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| CABINET | AGENDA ITEM No. 4 |
| 26 OCTOBER 2020 | PUBLIC REPORT |

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|--------------------------------|---|----------------------------|
| 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 2021/22 TO 2023/24-PHASE ONE

| RECOMMENDATIONS | |
|---|---------------------------|
| FROM: Cabinet Member for Finance | Deadline date: N/A |
| It is recommended that Cabinet approves: | |
| <ol style="list-style-type: none"> 1. The Phase One service proposals outlined in Appendix C as the basis for public consultation. 2. The updated budget assumptions, to be incorporated within the Medium-Term Financial Strategy 2020/21 – 2022/23. These are outlined in sections 5.2 and 5.3. 3. The revised capital programme outlined in section 5.5 and referencing Appendix B. 4. The Medium-Term Financial Strategy 2021/22 to 2023/24- Phase One, as set out in the body of the report and the following appendices: <ul style="list-style-type: none"> • Appendix A – 2021/22- 2023/24 MTFS Detailed Budget Position-Phase One • Appendix B – Capital Programme Schemes 2021/22- 2023/24 • Appendix C – Budget Consultation Document, including Phase One Budget Proposal detail • Appendix D – Financial Strategy pre-C-19 • Appendix E – Financial Risk Register • Appendix F – Equality Impact Assessments • Appendix G – Carbon Impact Assessments | |
| It is recommended that Cabinet notes: | |
| <ol style="list-style-type: none"> 5. The strategic financial approach taken by Council outlined in section 5.4 of the report. 6. The forecast reserves position, and the statutory advice of the Chief Finance Officer outlined in Section 6, The Robustness Statement | |

1. ORIGIN OF REPORT

1.1 This report comes to Cabinet as part of the Council's formal budget setting process as set out within the constitution and as per legislative requirements to set a balanced and sustainable budget for 2021/22-2023/24.

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 make proposals and update assumptions to set a balanced budget for the financial years 2021/22 - 2023/24. There is a legal requirement to set a balanced budget for 2021/22. The purpose of this report is to:

- Recommend that Cabinet approve the Phase 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 impact of C-19 and other financial challenges facing the Council, in setting balanced budget for the MTFS 2021/22-2023/24;
- Outline the strategic approach and actions taken by the Council to deliver a balanced budget in 2021/22;

Proposals will be agreed by Cabinet, following consideration of the feedback received to the consultation, on 30 November 2020 with a recommendation to Council on 9 December 2020 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 4 March 2020, the MTFS 2020/21-2022/23 was approved, setting a balanced budget for 2020/21, whilst at the same time outlining budget gaps in excess of £14m from 2021/22 onwards, which would require the Council to make further savings in order to balance the budget in future years.

As outlined within the 2020/21 MTFS, the Council has been operating in challenging financial circumstances for a number of years and unless immediate action was taken to reduce the costs of its operations markedly in the medium term, expenditure was estimated to exceed income with extremely limited recourse to reserves.

Against this backdrop, the Council was awarded a Capitalisation Direction following an application in March 2020 to the Ministry of Housing, Communities and Local Government (MHCLG). This was to enable the Council to implement radical restructuring and service changes to deliver a sustainable budget. Through this application, it was recognised that the Council's reserves balances were very low and needed to be protected in order for the Council to have the ability to invest in transformational change that would bring radical restructuring and service change and maintain some financial resilience for unforeseen events.

As part of the Capitalisation Direction, the Council committed to an intensive six-week period of investigative and service review work to be used to inform the development of a new operating model. This work led by Cabinet and the Corporate Management Team and was facilitated by experts from Grant Thornton and the Local Government Association. By March 2020, £11.9m of savings from restructuring and service change had been identified for more detailed business case development for implementation in this financial year and to close the opening £14.2m 2021/22 budget deficit. Towards the end of March 2020 the Government announced a lockdown of the Country due to the Covid-19 pandemic and the impact of this, and the comprehensive response the Council was required to make, impacted on the identified savings of £11.9m to an estimated £2.7m for delivery. Responding to the pandemic has seen the needs of vulnerable adults and children increase, increased support to adult providers of care, decrease in the ability to achieve additional income planned and decreases in receipts of the payments owed to the council. The Council has experienced an increase on the demand on corporate services to support the activities required to support services during the pandemic. This has been in the form of redeployment of employees to increase the operational capacity of service delivery and an increased need for communications and analytical work overall.

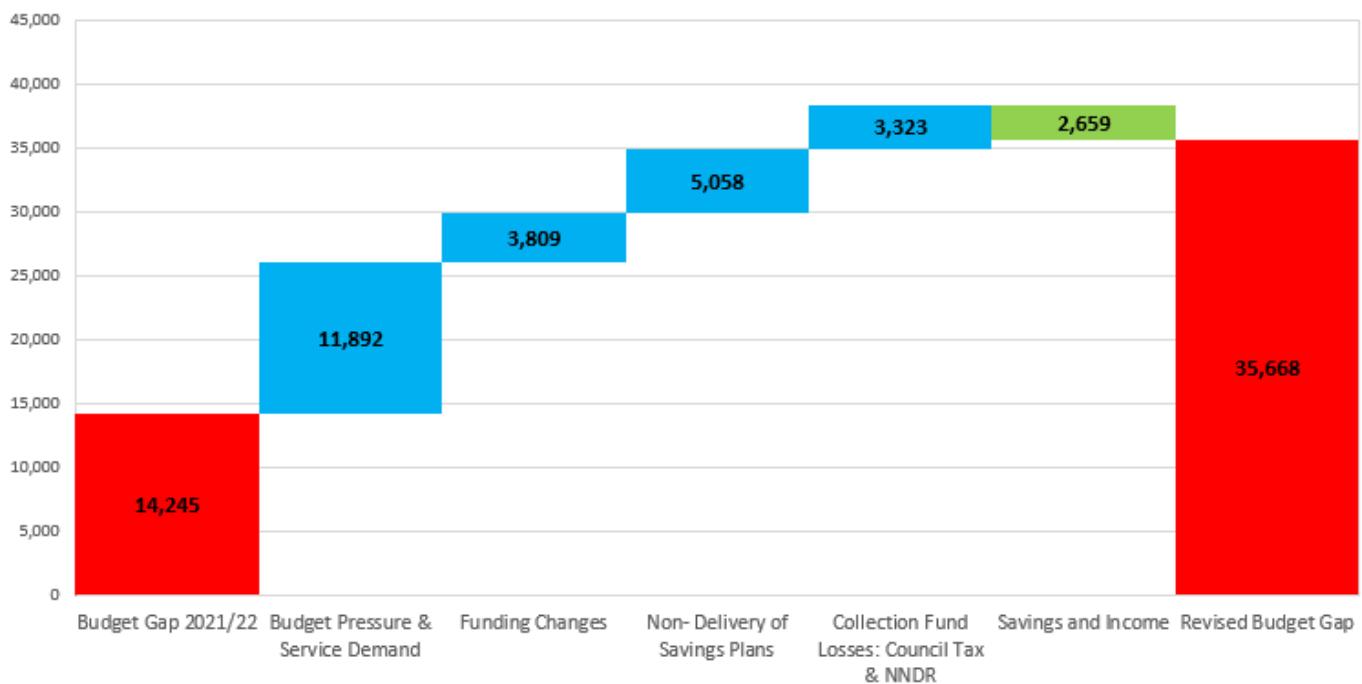
The C-19 pandemic has created other strains on the Council's income and expenditure budgets. As a result, the Council is faced with an estimated budget gap of £35.7m in 2021/22. This report outlines this financial position, and the revised assumptions. Due to the significant levels of uncertainty in the Council's operating environment, the assumptions reflect the most up to date information available at this time and as such may be subject to change in Phase Two of the budget.

The proposed estimated budget position for 2021/22 is summarised in chart 1 below, with further detail shown in Table 4 to this report.

Chart 1: Budget position Summary

Estimated 2021/22 MTFS budget gap

Existing budget gap **£14.2 m** + pressures **£24.1m** - new savings **£2.7m** = revised budget **gap of £35.7m**



The Council's financial and operating position is covered in more detail in sections 4.3. and 4.4.

3. TIMESCALES

| | | | |
|---|-------------------------|---|---|
| Is this a Major Policy Item/Statutory Plan? | YES | If yes, date for Cabinet meeting | 26 OCTOBER 2020 & 30 NOVEMBER 2020 |
| Date for relevant Council meeting | 09 DECEMBER 2020 | Date for submission to Government Dept. | N/A |

4. OVERVIEW

4.1 This report forms Phase One of the budget setting process agreed at full Council on 29 July 2020 ([Item 9a, Cabinet Report, Appendix A](#)). This process is to aid the delivery of a three-year Revenue Budget and Capital Programme for the Council.

