</p>

	<p>the school infrastructure. There is a risk that the council may not receive grants in the future to fund new school buildings, despite increasing demand for school places.</p> <p>There is 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>Impact on property repairs / highways infrastructure are monitored and coordinated to balance against any increases in legal claims / compensation issues.</p>
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 control monitoring and reporting process.</p> <p>Capital financing estimates developed using latest forecasts of interest rates for MTFS (which allow for a level of increase). Existing borrowing has been undertaken at fixed rates in order to minimize the exposure of this risk. A review and assessment will be undertaken to try to achieve the optimum time to enter into new borrowing in light of advice on future rate rises, taking into account 'cost to carry' in relation to any early borrowing.</p> <p>Review the capital programme and debt portfolio if rates increase beyond forecast levels.</p>
Financial Resilience	<p>There is a risk that the Councils financial resilience is insufficient to further withstand the combined pressures of reducing grant funding and the increased cost and demand pressures. Any weaknesses in the delivery of the strategy to strengthen financial resilience may exacerbate this risk. The consequence is an unsustainable and financially unviable organisation beyond the short term.</p>	<p>A number of metrics are being developed to measure financial resilience across local government (CIPFA Resilience Index). The strategy to strengthen financial resilience is underpinned by a set of financial planning and management arrangements, including significant changes in arrangements for commissioning services. However, a clear route to a sustainable medium term financial position has not yet been fully identified.</p> <p>The Council as part of the in year overspend plan has set directorate targets which, if delivered in full will also boost the reserves position by £3.6m to build back financial resilience.</p>
Brexit	<p>Brexit carries a number of risks which could have a financial or operational impact the on services the Council provides. This is likely to be the result of changes in the funding and regulatory frameworks including the following:</p> <ul style="list-style-type: none"> <li>• Procurement</li> <li>• Regulatory services</li> <li>• European Union (EU) funding</li> <li>• Loss of staff, where staff are from the EU</li> </ul>	<p>A high level impact assessment has been completed by officers within the Council, with contingency planning underway to ensure appropriate actions are in place.</p> <p>Officers from CCC and PCC are on a joint risk group assessing the impact from Brexit, this has included officers attending MHCLG events and participating in teleconferences by the Home Office.</p> <p>Heads of Service and service area leads have undertaken analysis and dialogue with major suppliers of services to the Council to ascertain areas of concern, likely impact and mitigating actions taken or available by these key partners.</p>

	<p>There is a wider risk to the economy, through importation/export delays and tariffs, price pressure on key commodities e.g. fuel and labour market which could place more demand on services or budgets.</p> <p>There has been a payment system risk raised, due to a predicted flurry of payment activity in the event the UK leaving the EU as planned on 31 October 2019.</p>	<p>This will remain an area under constant review by officers and CMT under the guidance of the jointly appointed Brexit Director.</p> <p>A review is being undertaken of critical supply chains to avoid any potential payment issues throughout 2019.</p>
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## 8. CONSULTATION

8.1 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 One will be the first tranche of the 2020/21 budget process. The Tranche One budget proposals will be published on 25 October 2019 and will be recommended by Cabinet for approval by Council on 18 December 2019. The timeline for the final budget tranche is outlined in Table 14.

**Table 14: 2020/21 Budget consultation timetable**

	<b>Tranche One</b>
Consultation start date	25/10/2019
Cabinet	04/11/2019
Budget Joint Scrutiny Committee	27/11/2019
Cabinet	09/12/2019
Consultation close date	16/12/2019
Council	18/12/2019

These proposals will be considered in terms of their impact on service provision to user. Proposals which require additional 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 the Council meeting.

## 8.2 Methods of consultation

Hard copies of the budget consultation document (Appendix C) will be available in all libraries and the Town Hall and Sand Martin House 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 Table 15 have been contacted and offered a briefing on the budget position during the Tranche One budget consultation period, to enable residents, partner organisations, businesses and other interested parties to feedback on budget proposals and Council priorities:

