

<b>JOINT MEETING OF SCRUTINY COMMITTEES</b>	AGENDA ITEM No.4
<b>24 FEBRUARY 2020</b>	<b>PUBLIC REPORT</b>

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

**MEDIUM TERM FINANCIAL STRATEGY 2020/21 to 2022/23 - TRANCHE TWO**

<b>R E C O M M E N D A T I O N S</b>	
<b>FROM: Cabinet Member for Resources</b>	<b>Deadline date: 14 February 2020</b>
<p>It is recommended that the Joint Meeting of Scrutiny Committees considers the following updates within the <a href="#">Medium Term Financial Strategy 2020/21- 2022/23 - Tranche Two</a>, which is outlined in Appendix 1.</p> <ol style="list-style-type: none"> <li>1. The Budget Position for 2020/21-2022/23</li> <li>2. The Tranche Two service proposals, outlined in Appendix C, within the attached MTFS report;</li> <li>3. Future strategic direction for the Council;</li> <li>4. The Robustness Statement, including the reserves position;</li> <li>5. The revised capital programme;</li> </ol> <p>Any recommendations made by the Joint Meeting of the Scrutiny Committees will be reported to Cabinet on 25 February 2020 for consideration.</p>	

**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 budget for 2020/21.

**2. PURPOSE AND REASON FOR REPORT**

**2.1 Purpose**

At the Cabinet meeting on 25 February Cabinet will formally consider the budget proposals included within the Medium Term Financial Strategy, to set a balanced budget for the financial years 2020/21.

There is a legal requirement to set a balanced budget for 2020/21. The purpose of that report is to:

- Recommend that Cabinet approve the Tranche Two 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.

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?	<b>YES</b>	If yes, date for Cabinet meeting	<b>25 February 2020</b>
Date for relevant Council meeting	<b>4 March 2020</b>	Date for submission to Government Dept. ( <i>Please specify which Government Dept.</i> )	<b>N/A</b>

4. **Executive Summary**

At Council held on 15 January 2020, Tranche One of the 2020/21 MTFS was agreed with estimated deficits of £5.5m in 2020/21, £6.9m in 2021/22 and £5.4m in 2022/23. Accounted for within this were departmental savings targets, which were set as part of a budget re-profiling, overspend management plan which was carried out in summer 2019. These targets have not been fully achieved as ongoing savings, and have been added back to the position, to reflect a true and fair opening position for Tranche Two.

There have been additional budget proposals developed within Tranche Two of the 2020/21 MTFS. This includes the use of reserves to balance the position in 2020/21, with deficits of £14.2m in 2021/22 and £14.8m in 2022/23 remaining. The revised budget position is outlined in the following table, with further detail shown in section 5 in the MTFS report.

**Budget Position Summary**

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£000</b>	<b>£000</b>	<b>£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>Budget Gap from 2019/20 MTFS Tranche One</b>	<b>5,501</b>	<b>6,896</b>	<b>5,434</b>
Add back unachieved savings targets as part of the budget re-profiling task	4,003	4,265	5,855
<b>Opening Budget Gap Tranche Two</b>	<b>9,504</b>	<b>11,161</b>	<b>11,289</b>
Tranche Two Budget changes	(7,994)	3,084	3,519
Use of Reserves	(1,510)	-	-
<b>Final Budget Gap</b>	<b>-</b>	<b>14,245</b>	<b>14,808</b>

\*- note that part of the budget changes represent departmental targets and proposals which were still subject to finalisation. These proposals have been updated, and are reflected within Tables 5 and 6.