4.2 The 2021/22 to 2023/24 Budget Setting Process

The MTFS process will be delivered over two Phases, with Table 1 setting out the budget timetable:

Table 1: Budget Timetable

| Phase | Cabinet | Joint Scrutiny | Cabinet | Council |
|--------------|----------------|-----------------------|----------------|----------------|
| Phase One | 26/10/2020 | 11/11/2020 | 30/11/2020 | 09/12/2020 |
| Phase Two | 01/02/2021 | 10/02/2021 | 22/02/2021 | 03/03/2021 |

4.3

Operating Context

Background

Peterborough is one of the fast-growing cities in the UK. Peterborough's population is young, multiculturally diverse and growing at a fast rate. The population is now over 202,300, with a 13% increase since 2009. Although growth has been good for the City and for the UK economy, this rapid growth in population has seen a corresponding growth in demand on Council services. Alongside growth driven demand, above average levels of deprivation have also increased the complexity and cost of the support required. The following points summarise some of the pressures the Council faces:

Service Pressures



- The population is growing older and people are requiring more complex care for a longer amount of time, which in turn is significantly increasing the costs of care. The Council has reduced the number of high cost packages using preventative services, such as assistive technology and voluntary and community sector support. Although the numbers of people supported remains static, those that do need care are costing more. In 2019/20 the Council supported 2,743 people with long term packages of care and 553 people with shorter term reablement care. The Council responded to referrals for 3,419 clients, offering services and support to help them stay independent.
- The number of children in care nationally has risen which has had an impact on placement sufficiency and where the Council can place children. The recruitment of foster carers has not kept pace with the number of children requiring care and the Council has had to use residential placements, which are more costly. Children coming into care are presenting with increased complexities of need, which means more specialist costly placements are required. This position has been exacerbated by C-19. As a result, the Council has needed to identify an additional £2m in 2021/22 to meet additional placement costs.
- The Council is experiencing a growing demand in special educational needs. Comparing 2020 with 2016, the Council has experienced a 40% increase in pupils with an Education, Health and Care Plan (EHCP) supported by the Council.
- The Council is experiencing a significant pressure as a result of ensuring enough school places are provided. The school population in Peterborough has increased from 28,257 pupils in January 2006 to 37,582 in January 2020, an increase of 33%. This increase has meant the Council has been required to invest £88m from the Capital Programme over the past five years (of which the Council has funded £25m) into school premises.
- In 2019/20 1,145 new homes were completed and the City has averaged more than 1,100 new homes per year for the last five years. A great achievement but with this growth comes extra service demands.
- The Council has experienced a 43% rise in households seeking help with homelessness, coupled with new obligations under the Homelessness Reduction Act.
- The Council's public health grant funding is low in comparison to national benchmarks, despite an above average level of public health needs, with a current shortfall of over £2.5m per year, this results in more people requiring specialist services and interventions due to the shortfall in preventative approaches.

Despite these pressures the Council has been proactive in implementing changes to develop and strengthen the Council's operations such as:

Operating changes



- It has transformed its Children's and Adult Social Care Services, by the using prevention and early intervention strategies e.g. Family Safeguarding and Adult Positive Challenge Programme. These programmes have seen a continuation of lower levels of expenditure and good outcomes in comparison to the Council's statistical neighbours.
- It has worked with health and care partners to reduce costs, increase efficiencies and increased purchasing power through joint commissioning and delivery opportunities.
- It has transformed its Housing Needs service to reduce homelessness within the City.
- It has generated over £77.5m of external income (non-Government grant or tax), equating to almost 20% of the Council's gross income.
- It has actively managed several key contracts and worked closely with partners to deliver Council services.
- It has worked to maximise the use of its assets.
- It has regularly reviewed its capital programme and associated project management of scheme delivery.
- It has applied technology and ICT solutions to streamline the Council's processes and increase automation.
- It has reviewed its workforce and successfully implemented agile working across its organisation.

Alongside a rise in demand and reduced government funding, the Council faces a number of additional financial challenges, including more people on lower council tax bands restricting its ability to raise income from local taxes, a fast-growing population (it is now over 202,300 a 13% increase since 2009) and minimal resilience, due to the low levels of usable reserves forecast by the end of the financial year.

C-19 Pandemic

In March the Council faced additional demand, for a wider breadth of new services. The pandemic has been the most challenging emergency the county, the Council and the UK has responded to in living memory. The response to the pandemic has seen the Council respond at speed to implement Government policy to limit the spread of the virus, protect the health of all our residents and ensure the most vulnerable in our communities are safe and cared for. The following graphic outlines some of the ways the Council has supported residents and businesses, over the last six months:



Although there are still many unknowns around the medium and long-term impacts of C-19, the Council has established a recovery group to start modelling the future demand, based on what is currently known about the

population of Peterborough, historic demand and a growing bank of national and international evidence. It is evident that the impact of C-19 will be felt across many of the Council's service areas for a long time and the Council will need to respond to these e.g. acuity of need due to elective care being put on hold, the closure of schools and the impact on vulnerable pupils, the impact of what a further lockdown would have on families with social care needs, which have not been met in a timely manner and the overarching impact of economic hardship.

4.4

Financial Context

Background

The Council has been operating within a challenging financial climate for some time following years of austerity measures, low funding and rising demand for Council services. Over the last two years, the Council has been working with the Local Government Association, its auditors, and external financial specialists to deliver a sustainable financial strategy.

However, in March 2020, the Council began to see the societal and financial impacts of the C-19 pandemic. This has resulted in pressures of £38.9m and a funding gap of £11.0m in the current financial year and a projected budget gap of £35.7m for 2021/22. The current year position includes the £27.9m of additional Government funding received to support the cost of responding to C-19 and a partial impairment of savings plans in the existing MTFS. It does not reflect an impact from a potential second wave. The following graph outlines the current year financial position:



An increased **funding gap £11m = £38.9m pressure less £27.9m funding**



The C-19 pandemic has exasperated the Council's financial situation and created an unprecedented strain on Council services. The following points outline examples of some of the specific pressures the Council is facing:

- A forecast loss of £2.4m in parking revenue as a result of reduced footfall in the City centre.
- A Council Tax deficit of £2.8m as a result of people being unable to pay and an increase in households receiving council tax support.

- A Business Rates deficit of £7.2m as a result of businesses being unable to pay their rates because of the impact on their operations.
- An additional £13.8m of costs as a result of providing Adult Social Care services differently during the pandemic.
- An additional cost of £2.2m to provide accommodation for all rough sleepers, in order to isolate safely, as directed within government national policy.
- An inability to deliver £5.5m of existing MTFS savings plans that the Council expected to achieve this current year. This creates additional budget pressures in the current and next financial years.

After continuing to provide vital services to the residents and businesses of Peterborough, despite years of austerity, funding reductions and rising service demand, 2021/22 was always going to be a difficult year. With the measures the Council has taken over previous years and the fundamental change savings which had been identified prior to the pandemic, the Council had a plan to close the budget gap. However, the C-19 pandemic has made this direction of travel near impossible, leaving the Council with current year funding gap of £11.0m, and £35.7m budget gap in 2021/22, of which there is no recourse to the use reserves.

Financial Position Pre-C-19

Alongside a national rise in demand for services, as outlined in section 4.3, and the financial pressure on Local Government, the Council faces a set of additional financial challenges:

- **Low Council Tax Base**, restricting the Council's ability to raise income from local taxes. Peterborough has a high proportion of band A and B properties combined with the 8th lowest average Band D council tax rate when compared to other unitary neighbours. If Peterborough was able to move to the average unitary council tax rate (a difference of £136 – 9.7%) and applied this to the tax base of 59,093 band D equivalents, this would generate an additional £8m per year.
- **Fast growing population teamed with an increase in demand for services** and the complexity of care and support required, as outlined in section 4.3.
- Already providing **services at a low unit cost**, demonstrating that the Council already delivers efficiency and value for money services, as outlined further in this section.
- **Low government funding** in comparison to service need and the population of Peterborough. The Council's funding position is outlined in section 5.3.
- **Low resilience, with low levels of usable reserves** forecast by the end of the financial year, as outlined in section 6 the robustness statement.

To date the Council has been able to successfully set a balanced budget, but in doing so has exhausted all financial measures available, including the use of capital receipts, reevaluating the minimum revenue provision (MRP), joining a business rates pool, years of delivering savings plans and budget cuts, and in March received approval for a Capitalisation Direction to enable the delivery of a radical new operating model. The Council has sought external advice and challenge from a range of external professionals with extensive local government knowledge and experience.

External expert review

The Council has subjected its financial strategy and its drive for sustainability to external rigour, challenge and support from the following sources:

- Local Government Association (LGA) peer review and challenge
- Grant Thornton
- Specialist housing advice
- Specialist HR advice

- Specialist strategic financial advice (as recommended by the LGA)

The Council's Financial Improvement Programme (FIP) was supported throughout by Grant Thornton, to deliver at pace and with rigour given the extent of the financial challenge. During this programme, Grant Thornton deployed sector market experts to each of the Council's directorates to support the identification of savings opportunities, the development of robust savings initiatives (£33.5m), review of these initiatives and subsequent implementation. In addition, Grant Thornton set up an enhanced and dedicated Programme Management Office to support the Council in tracking progress and the status of every single savings initiative, from inception through to delivery.

Their lengthy experience of working in Local Government allowed the Council to identify new savings initiatives and develop a robust challenge and review process for all savings initiatives, plus create targeted implementation plans based on what has worked, or not, in other Local Authorities.

In December 2018 the LGA provided two experienced peers to review the Council's finances and associated service delivery. The result of that work was reported to Joint Meeting of Scrutiny Committees and actions were incorporated in the Council's financial improvement programme.