**Table 15: Stakeholder groups and events**

<b>Groups and Stakeholders we are consulting with</b>	<b>Officer Lead</b>
Trade Unions Joint Consultative Forum (JCF)	Peter Carpenter and Mandy Pullen
Joint Scrutiny of Budget meeting	Peter Carpenter
Members of Parliament- Shailesh Vara and Lisa Forbes	John Holdich and Pete Carpenter
Parish councils	Adrian Chapman
Connect Group – Churches Together	Adrian Chapman and Gillian Beasley
Cambridgeshire and Peterborough Combined Authority	Cllr John Holdich
Opportunity Peterborough Bondholders	Steve Cox and Cllr John Holdich
Greater Peterborough City Leaders Forum	Gillian Beasley
Peterborough Disability Forum	Adrian Chapman
Age Concern UK	Adrian Chapman
Cambridgeshire Police	Wendi Ogle-Welbourn
Peterborough Civic Society	Steve Cox
Cohesion and Diversity Forum	Adrian Chapman
Joint Mosques Group	Adrian Chapman and Gillian Beasley
Interfaith Council	Adrian Chapman and Gillian Beasley
Peterborough Youth Council	John Holdich and Gillian Beasley
Peterborough Living Well Partnership	Liz Robin
Health Care Executive	Liz Robin and Wendi Ogle-Welbourn
School unions	Jon Lewis
Schools Forum	Jon Lewis

## **9. ANTICIPATED OUTCOMES OR IMPACT**

- 9.1 Following the release of Tranche One of the 2020/21 budget proposals to address the financial gap, and outlining Peterborough's challenges and successes, Cabinet will seek 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 2020/21 within the financial resources it will have next year and the feedback received will help inform Cabinet in considering budget proposals.

Cabinet will review the feedback on the proposals and the MTFs at this meeting, before making a final recommendation to Council on 18 December 2019.

## **10. REASON FOR THE RECOMMENDATION**

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

## **11. ALTERNATIVE OPTIONS CONSIDERED**

- 11.1 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.

## **12. IMPLICATIONS**

### **Elected Members**

- 12.1 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.
- 12.2 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**

- 12.3 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.
- 12.4 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.
- 12.5 When it comes to making its decision on 18 December 2019, 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.
- 12.6 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.
- 12.7 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.
- 12.8 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.

- 12.9 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.

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 a s114 notice has been served the council has 21 days to meet and consider the report. During these 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.

#### 12.10 **Human Resources**

In order to deliver Tranche 1 of the budget as outlined in this document, it is anticipated that some posts across the council will be affected. It is estimated at this stage that there may be a headcount reduction of up to 75 people of a total workforce of 1,244, some of which could occur during 2019/2020 whilst others may happen during 2020/2021.

It is the aim of the council to try to minimise compulsory redundancies and the impact on service delivery. This will be achieved, wherever possible, by seeking redeployment opportunities, the deletion of vacant posts, restrictions on recruitment (taking into account service delivery), natural wastage / turnover and reducing or eliminating overtime, (providing service delivery is not compromised). Where staff are affected, the Council will seek voluntary redundancies as appropriate to minimise compulsory redundancies and where this is unavoidable, appropriate outplacement support will be considered.

#### 12.11 **Equality Impact Assessments**

All budget proposals published in Tranche One 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 D - Equality Impact Assessments.

#### 12.12 **Carbon Impact Assessments**

All budget proposals published in Tranche One of the budget process have been considered with regards to the carbon impact and where appropriate carbon impact assessments have been completed. At this stage these are initial drafts and will be finalised ahead of Council on 18 December. The draft Carbon Impact assessments have been collated in tabular form, and included within Appendix E.

### 13. **BACKGROUND DOCUMENTS**

- 13.1 [Budget Book 2019/20-2021/22](#)

[Budget Monitoring Report- Final Outturn 2018/19 \(item 14\)](#)  
[Budgetary Control Report- April 2019- 17 June Cabinet \(item 13\)](#)  
[Budgetary Control Report- May 2019- 15 July Cabinet \(item 7\)](#)  
[Budget Process Report- Council 24 July 2019](#)  
[Budget Process Report Appendix- Council 24 July](#)  
[Budgetary Control Report- June 2019- 23 September Cabinet \(item 9\)](#)  
[Budgetary Control Report- September 2019- 4 November Cabinet](#)

## **14. APPENDICES**

- 14.1
- Appendix A – 2020/21-2022/23 MTFs Detailed Budget Position-Tranche One
  - Appendix B – Capital Programme Schemes 2020/21- 2024/25
  - Appendix C – Budget Consultation Document, including Tranche One Budget Proposal detail
  - Appendix D – Equality Impact Assessments
  - Appendix E – Carbon Impact Assessments - Draft

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