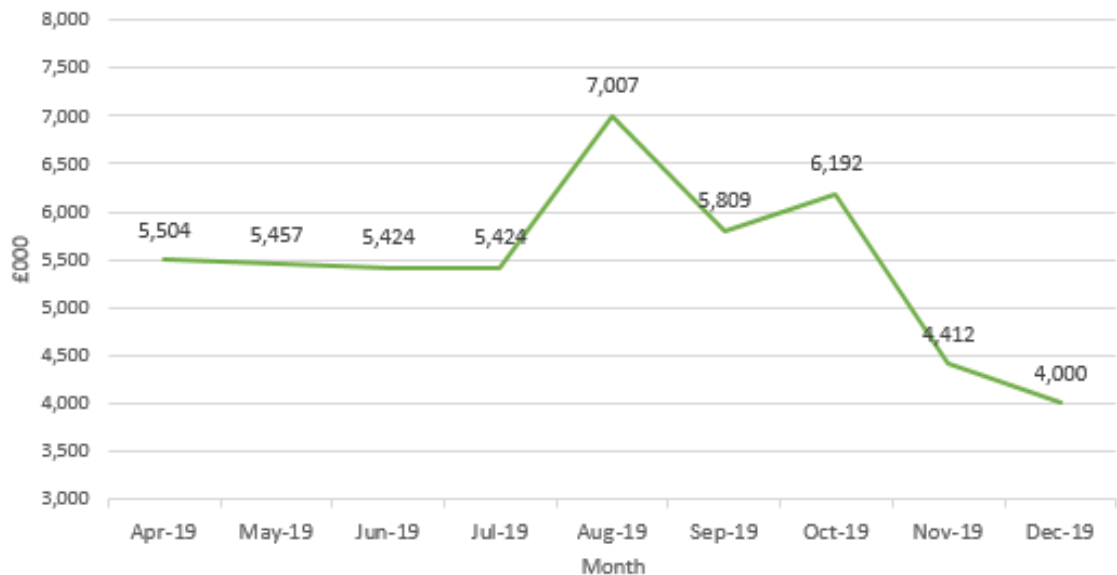
**Current Year Position**

In July 2019 the Corporate Management Team (CMT) implemented a series of financial management controls designed to reduce the £5.4m forecast overspend. This was done 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;

At this time a thorough review of the appropriateness and robustness of all current budget assumptions was undertaken. This identified a 2019/20 budget pressure of £6.0m, with the ongoing underlying budget pressure of £9.8m. Departmental savings targets were established at the ongoing pressure value, in order to achieve financial sustainability for the Council's future year's budget, by contributing to £3.7m to reserves. CMT have identified £4.8m of specific savings against the departmental targets and have been reducing the overspend monthly, as outlined within the following graph:

### Forecast Outturn 2019/20 - December 2019



The most recent forecast position for 2019/20 as per the December Budgetary Control Report, also reported to the Cabinet meeting on 25 February 2020, is a £4m projected overspend, which incorporates the achievement to date to meet the departmental savings targets, and the £3.7m reserves contribution which was agreed at Cabinet in September, as part of the plan to manage the current year overspend and rebuild resilience. Newly identified savings include:

- Additional Capital financing saving of £0.9 due to less borrowing being undertaken for the capital programme than budgeted for and lower interest rates obtained for new borrowing.
- An increase in the use of Capital Receipts of £0.7m, which is being used to repay debt.
- Additional income of £0.3m from the Empower loan due to a further extension to the arrangement.
- Highways Development - additional Section 278 and Section 38 income from developers and savings on professional services and contractors of £0.4m

There have also been the following newly identified pressures:

- Homelessness £0.5m –due to an increased demand for temporary accommodation;
- Home to School Transport £0.3m- where the forecast reflects the contract changes for academic year 2019/20;
- Energy for Waste Plant- £0.4m due to a reduction in wholesale electricity prices, therefore reducing the Councils income;
- Housing Benefit Subsidy- £0.5m due to a reduction in the level of rent allowance and housing subsidy payments, in line with the roll-out of Universal Credit.

### Capital Receipts and Non-repeatable One Off Savings

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 previously applied. 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. However, 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 an additional £3m in 2019/20 and £4m in 2020/21, from the sale of further assets to redeem debt.