The Council has employed a housing specialist to assist its work on homelessness, as well as a finance specialist to assist the s151 officer in the management of strategic finance for the Council and the oversight of the in-year forecast overspend reduction plan.

Lean Cost Structure Review

As part of the Capitalisation Direction process the Council committed to an intensive six-week period of investigative and service review work to be used to inform the development of a new operating model. This work was facilitated by working alongside experts from Grant Thornton and Local Government Association. At the time of the commencement of lockdown £11.9m of fundamental change savings had been identified for more detailed business case development for implementation in this financial year and to close the opening £14.2m 2021/22 budget deficit.

However, the C-19 pandemic has significantly impaired these plans and caused additional budget pressures within the current financial year. These pressures are anticipated to extend into 2021/22 and beyond and will mean that the Council will not have the resources available to submit a legal and deliverable budget in 2021/22, without additional funding in both the current year and future financial years.

Exhausted financial options

The Council has been proactive in its approach to balancing the budget and has implemented a range of financial options such as:

- Successfully applying for a Business Rates Pool in partnership with the other Cambridgeshire authorities to generate additional income.
- Thoroughly reviewing the Council Tax base, the Business Rates base and provisions, and contracting an external review of the Local Council Tax Support Scheme.
- Seeking a Capitalisation Direction from MHCLG in January 2020 to ensure the Council had sufficient resources to implement transformation programmes, while maintaining enough resilience to withstand an unforeseen event.
- Reviewing the Council's Minimum Revenue Provision (MRP).
- Years of delivering savings programmes, whilst managing additional demand, and increases in the cost of service, as a result of inflation and national pay awards.
- Developing a savings programme of over £33.5m for the 2020/21 Medium Term Financial Strategy, with the external support of Grant Thornton.

- Undertaken an intensive six-week (Feb-Mar 2020) period of investigative service review work alongside experts from Grant Thornton and Local Government Association. This identified £11.9m of fundamental change savings.

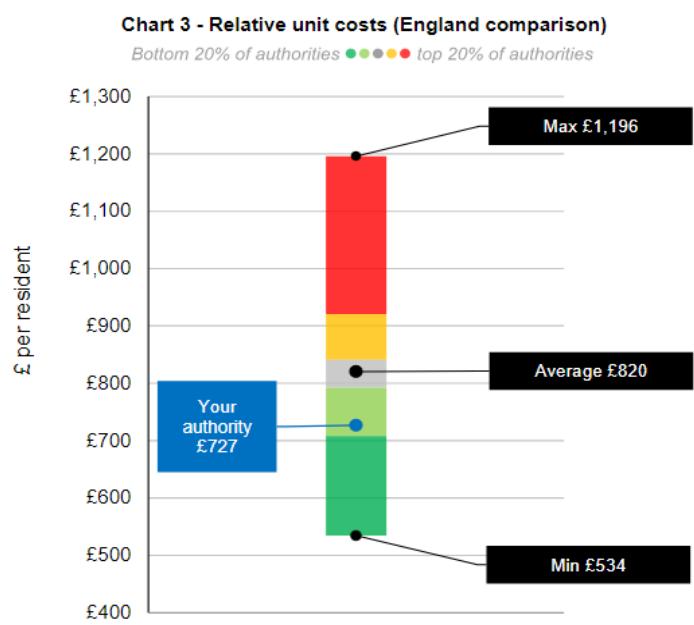
Table 2 shows the continued and extended use of reserves and non-repeatable savings to balance the budget over recent years, this is where expenditure has exceeded available funding. Although this has enabled the Council to continue the delivery of vital services to residents, it has in turn led to a structural deficit in the Council's finances. Now that the application of non-repeatable savings has been exhausted, the funding gap requires a sustainable ongoing solution, as reported in previous MTFSSs.

Table 2: Non-repeatable Savings

| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £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 & Provision Release | - | - | | 3,231 |
| Capitalisation direction | | | 5,564 | 1,217 |
| Planned use of Reserves | 7,194 | 4,231 | 3,084 | 1,510 |
| Total | 20,105 | 12,041 | 19,488 | 10,550 |
| In year use of Reserves | - | 2,119 | - | - |
| In year increased Use of Capital Receipts | - | 3,298 | 235 | - |
| Total | 20,105 | 17,458 | 19,723 | 10,550 |

Low Unit Cost

Over the years the Council has been active in pursuing Value for Money and low costs by implementing savings plans and ensuring unit costs remain low. The Council maintains a strong awareness of this in comparison to other Local Authorities, and in the most recent benchmarking report it was demonstrated that the Council's unit costs, in comparison to other authorities across England, were 11.4% lower than average, and ranked 92nd highest out of 123 comparable authorities. This graph and the table below outline the Council's position, demonstrating that in almost every service the Council has some of the lowest costs in the sector.



External Verification

As noted earlier in this section, the Council has worked collaboratively with Grant Thornton and the Local Government Association to develop a sustainable budget strategy. This work included the identification of £33.5m of savings in 2020/21, enhancements to the Council's financial and HR controls which are outlined in the

following paragraph and the identification of new opportunities totalling £11.9m for 2021/22 onwards. This work has provided the council with challenge, support and verification on its approach.

Expenditure Controls

The Council has always been proactive in finding solutions and mitigating financial pressure, to ensure the continuation of vital services. Aware of the increasingly difficult financial position the Corporate Management Team (CMT) approved and implemented the following expenditure controls during the summer of 2019. These are still in operation in order to control and ensure that all expenditure is only made for essential purposes.

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 Officer.
- Enhanced controls for general expenditure, with all expenditure over £1k requiring Chief Finance Officer approval.
- Implementation of the review of the effectiveness and operation of financial and human resource controls across the organisation.
- Departmental Management Teams, together with the CMT, review the budget position monthly and take appropriate action, including plans to address budget issues, all reported in Budgetary Control Reports.
- Continued with the enhanced budget governance, with dedicated Boards overseeing the delivery of the budget setting process, and monitoring of savings delivery.

The C-19 pandemic has brought an additional layer of financial complexity, including new reporting, additional costs, lost income generation and non-delivery of savings plans, impacting almost every service within the Council. The Council enacted its emergency policy on 24 March 2020, which saw the establishment of an enhanced governance structure (Gold, Silver, Bronze). The Gold group has been reviewing the Council's financial position on a weekly basis, with an enhanced layer of internal reporting implemented to ensure all C-19 related financial implications are:

- Reviewed to ensure any additional costs or lost income are incurred as a result of implementing policy and guidance as set out by the Government.
- Are receiving the relevant director and financial approval (an internal 'mini business case' form has been set up to ensure identify items are tracked, monitored and reported).
- Tracking tool to enable weekly financial reporting to CMT and complete the monthly financial management report to MHCLG.
- Summary reports based on the MHCLG return are presented to the Leader and portfolio holder for finance on a monthly basis.

The pandemic has accelerated an already financially stressed organisation to the brink. Without additional funding, or catastrophic service cuts, the £11.0m gap in the current financial year will deplete reserves to an unsustainable level and the Council will not have the resources available to submit a legal and deliverable budget in 2021/22.

4.5

National Position

Financial Impact of C-19

Nationally, C-19 has had a significant impact on Council finances. The latest C-19 financial management information [analysis](#) published by MHCLG, identified additional pressures and lost income was in excess of £11bn. This included:

- Adult Social Care Pressures totalling £2.3bn
- Income losses of £1.6bn in respect of Business Rates, £1.6bn in respect of Council Tax

- Lost ‘Sales Fees and Charges’ income totalling £2bn, of which the government has recently issued the first form to enable MHCLG to partially compensate Councils for these losses.

Some of these cost pressures and reduced income generation will have lasting effects for councils and will impact base budgets in the medium term. This makes it ever more important that clarity on a short-term to longer-term support package for Local Government is received.

Comprehensive Spending Review (CSR)

On the 23 September, the HM Treasury announced plans to scrap the 2020 Autumn Budget due to the C-19 pandemic, stating that ‘now is not the right time to outline long-term plans and to focus on the here and now’. The CSR is expected to set out the overall shape of the government spending and is intended to cover a multi-year period. There is no clear timescale of when this is now expected. There is a risk to this being delayed further, and a further risk of this becoming another one-year spending review covering 2021/22 only.

The Chancellor is producing this CSR in unprecedented times and is faced with providing solutions which are short term, in response to the C-19 pandemic and others are more structural, due to an ongoing recession and the increased spending base within health and care. The Chancellor will need to consider setting a plan which will strike a balance between additional taxes, spending cuts, borrowing, health and the economy. This is all alongside the transitional period, following the UK’s exit from the European Union, coming to an end on 31 December 2020.

The Local Government Association recently published their submission in respect of the CSR, which highlighted the significant pressures councils are under. They stressed that £10bn will be needed, to not only plug the funding gap but to meet growing demand pressures which councils face and improve services for our communities

Provisional Local Government Finance Settlement 2021/22

At present, no date has been confirmed for the settlement. It is expected that this will be published in December with a technical consultation in the Autumn. It is likely that this will only be a one-year settlement, but should provide clarity on several areas including:

- Confirmation of grants and whether this roll-over will be unchanged or will have an inflationary or growth uplift.
- Confirmation on the timescales for Fair Funding Review and Business Rates Retention.
- Confirmation on timescales for the reset of Business Rate Baseline.
- Confirmation of the continuation of New Homes Bonus or details of the replacement scheme.
- Confirmation of Council Tax Referendum limits 2% or £5 increase in Band D (and another ASC precept or possibly a new Childrens Social Care Precept).
- Confirmation of the continuation of the Business Rates pilots.
- Approval of Business Rate pool applications.

Going Concern- Statement of Accounts

In response to the further strain C-19 has put on Local government finances, external auditors are requesting Local Authorities to incorporate a ‘going concern’ statement within their Statement of Accounts (SoA). The Council’s auditors Ernst and Young (EY) have requested the inclusion of this disclosure within the SoA for 2019/20, due to the Council’s challenging financial position.

The concept of ‘going concern’ assumes that an authority’s functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of ‘going concern’ reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a ‘going concern’ basis of accounting. However, if an authority were in financial difficulty, the prospects are that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a

result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a ‘going concern’ basis.

Providing a statement on the ‘going concern’ status of the authority is made challenging due to the uncertainty surrounding the levels of government funding beyond 2020/21. The annual audit letter and final SoA’s are expected to be issued in advance of the Audit Committee meeting on 16 November, however this is in advance of the Local Government Settlement announcement 2021/22. Therefore, the Council can only make this statement based on current funding levels, which are subject to confirmation.

5 BUDGET DETAIL

5.1 Previous 2020/21-2022/23 MTFS Summary

Table 3 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 2020/21 MTFS.

Table 3: Previous 2020/21 MTFS Budget Summary Position

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 |
|---|------------------|------------------|------------------|------------------|
| NNDR | (51,397) | (50,253) | (50,253) | (50,253) |
| Revenue Support Grant | (10,413) | (10,413) | (10,413) | (10,413) |
| Council Tax | (83,972) | (86,904) | (90,638) | (94,518) |
| New Homes Bonus | (4,701) | (2,066) | (1,461) | - |
| Business Rate Pool | (1,320) | - | - | - |
| Improved Better Care Fund | (7,260) | (7,260) | (7,260) | (7,260) |
| Social Care Grant | (4,680) | (4,680) | (4,680) | (4,680) |
| 2018-19 Adult Social Care Support Grant | - | - | - | - |
| TOTAL CORPORATE FUNDING | (163,743) | (161,576) | (164,705) | (167,125) |
| PLANNED EXPENDITURE | | | | |
| Chief Executives | 1,252 | 1,216 | 1,244 | 1,272 |
| Governance | 4,254 | 4,343 | 4,394 | 4,446 |
| Place & Economy | 21,371 | 22,469 | 23,099 | 23,729 |
| People & Communities | 85,720 | 90,540 | 91,417 | 92,257 |
| Public Health | (372) | (390) | (390) | (390) |
| Resources | 14,525 | 11,808 | 12,070 | 12,524 |
| Customer & Digital Services | 7,534 | 7,735 | 7,922 | 8,112 |
| Business Improvement | 600 | 573 | 576 | 579 |
| NET SERVICE EXPENDITURE | 134,883 | 138,294 | 140,333 | 142,529 |
| Corporate Expenditure | 5,368 | 5,392 | 5,416 | 5,440 |
| Capitalisation Directive | (1,217) | - | - | - |
| Capital Financing Costs | 26,219 | 32,135 | 33,764 | 33,764 |
| Contribution from/to Reserves | (1,510) | - | - | - |
| TOTAL PLANNED EXPENDITURE | 163,743 | 175,820 | 179,513 | 181,733 |
| REVISED DEFICIT/(SURPLUS) | 0 | 14,245 | 14,808 | 14,609 |

5.2

Phase One Budget Position 2021/22- 2023/24

The proposed budget position is summarised within Table 4, with Table 5 setting out the proposals included within this Phase One of the MTFS 2021/22. The major items included within these proposals are:

- Collection Fund deficits and reduced income base for both NNDR and Council Tax
- Additional costs associated with the delivery of Adult and Children's Social Care Services
- Additional costs associated with Aragon Direct Services

Table 4: Phase One Budget Summary Position 2021/22-2023/24

| | 2021/22 | 2022/23 | 2023/24 |
|--|---------------|---------------|---------------|
| | £000 | £000 | £000 |
| Budget Gap from 2020/21 MTFS (Table 3, section 5.1) | 14,245 | 14,808 | 14,609 |
| Budget Pressure & Service Demand | 11,892 | 12,649 | 15,168 |
| Funding Changes | 3,809 | 3,515 | 3,165 |
| Non-Delivery of Savings Plans* | 5,058 | 4,978 | 4,978 |
| Collection Fund Losses: Council Tax & NNDR | 3,323 | 3,323 | 3,323 |
| Revised Budget Gap Subtotal | 38,327 | 39,273 | 41,243 |
| Savings and Income | (2,659) | (2,659) | (2,659) |
| Revised Budget Gap | 35,668 | 36,614 | 38,584 |

*Broken down within table 5

Table 5 details all proposals included within this Phase One, and the financial implications for the three years covering 2021/22-2023/24 and Table 6 outlines the RAG profile of the current savings plans for 2021/22.

Table 5: 2021/22-2023/24 Phase One budget proposals

| | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 |
|---|-----------------|-----------------|-----------------|
| Budget Pressure & Service Demand | 11,892 | 12,649 | 15,168 |
| People & Communities | 8,167 | 9,524 | 12,143 |
| Care Homes Team investment | 73 | 30 | - |
| Children's- Family Safeguarding | 700 | 700 | 700 |
| Children's Placements | 2,000 | 2,000 | 2,000 |
| Adult Social Care- Market sustainability | 5,147 | 4,480 | 4,815 |
| Adult Social Care- Cost Drivers and Demography review | - | 2,314 | 4,628 |
| Think Communities Investment | 247 | - | - |
| Place & Economy | 2,000 | 1,900 | 1,800 |
| Aragon Direct Services (Peterborough Ltd) | 1,500 | 1,500 | 1,500 |
| Reduction in Income from sale of electricity from Energy from Waste plant Energy from Waste | 500 | 400 | 300 |
| Resources | 1,725 | 1,225 | 1,225 |
| Pay Award- 2.75% in 2020/21 | 725 | 725 | 725 |
| Peterborough Serco Strategic Partnership Control- Budget adjustment | 500 | 500 | 500 |
| Increase in Sundry Bad Debt Provision- due to the economic impact of the C-19 Pandemic | 500 | - | - |
| Collection Fund Losses: Council Tax & NNDR | 3,323 | 3,323 | 3,323 |
| Funding | 3,323 | 3,323 | 3,323 |

| | | | |
|--|----------------|----------------|----------------|
| Council Tax Collection Fund Deficit- Spread over three years | 934 | 934 | 934 |
| Business Rates Collection Fund Deficit- Spread over three years | 2,389 | 2,389 | 2,389 |
| Savings and Income | (2,659) | (2,659) | (2,659) |
| Capital Financing Costs | (367) | (367) | (367) |
| Capital Financing Capital Programme Review- Reduction in Capital Financing Costs | (367) | (367) | (367) |
| Customer & Digital Services | (711) | (711) | (711) |
| Changes within the ICT Service | (711) | (711) | (711) |
| People & Communities | (421) | (421) | (421) |
| Reduce spend on virtual School | (80) | (80) | (80) |
| Use of Dedicated School Grant (DSG) to fund school related overheads | (250) | (250) | (250) |
| Disability Forum infrastructure | (32) | (32) | (32) |
| Reduction of Posts within Adults and Safeguarding | (59) | (59) | (59) |
| Place & Economy | (944) | (944) | (944) |
| Brown Bin Fee increase | (190) | (190) | (190) |
| Peterborough Highway Services | (316) | (316) | (316) |
| Westcombe Engineering | (100) | (100) | (100) |
| Housing Service | (238) | (238) | (238) |
| Sustainable Growth Strategy Savings | (100) | (100) | (100) |
| Resources | (161) | (161) | (161) |
| Commercial Property Portfolio | (35) | (35) | (35) |
| Core Property Contract | (96) | (96) | (96) |
| Reduction in Security | (30) | (30) | (30) |
| Public Health | (55) | (55) | (55) |
| Public Health Falls Prevention Funding | (40) | (40) | (40) |
| Public Health – Removal of Head of Public Health Intelligence post | (15) | (15) | (15) |
| Funding Changes | 3,809 | 3,515 | 3,165 |
| Funding | 3,809 | 3,515 | 3,165 |
| Council Tax Base Reduction | 1,304 | 1,360 | 1,360 |
| NNDR income Base Reduction | 1,005 | 1,005 | 1,005 |
| Increase in Bad Debt Provision - Business Rates | 1,000 | 750 | 500 |
| Increase in Bad Debt Provision - Council Tax | 500 | 400 | 300 |
| Total | 16,365 | 16,828 | 18,997 |

Non-delivery of savings plans

The Council reviews the progress against the delivery of savings plans monthly at an officer led Corporate Programmes and Finance Board. The position outlined within Table 6 is the most recent position reported to this board. It highlights that £5.1m of existing savings plans were identified at high risk, meaning a high proportion or the full saving was unlikely to be achieved. These include saving plans in respect of:

- Managing Adult Social Care costs and demand, which are no longer possible due to the strain C-19 has placed on these budgets.
- Rental income expected as a result of leasing further floor space at Sand Martin House, which have been unachievable due to the social distancing, an increase in businesses working from home and the general climate experienced in the wider UK economy.
- Home to school transport savings, which are unachievable due to the additional transport requirements to ensure social distancing and additional costs of PPE and other measures to minimise the spread of the C-19.