Although the Council faced a challenge in its application of capital receipts to redeem debt, in spring 2019, it has been agreed with the government that the Council did not act outside of the law in doing so. Therefore, whilst it is clear that MHCLG do not agree that this use is within the spirit of the legislation, there has been no updates or changes in legislation so far which prevents the Council

from continuing this practice in future financial years if capital receipts are available.

In order to deliver ongoing savings from 2020/21 the Council launched a voluntary redundancy scheme in January 2020, as well as undergoing a process of structural organisational redesign. As part of this the council will need to pay significant one-off redundancy and transformation costs. In the past councils have been granted approval from government to use capital funding (borrowing) to fund revenue costs such as those associated with redundancy, known as a 'capitalisation direction'. With the support of MPs Shailesh Vara and Paul Bristow, the council has submitted an application for that power to be granted for 2019/20 and 2020/21. The government has not yet informed the council of its decision; however for the purposes of this report it is assumed that the Council will be successful in its application. This is outlined in further detail in Section 5.7 and Section 6, the Robustness Statement, of the MTFS report.

The following table outlines the one offs used in recent years, planned and unplanned. This also includes the cash revenue injection as a requested as part of the capitalisation direction to fund redundancy and transformation expenditure.

#### Non repeatable One Off Savings

	Prior Years		Current Year	Years relating to this MTFS		
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000	£000
Capital Receipts	12,738	2,922	10,639	3,930	-	-
MRP Re-provision	-	3,700	-	-	-	-
Council Tax Collection Fund Surplus	173	1,188	201	662	-	-
Business Rates Pool and Provision Release	-	-	-	3,231	-	-
Capitalisation direction			7,738	1,217		
Planned Use of Reserves	7,194	4,231	3,084	1,510	-	-
<b>Total</b>	<b>20,105</b>	<b>12,041</b>	<b>21,662</b>	<b>10,550</b>	-	-
In year Use of Reserves	-	2,119	321	-	-	-
In year increased Use of Capital Receipts	-	3,298	3,056	-	-	-
<b>Total</b>	<b>20,105</b>	<b>17,458</b>	<b>25,039</b>	<b>10,550</b>	-	-

#### 5 Tranche Two Budget Position 2020/21-2022/23

The following tables summarise and set out the demand and savings proposals in Tranche Two of the 2020/21 budget process. The major items included within these proposals are:

- There are a number of revisions to the savings proposals included within tranche one of the MTFS. This is a result of further investigation and development of delivery plans. The revision to these savings, to more accurately reflect the robustness and deliverability of the proposals, means that the savings values from these would be reduced by £3.5m, within the tranche two proposals. This is outlined as a specific category within table 5;
- Housing- in previous years' budget rounds a prediction was made of what the likely spend would be on providing temporary accommodation in 2020/21, based on rising levels of demand, predominantly bed and breakfast type accommodation. The council has broadened its range of temporary accommodation by buying and leasing homes and building properties through its joint venture with Cross Keys Homes. As a result, the council has reduced its reliance on bed and breakfast accommodation which is more costly and can therefore reduce the expected budget in 2020/21 by £1.5m;
- The council has undertaken a review of all its assets and is proposing to sell a number of sites in 2020/21 generating capital receipts worth £3.9m;
- Additional Council Tax and Business Rates income totalling £4.4m;

In order to deliver ongoing savings from 2020/21 the council launched a voluntary redundancy scheme in January. As part of this the council will need to pay significant one-off redundancy and

transformation costs. In the past councils have been granted approval from government to use capital funding (borrowing) to fund revenue costs such as those associated with redundancy, known as a 'capitalisation direction'. With the support of MPs Shailesh Vara and Paul Bristow, the council has asked for that power to be granted for 2019/20 and 2020/21. The government has not yet informed the council of its decision. Further detail around this is outlined in section 5.7. Table 5 includes 2019/20, the current year for the purposes of demonstrating the impact of the capitalisation direction.