- A reduction in the cost of business support, which has not been achieved during the pandemic due to the additional capacity required to support the Council's response to C-19.

Table 6: RAG Rating of the Current Savings plans in 2021/22

| Directorate | Total identified £000 | Green £000 | Amber £000 | Red £000 |
|--------------------------------------|-----------------------|---------------|--------------|--------------|
| Business Improvement and Development | 251 | 118 | 133 | - |
| Chief Executives | 421 | 421 | - | - |
| Customer and Digital Services | 239 | 159 | - | 80 |
| Funding | 4,286 | 4,286 | - | - |
| Governance | 180 | 180 | - | - |
| Place and Economy | 2,639 | 2,434 | 205 | - |
| Resources | 5,842 | 2,328 | 340 | 3,174 |
| Capital Financing | 993 | 548 | 445 | - |
| People and Communities | 7,042 | 1,889 | 3,349 | 1,804 |
| Public Health | 1,049 | 699 | 350 | - |
| Cross Directorate | 2,355 | 82 | 2,273 | - |
| Total | 25,297 | 13,144 | 7,095 | 5,058 |

Further detail in respect of the proposals following appendices:

- Appendix A – 2021/22- 2023/24 Phase One MTFS Detailed Budget Position.
- Appendix C - The Budget Consultation Document – Phase One.
- Appendix F - Equality Impact Assessments (where applicable).

5.3

Grants and Funding Assumptions

Table 7 outlines the Council's forecast core funding for the period 2021/22-2023/24. It is expected that the level of grants will be confirmed as part of the Provisional Local Government Settlement in December, and as the economy settles, income estimates in respect of Council Tax and NNDR will become more accurate. Due to the level of uncertainty the budget has been updated to reflect estimates based on the latest information available. Further details of the assumptions used are outlined within this section.

Table 7: The Council's funding Summary Position 2021/22-2023/24

| | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 |
|--------------------------------|------------------|------------------|------------------|
| NNDR | (45,859) | (46,109) | (46,360) |
| Revenue Support Grant | (10,413) | (10,413) | (10,413) |
| Council Tax | (84,166) | (87,944) | (91,924) |
| New Homes Bonus | (2,066) | (1,461) | - |
| Improved Better Care Fund | (7,260) | (7,260) | (7,260) |
| Social Care Grant | (4,680) | (4,680) | (4,680) |
| TOTAL CORPORATE FUNDING | (154,444) | (157,867) | (160,637) |

The Council has seen a 70% reduction in the level of grant funding received since 2013/14, and over this period has relied on Council Tax increases and Business Rates growth to bridge the funding gap, but have only partially achieved this, leaving a £18m difference (as demonstrated in the following chart). This is a significant reduction in

funding, and to illustrate the scale of the challenge, the £18m difference is the equivalent of almost 180% of the Council's current level of RSG or would require a further 22% increase in Council Tax to meet this difference.

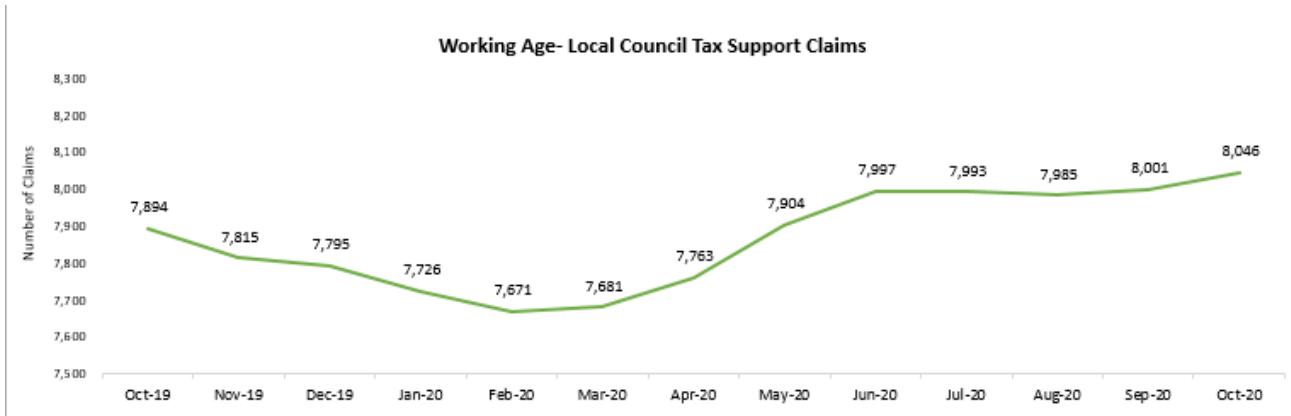
Change in Funding from 2013/14 to 2021/22



Council Tax

The forecast funding includes an assumption based on 2.99% general Council Tax increase, although at this point the 2021/22 referendum limits are to be confirmed. The Council has downturned its assumptions in respect of the Council Tax base to take account of the following:

- Reduced housing growth due to slower construction as a result of the social distancing and lockdown measures implemented in March 2020;
- Reduced collection rates (1.9%), which have led to a forecast collection fund deficit of £3m. This Collection Fund deficit will be spread across three financial years.
- Increase in the level of Local Council Tax Support (LCTS) claims, as a result of a rise in unemployment. This is expected to increase as the furlough scheme ends. Prior to the C-19 pandemic, the levels of LCTS were reducing. This is demonstrated in the following graph:

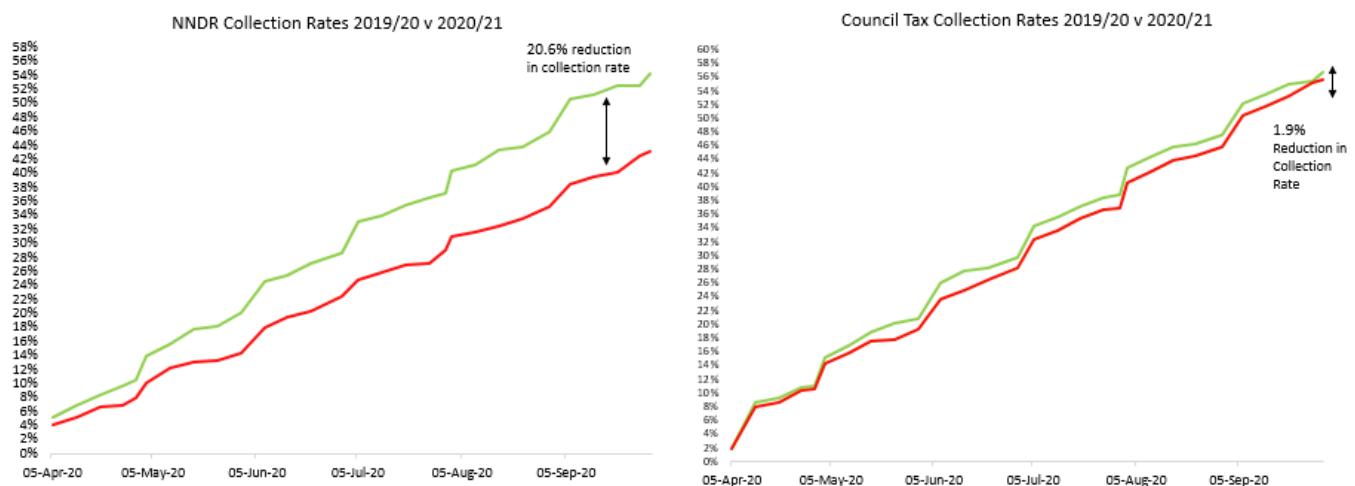


Business Rates

Business Rates is a major source of income for the Council, with a budget of £51.4m in 2020/21. However, this income source has been impacted by the C-19 pandemic. Although the government has provided a package of support for businesses in the shape of 100% business rates reliefs and grants, the Council has experienced a significant drop in collection rates (20.6%) when compared to 2019/20 performance, and in turn has forecast Collection Fund deficit of £7.2m, which will be spread over the next three financial years.

There is a further risk to the Council's Business Rates income base due to potential rateable value reductions, as a result of the rising level of material 'Change in Circumstance' (MCC) claims raised through the 'Check Challenge Appeal' process and a reduction in business growth.

The following graphs demonstrate the reduction in collection rates for both Council Tax and Business Rates in 2020/21 in comparison to 2019/20:



Grants

- Revenue Support Grant has been included at the same level as 2020/21.
- New Homes Bonus Grant levels are forecast to reduce in line with prior assumptions.
- The Adult Social Care grants and Improved Better Care Fund (IBCF) have been included at the same level as 2020/21.

Whilst the full extent to which the Council's income will be impacted is unknown, it is expected that prior to approving the budget in March 2021, clarity on Local Government funding will be provided within the Local Government Settlement and as the economy stabilises this will enable budget assumptions to be developed with more certainty.