#### Tranche Two Budget Summary Position 2019/20-2022/23-

	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000
<b>Budget Gap from Tranche One *</b>	<b>4,000</b>	<b>9,504</b>	<b>11,161</b>	<b>11,289</b>
Tranche One Budget Proposal Adjustments	0	3,450	3,097	3,097
Service Budget Pressures	624	2,668	2,446	2,396
<b>Revised Budget Gap</b>	<b>4,624</b>	<b>15,622</b>	<b>16,704</b>	<b>16,782</b>
Savings and Income	(553)	(12,895)	(2,459)	(1,974)
Capitalisation direction	(7,738)	(1,217)	-	-
<b>Budget Gap</b>	<b>(3,667)</b>	<b>1,510</b>	<b>14,245</b>	<b>14,808</b>
<b>Contribution to / (from) reserves</b>	<b>3,667</b>	<b>(1,510)</b>	<b>-</b>	<b>-</b>
<b>Final Budget Gap</b>		<b>-</b>	<b>14,245</b>	<b>14,808</b>

#### 2020/21- 2022/23 Tranche Two Budget Proposals

	2020/21 £000	2021/22 £000	2022/23 £000
<b>Savings and Income</b>	<b>(12,895)</b>	<b>(2,459)</b>	<b>(1,974)</b>
Additional Archaeological Services charges within Planning	(10)	(10)	(10)
Adult Social Care Demand and Better Care Fund	(106)	473	509
Business Rates Provision Review and forecast	(1,911)	-	-
Capital Financing Budget Review	68	69	(46)
Capital receipts - POSH deferred Receipt element	(372)	(372)	(372)
Capital Receipts- Asset Sales	(3,930)	-	-
ESPO Dividend	(73)	(73)	(73)
Fees and Charges and Inflation review	(135)	75	3
Food Waste Procurement	(150)	(150)	(150)
Freeze on planting budget	(25)	(25)	(25)
Housing	(1,520)	(1,520)	(1,520)
HR controls- Agency saving	-	(188)	(188)
Minor Grant changes- as a result of the settlement	(2)	(2)	(2)
New Homes Bonus	(510)	2,235	2,840
Parking Charges	(310)	(310)	(310)
Peterborough and Cambridgeshire Business Rates Pool	(1,320)	-	-
Property - maximising the use of Sand Martin House	(475)	(950)	(950)
Public Health- various small savings	(33)	(33)	(33)
Reduction in tree inspection & maintenance budget	(30)	(30)	(30)
Registration Income	(60)	(60)	(60)
Supplies and Services & Non-essential spend restrictions	(100)	(100)	(100)
Voluntary Redundancy Programme	(639)	(706)	(705)
Waste management- Material Recycling Facility	(130)	(60)	(60)
Council Tax- Collection Fund Surplus	(662)	-	-
Council Taxbase	(460)	(722)	(692)

<b>Service Budget Pressures</b>	<b>2,668</b>	<b>2,446</b>	<b>2,396</b>
Direct Revenue Funding (Schools Capitalisation)	400	400	400
Housing Benefit Subsidy Reduction	500	500	500
Income from sale of electricity from Energy from Waste plant	250	250	250
METAL- Recognition of two year grant extension	50	50	-
Place & Economy Shared Service	39	39	39
Property - Reduction in income from the Market and Northminster shops due to the demolition of the car park.	187	187	187
Property - Loss of rental income from the sale of the Allia Business Centre	41	41	41
Property - Additional Security	60	60	60
Property - Town Hall North delayed income	288	0	0
Capitalisation Direction- Cost of Borrowing	566	632	632
SEN and Home to School Transport - additional service pressure	287	287	287
<b>Capitalisation Direction</b>	<b>(1,217)</b>		
Capitalisation Direction	(1,217)	-	-
<b>Tranche One Budget Proposal Adjustments</b>	<b>3,450</b>	<b>3,097</b>	<b>3,097</b>
Members Allowances - putting back the saving from Tranche One	19	19	19
Vivacity	178	178	178
SEN and Home to School Transport	222	255	255
HR Function	-	121	121
Reduction in facilities management services performed by Bouygues at schools	168	168	168
Serco	1,702	1,702	1,702
Business Support	1,161	654	654
<b>Grand Total</b>	<b>(7,994)</b>	<b>3,084</b>	<b>3,519</b>

## 6. CONSULTATION

- 6.1 Cabinet have presented the budget proposals in a meeting with the Cross-Party Budget Working Group to seek views, including the opportunity to make alternative suggestions.