Fairer Funding Review

There is uncertainty surrounding the level of funding for the Council in the future, as a result of the pending Comprehensive Spending Review, Local Government Finance Settlement and Fairer Funding Review (FFR).

The new funding allocations of the FFR are expected to be in place in 2022/23. Based on the direction of travel for this review to date, the Council has analysed potential scenarios. The following points summarise what the Council would like taken into consideration within the FFR, and which would contribute towards a funding package more geared towards the Council's demographic and financial position:

- Use of the latest population projections including levels of deprivation.
- Prioritise funding of children's services (social care and other children's services).
- Full Council Tax equalisation.

Financial Strategic Approach

Approach Taken to Date

As outlined in sections 4.3 and 4.4, the Council has been operating in a challenging financial climate for several years. The Council has delivered millions of pounds of savings and efficiencies, in addition to managing the additional service demand, at the same time seeing a significant reduction in the levels of funding from the Government. As delivering these savings plans has become increasingly difficult the Council has been proactive in using other financial solutions to deliver a balanced budget. However, as these alternative options have been exhausted over recent years this has left the Council with little resilience to withstand a shock, such as the C-19 pandemic.

Appendix D provides an overview of the Council's financial strategy and position over recent years.

In responding to the C-19 pandemic the Council's financial position has been further strained. The new savings opportunities identified earlier in the year have been impaired to £2.7m, as included within the Council's proposed MTFS Phase One position and as reported within the monthly C-19 financial management returns submitted to MHCLG. The in-year position has deteriorated to such an extent that Council is now facing a forecast £11.0m funding gap. As a result, the Council's usable reserves are forecast to be virtually fully depleted by the end of the financial year. The scale of the change required is at such an extent that the Council will require additional government funding and / or alternative funding solutions and will not be able to close the £35.7m budget gap with savings alone.

The Council are in discussion with MHCLG about potential funding solutions for the financial situation that the Council faces. The outcome of these discussions will be crucial to the second phase of MTFS proposals and being able to deliver a balanced budget next year.

Peterborough Takes Action

On 1 October the Council approached MHCLG ([press release](#)), in accordance with the CIPFA [modifications](#) to enable the further explorations of alternatives to issuing a s114 notice. The Council would like a review of other funding opportunities to ensure that local services meet statutory and legal obligations, and the Council's response meets the challenges of C-19 both now and in the future.

As part of 'Peterborough Takes Action', Council officers have consulted with the following people and groups, who are aware of the Council's financial position and the approach made to MHCLG:

- Leading members in the local authority, including Cabinet, Group Leaders, and full Council;
- The Council's external auditors, Ernst and Young (EY);
- Two MP's responsible for the Peterborough area – Paul Bristow and Shailesh Vara;
- Senior finance colleagues in other local authorities;
- CIPFA, SOLACE and other professional bodies;
- The Local Government Association, and local authority special interest groups;
- MHCLG informally.

The fundamental funding shortfall which the Council has experienced for several years needs to be addressed. The Council has suggested the following solutions to bridge the immediate funding gap for the Council and wider Local Government prior to addressing the underlying medium-term funding shortfall:

| Option | Short term | Long term | Advantage | Disadvantage |
|---|------------|-----------|--|--|
| One-year holiday on the repayment of debt (MRP) | ✓ | ✗ | Enables transformational activity | Increased revenue costs through interest payments in the short and longer term |
| One-year holiday on the contribution to past pension liabilities | ✓ | ✗ | Enables transformational activity | Increased revenue costs in the short and longer term |
| Remove the penalty on PWLB loans to allow Council to renegotiate the loan rates (refinancing) | ✓ | ✓ | Benefits are spread over the short to long term time frame Precedence exists for such activity | Impact on national economics Immediate benefits smaller |
| Use PWLB borrowing to fund the pension deficit | ✓ | ✓ | Maximise the benefit of gilts to fund a longer-term liability | Impact on national economics |
| For current financial year reduce the business rate contribution to the central share | ✓ | ✗ | Assists with the council's cash flow Risk transferred to central government | Impact on the wider local government funding mechanism |
| Maintain the New Homes Bonus and not phase in the grant reduction | ✓ | ✓ | Reduction in the funding gap Reward for policy decisions | Impact on the wider local government funding mechanism |
| Relax the Council Tax referendum limits | ✓ | ✓ | Local flexibility and ownership over tax regime Tax base begins to fund services being consumed | Requires change in legislation Impact on taxpayer especially JAMs Political implications |
| Capitalisation direction for C-19 costs | ✓ | ✗ | Cash injection for revenue funding | Future generations burdened with non-asset related debt |

Conclusion

The Council's financial position is challenging, and a comprehensive approach has been taken to implement a financial recovery programme (aided by the Capitalisation Direction). However, in the wake of C-19, it is clear that without additional funding from Government, or the ability to use some of the alternative solutions, the Council will exhaust all reserves in response to the current financial year C-19 challenges and in doing so will be unable to function in the following financial year(s). The financial situation and continued uncertainty in funding arrangements, future demand impacts and recovery from the pandemic mean that forward planning is highly compromised.

The Council will continue to work hard on the recovery of the financial position, while discussions take place with MHCLG. The MTFS Phase Two report will be published in January, for approval by Council on 3 March 2021, solutions will need to be agreed in advance of this to ensure the Council can legally set a balanced budget.

5.5

Capital Programme

The Council's Capital Programme is viewed over a three-year period to ensure correct stewardship of assets and

efficient use of budgets. The Council is proactive in attracting external funding for as many schemes as 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.

The £22m for IFRS16 transition is excluded as this is not new capital spend, but a change in accounting treatment. Under the previous accounting rules leases that did not account for substantially for all an assets useful economic life were treated as off balance sheet and charged to revenue. The new accounting brings these leases (unless under a year in duration or for assets below a de minimum value) onto the balance sheet as capital expenditure. On transition, the remaining value of these existing leases is treated as capital expenditure incurred on 1 April 2021. The implementation of this work was delayed by a year nationally, and therefore is included again in Phase One.

Phase Two will reflect a further review of the programme to reduce costs as well as some further investment in line with Council priorities. Additional investment schemes that have been added to the previous MTFS for approval are summarised in Table 8.

Table 8: New Capital Schemes included within Phase One

| Directorate | Schemes Included |
|------------------------------|---|
| Resources Place & Economy | 2020/21 <ul style="list-style-type: none"> • Purchase of 62-68 Bridge Street - £9m (Borrowing) • New Towns Fund Parks and Opens spaces improvements - £1m (Third Party) • Contribution to the infrastructure costs of the new University development - £2m (Borrowing) • A1260 Nene Parkway Junction 15 improvements £0.47m (Third Party) • A1260 Nene Parkway Improvement Jn 32 to Jn 3 (Fletton Parkway) £0.5m (Third Party) • Peterborough Builds Back Better Project – Creating a Café Culture £0.983m (£0.183m Borrowing, £0.8m Third Party) • Expansion and Improvement of Heltwate SEND school £2.8m (£1m borrowing – funded by removal of Additional Secondary school places budget, and £1.8m Third Party) |
| People & Communities | |
| Place & Economy | 2021/22 <ul style="list-style-type: none"> • Highway enhancements £0.15m (Borrowing) |

Table 9 provides a summary of the Capital Programme over the MTFS period. The full list of schemes is detailed in Appendix B - Capital Programme Schemes 2021/22-2023/24. These tables include the changes to the programme listed above and those agreed by 21 September Cabinet.

Table 9: The Capital Programme 2021/22- 2023/24 Summary

| Capital Programme | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 |
|---|-------------------------|-------------------------|-------------------------|
| Customer & Digital Services | 5,000 | 3,500 | 3,500 |
| People & Communities | 45,430 | 22,247 | 6,453 |
| Place & Economy | 30,999 | 27,483 | 25,353 |
| Resources | 6,878 | 2,056 | 2,045 |
| Total Capital Programme | 88,307 | 55,286 | 37,351 |
| Grants & Third-Party Contributions | 53,998 | 33,220 | 17,551 |
| Capital Receipts repayment of loans | - | 15,000 | - |
| Borrowing | 34,309 | 7,066 | 19,800 |
| Total Capital Financing | 88,307 | 55,286 | 37,351 |
| Invest to Save | 24,799 | 10,000 | 10,000 |
| IFRS16 Transition | 22,000 | - | - |
| Invest to Save and Other Borrowing | 46,799 | 10,000 | 10,000 |

6. ROBUSTNESS (SECTION 25) STATEMENT FOR PHASE ONE

6.1 Requirement

Section 25 of The Local Government Act 2003 includes the following statutory duty in respect of the budget report to Council:

"the Chief Financial Officer (CFO) of the authority must report to it on the following matters:

- a) the robustness of the estimates made for the purpose of the calculations; and*
- b) the adequacy of the proposed financial reserves."*

The Council is required to take this report into account when making that decision.

Section 26 of the same Act places an onus on the CFO to ensure the Council has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget.

This report has been prepared by the CFO as part of fulfilling this duty and gives the required advice relating to the Council's current and future years financial position, including a consideration of the proposed budget as a whole and all the financial risks facing the Council. It identifies the Council's approach to budget risk management and assesses the risks associated with the current year and 2021/22 budget to inform the advice on robustness.

At Peterborough City Council this Statement is usually only completed in Phase Two of the budget setting process, as all budgetary information including latest estimates and developments are taking into account. However, this year given the financial position of the Council it is deemed prudent and appropriate for the CFO to provide this assessment in this first Phase as well as later on as part of Phase Two.

6.2 Overall Financial Position

As has been stated, the Council is operating in a challenging financial climate, there are now additional uncertainties and significant risk factors brought about by the impact of the C-19 pandemic and the resultant national and local responses to control the virus as well as support the City in its recovery efforts. Previous

Robustness Statements had highlighted the fragility of the Council's financial resilience through a reducing reserves position leaving little recourse if savings were not delivered as planned or unforeseen events materialised. It for these latter reasons that the Council sought, and successfully received the Capitalisation Direction to fund the transformational change that was required to delivery an ongoing and sustainable budget.

In order to achieve a sustainable budget, the Council has exhausted several financial options, such as using capital receipts, reviewing the Councils Minimum Revenue Provision (MRP), delivering years of extensive saving plans and maximising its Council Tax and Business Rates income. Therefore, as part of the financial strategy contained in the last MTFS the Council undertook an intensive six-week period of investigative and service review work to be used to inform the development of a new operating model. This work was facilitated by working alongside experts from Grant Thornton and Local Government Association. At the time of the commencement of lockdown £11.9m of fundamental change savings had been identified for more detailed business case development implementation in this financial year and to close the opening £14.2m 2021/22 budget deficit.

As a direct result of responding to the national emergency created by the C-19 pandemic the savings identified from the above process have been impaired to an estimated £2.8m. Management of the local response and recovery to the pandemic has seen redeployment of teams, and the management capacity required to deliver such transformational change severely reduced. Therefore, without additional funding from government, or the ability to use some of the alternative financial solutions (as suggested to MHCLG) the Council will use the majority of useable reserves to fund the additional C-19 challenges in the current financial year.

The Council has, in accordance with the CIPFA modifications, contacted MHCLG to enable the further explorations of alternatives to issuing a s114 notice. The Council is now exploring further funding opportunities with MHCLG, to ensure that local services meet statutory and legal obligations, and the Council is able to respond to, and recovery from, the challenges of C-19 both now and in the future for residents and businesses of the City.

MHCLG recognise that even with the considerable support already provided to local government, there will be individual authorities with unique circumstances, which is why they are encouraging them to approach MHCLG to discuss their future financial position. They will continue to work closely with Peterborough City council as they support their community through the pandemic.

For Phase One, the opinion of the CFO is that the 2021/22 budget estimates contain considerable risk due to the level of uncertainty in the Councils operating environment, making it problematic to develop meaningful assumptions on which to base income receipt levels and demand-led expenditure budgets.

6.3

Robustness of the 2020/21 budget estimates

The revenue budget and capital programme have been formulated having regard to several factors including:

- Funding availability
- Risks and uncertainties
- Inflation
- Priorities
- Demography
- Service pressures
- Commercial opportunities
- Response to C-19 pandemic
- Recovery from the C-19 pandemic

The MTFS highlights that the current financial position is untenable without some form of intervention. Whilst a balanced budget for 2020/21 was approved in March 2020, the Council is currently forecasting a £11.0m overspend due to the additional demands placed on it from responding to the C-19 pandemic, which in turn is utilising the remaining available reserves balances to fund these pressures.

For Phase One of the MTFS it has proven problematic to find surety in the development of realistic assumptions due to the significant uncertainty inherent in the Council's operating environment. These uncertainties include:

- Increase in demand for council services.
- Market sustainability of key service providers.

- The inability to forecast with any certainty the future profile of recovery for income generators such as car parking.
- Uncertainty with how to profile business rate income given the reduction in government support, and associated closures of businesses due to C-19.
- Uncertainty with the increase to Local Council Tax Support scheme with any future recession.
- Continued uncertainty from the overall impact in funding of the local government sector from central government.
- Unknown financial and demand impact from any future national or local C-19 related lockdown.
- Unknown indirect impacts from any future global recession with no previous experience to base it on.
- No resources to implement any recovery or transformational activity.

Given all the uncertainty which encapsulates this MTFS budget, the assumptions have been based on the best available information to the Council at this time. Work will continue in validating all assumptions, robustly challenging estimates, ensuring the delivery of existing saving plans alongside robust demand management action. Updates will be included in Phase Two of the MTFS and balanced budget setting process.

6.4 Reserves

Reserves are set aside to fund risks and one-off pressures over several years. Where reserve balances are low, future financial planning and financial resilience is hampered. It should be noted that reserves can only be spent once and the possibility of creating new reserves is currently unlikely.

The Council broadly categorises reserves as follows – in line with Local Government accounting practice:

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

The Council's General Fund working balance is forecast to reduce to £1.5m, with ring-fenced reserves at £4.4m. The latter reserve type includes the actuarial assessed £3.5m insurance reserve and £0.8m of reserves held on behalf of schools for future capital expenditure.

The General Fund

The General Fund is usually held at a balance of £6m but was temporarily reduced in 2019/20 due to the identification of a timing difference in Business Rates, which meant income from Section 31 grants, was £0.9m lower than budgeted. The income has been received in 2020/21 and the General Fund replenished. However, as the usable reserves are expected to be almost fully utilised, after providing £6.8m of support for the forecast in-year overspend of £11.3m, the remaining £4.5m has been met from the General Fund reducing the balance to £1.5m. In the opinion of the CFO this is an inadequate amount to mitigate and fund any emergent risks. This amount would equate to less than 1% of the Council's forecast net revenue budget.

Usable Reserves

Reserves are the only source of financing to which the Council has access to fund risks and one-off pressures over a few 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 currently highly unlikely.

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 saving proposals. This balance is insufficient for the investment which would be required to deliver £35.7m of budget savings. The remaining

balance is forecast to be used to meet the in-year forecast overspend, leaving this reserve fully utilised by the end of 2020/21.

Departmental reserves are amounts set aside by departments, during the closure of the accounts and is in accordance with financial guidance to minimise risk exposure to the Council in the following financial year. These reserves are currently anticipated to reduce significantly in 2020/21 due to several specific grants being used to fund expenditure. These funds have been received for specific projects covering multiple years, and includes:

- Family Safeguarding Innovation Programme
- Integrated communities Strategy
- Controlled Migration Fund (CMF)
- COVID-19 reserve relates to the first tranche of C-19 response funding from MHCLG. This is an unringfenced grant and was received on 27 March. Following the application of the accounting rules this was put into reserves at the end of 2019/20 for use in 2020/21;

The following chart shows the reducing balance of the reserves from the end of 2017/18 to an estimated end position for 2020/21. The reserves balance at the end of 2019/20 appear relatively high due to the inclusion of the £5.4m of C-19 response fund, with this being fully utilised within the current financial year. The reserves balances will have experienced a reduction of 78% in 2020/21, resulting in a balance equating to less than 5% of the net revenue budget.

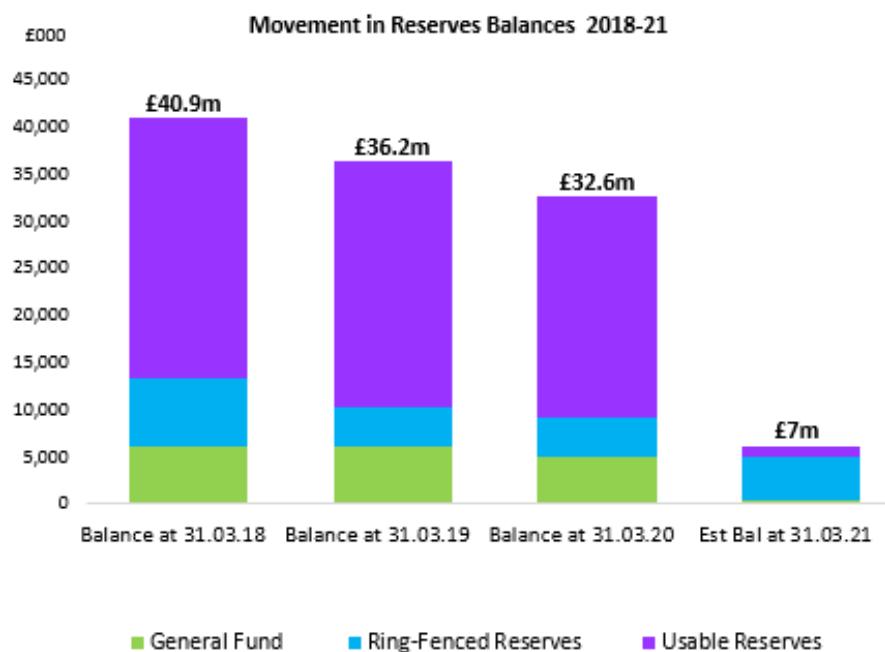


Table 10 outlines the forecast position on the General Fund (unallocated reserve), the usable and ring-fenced reserves (earmarked reserves).