There will be no formal public consultation for this Tranche of the budget, due to the nature of the proposals, as there is no impact on service users. Section 14 of the MTFs report gives more details about consultation requirements.

## 7. ANTICIPATED OUTCOMES OR IMPACT

- 7.1 Following the release of Tranche Two 2020/21 MTFs, which includes budget proposals to set a balanced budget, within the Councils financial resources. On 25 February Cabinet will review the MTFs and the feedback received from the Joint Meeting of the Scrutiny Committee (held on 24 February) at this meeting, and make a recommendation to Council on 4 March 2020.

## 8. REASON FOR THE RECOMMENDATION

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

## 9. ALTERNATIVE OPTIONS CONSIDERED

- 9.1 No alternative option has been considered as the Cabinet is responsible under the constitution for

initiating budget proposals and the Council is statutorily obliged to set a lawful and balanced budget by 11 March annually.

## **10. IMPLICATIONS**

### **Elected Members**

- 10.1 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.
- 10.2 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**

- 10.3 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.
- 10.4 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.
- 10.5 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.
- 10.6 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.
- 10.7 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.
- 10.8 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 a s114 notice has been served the council has 21 days to meet and consider the report. During the 21 days the council must not incur any new expenditure unless the CFO has specifically authorised the spend.

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

- 10.9 Tranche one of the budget highlighted that, as a result of some of the proposals, headcount may be affected across the council which could see a reduction of up to 75 roles from a total workforce of 1,244. Within this headcount reduction figure, up to 23 posts could still be affected as restructure design work remains ongoing and 6 vacant posts have been removed and will not be filled. However, from the detailed restructure work which has taken place, it is known that the impact is a headcount reduction of 44. Of these, there are 30 voluntary redundancy requests and 12 staff redeployed to other roles. There are a further 2 roles which are currently in the process of consultation (*see table below*).

### Staffing Changes

Redeployment of staff	12
Voluntary redundancy	30
Ongoing consultation	2
<b>Total</b>	<b>44</b>

In order to provide additional support to affected employees, the council organised a recruitment fair which saw a number of organisations attend to support employees in seeking redeployment opportunities; CV writing skills; retirement advice and interview skills and techniques. This was well received and will be repeated later in the Spring by way of further support.

From tranche one and continuing as part of tranche two, concentrated efforts have taken place on the restrictions of recruitment (*taking into account service delivery*), natural wastage / turnover and reducing or eliminating overtime and limited reliance on agency use (*providing service delivery is not compromised*). The Council continues to make difficult challenging decisions in order to create a balanced budget and in January a council wide voluntary redundancy scheme was launched which has seen the reduction of a further 18 posts.

The aim of the council is to minimise compulsory redundancies and the impact on service delivery and as part of that, further work has seen the deletion of 9 vacant posts which will not be filled going forward, this will deliver a £0.3m, this has been factored in to the budget for 2020/21 and future years.

## Equality Impact Assessments

- 10.10 All budget proposals published in Tranche Two of the budget process have been considered with regards to equalities issues and due to the nature of the included proposals there are no corresponding equality impact assessments required.

## 10.11 Carbon Impact Assessments



All budget proposals published in Tranche Two 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 4 March 2020. The draft Carbon Impact assessments have been collated in tabular form, and included within Appendix J of the MTFS report.

**11. BACKGROUND DOCUMENTS**

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

11.1 None

**12. APPENDICES**

12.1 Appendix 1- [Medium Term financial Strategy 2020/21-2022/23 – Tranche Two](#)

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