Table 10: The Reserves Position 2019/20 to 2021/22

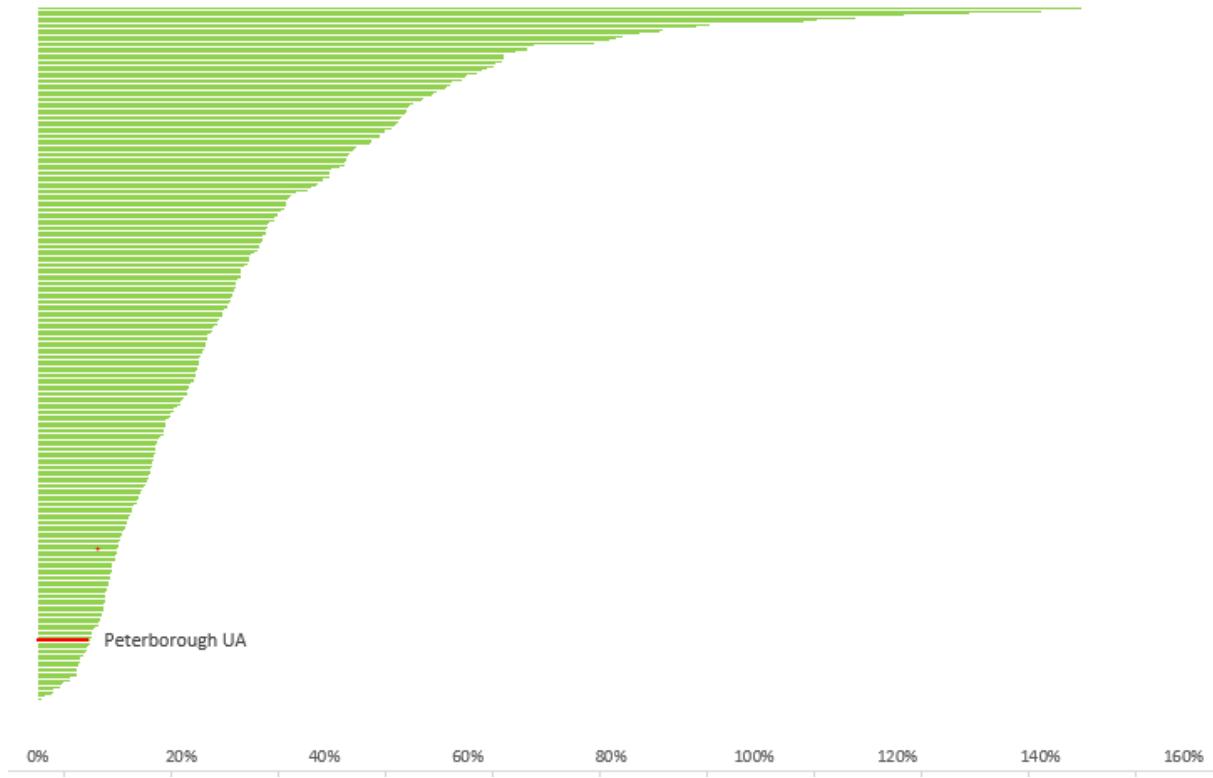
| Summary of Reserves | 2019/20 | 2020/21 | 2021/22 |
|---------------------|------------------------|-------------------------|-------------------------|
| | Balance at 31.03.20 | Est Bal at 31.03.21* | Est Bal at 31.03.22* |
| | £000 | £000 | £000 |
| General Fund | 5,111 | 1,469 | 1,469 |

| | | | |
|---|---------------|--------------|--------------|
| | | | |
| Usable Reserves: | | | |
| Capacity Building Reserve | 12,992 | - | - |
| Departmental Reserve | 5,077 | 1,147 | 1,147 |
| COVID-19 reserve | 5,332 | - | - |
| Usable Reserves | 23,401 | 1,147 | 1,147 |
| Ring-Fenced Reserves: | | | |
| Insurance Reserve | 3,073 | 3,459 | 3,459 |
| Schools Capital Expenditure Reserve | 752 | 752 | 752 |
| Parish Council Burial Ground Reserve | 56 | 56 | 56 |
| Hackney Carriage Reserve | 173 | 173 | 173 |
| Public Health Reserve | 9 | - | - |
| Ring-Fenced Reserves | 4,063 | 4,440 | 4,440 |
| Total Earmarked and General Fund Balance | 32,575 | 7,056 | 7,056 |

*this includes the assumption that the projected 2020/21 overspend of £11.3m is funded from reserves and does not assume any of the budget gap in 2021/22 is funded via reserves.

The following chart shows the Council's reserve balances in comparison to other local authorities. This shows the Council has one of the lowest reserves balances in the Country, with the ratio of reserves to net revenue expenditure in 2020/21, equating to only 7.4%.

Forecast Earmarked and unallocated Reserves at 1 April 2020 as % of the Net Current Revenue Budget



Source- [Revenue Account Budget data- 2020/21](#)

7 FINANCIAL RISK

7.1 The Council assesses financial risks as part of its annual budget setting process and regular Budgetary Control process. The Council also has a Risk Management Board, led by the Acting Corporate Director of Resources, which is set up 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 board was held on 28/09/2020.

The Board ensures that risk management is aligned with the overall organisational approach and that the identification of key issues is 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.

Most of the financial risks identified are inherent, including the requirement to delivery savings plans, management of budgets, which relate to demand led services and assumptions in respect of the level of resources receivable through Council Tax, Business Rates and Government grants.

An additional risk log has been developed to identify C-19 specific risks. This is reviewed by the Joint Management Team (CMT that covers both the Council and Cambridgeshire County Council). This includes operational and finance risk, some of which exacerbate the financial risks already identified. These exacerbated risks include the assumptions around the levels of income and collections rates in respect of Council Tax and Business Rates and the levels of short term and ongoing Government grant received to support the additional costs and new responsibilities taken on by the Council such as Test and Trace. In addition to this estimating the levels of sales, fees and charges, income and expenditure levels, remains incredibly difficult, especially in the wake of a deep economic recession and a potential second C-19 wave.

Reasonable mitigating actions have been made where possible. Appendix E details the budget risks and identifies how C-19 has increased these risks. Cabinet and Council should consider when reviewing the Phase One budget proposals.

8 CONSULTATION

8.1 Phase One will be the first Phase of the 2021/22 budget process. The updated budget position will be published on 16 October 2020. Consultation feedback will then be considered by Cabinet on 30 November, before recommended for approval by Council on 9 December 2020. The timeline for Phase One of the budget process is outlined in Table 11.

Table 11: 2021/22 Budget consultation timetable

| | Phase One |
|---------------------------------|------------------|
| Consultation start date | 16/10/2020 |
| Cabinet | 26/10/2020 |
| Budget Joint Scrutiny Committee | 11/11/2020 |
| Cabinet | 30/11/2020 |
| Consultation close date | 07/12/2020 |
| Council | 09/12/2020 |

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 on request. The budget consultation document has been published on the website and on the internal intranet site 'InSite' for residents, businesses and staff to view and provide responses via an online survey. The Council will also seek to raise awareness of the budget proposals via use of social media.

The stakeholder groups outlined in Table 12 have been contacted and offered a virtual briefing on the budget position during the consultation period, to enable residents, partner organisations, businesses and other interested parties to feedback on budget.

Table 12: Stakeholder groups and events

| Groups and Stakeholders we are consulting with | Officer Lead |
|---|----------------------------------|
| Trade Unions Joint Consultative Forum (JCF) | Peter Carpenter and Mandy Pullen |

| | |
|---|------------------------------------|
| Joint Scrutiny of Budget meeting | Peter Carpenter |
| Members of Parliament- Shailesh Vara and Paul Bristow | 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 The release of Phase One of the 2021/22 MTFS, outlines budget proposals to address the financial gap and the financial challenges facing the Council as a result of years of austerity measures and C-19 pandemic.

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 2021/22 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 consultation feedback on the proposals and the MTFS at this meeting on 30 November 2020, before making a final recommendation to Council on 9 December 2020.

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 9 December 2020, 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 consultations 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 considered 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.

Modifications to the Guidance

In June 2020 the Chartered Institute of Public Finance and Accountancy (CIPFA) confirmed amendments to the guidelines in wake of the C-19 pandemic to allow Councils under budgetary pressure as a result of the pandemic time and space to explore alternatives to freezing spending via issuing a s114 notice.

The temporary modifications to guidance proposed by CIPFA would mean that it should not normally be necessary for a s114 notice to be issued while informal discussions with government are in progress. The modifications include the following two additional steps:

- At the earliest possible stage, a CFO should make informal confidential contact with MHCLG to advise of financial concerns and a possible forthcoming s114 requirement.
- The CFO should communicate the potential unbalanced budget position due to C-19 to MHCLG at the same time as providing a potential a s114 scenario report to the Cabinet and the external auditor.

12.10 Human Resources

In order to deliver Phase One of the budget, it is anticipated that there will be less than 5 FTE reductions. It is always the aim of the Council to try and minimise compulsory redundancies and the impact on our service delivery. This will be achieved, wherever possible, by seeking redeployment opportunities, the deletion of vacant posts, restrictions on recruitment (considering 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 Phase One of the budget process have been considered with regards to equalities issues and where appropriate equality impact assessments have been completed and will be made available on the Council's website. These have also been included within Appendix F - Equality Impact Assessments.

12.12 Carbon Impact Assessments

All budget proposals published in Phase One of the budget process have been considered with regards to the carbon impact and where appropriate carbon impact assessments have been completed. These have been included within Appendix G – Carbon Impact Assessments.

13 BACKGROUND DOCUMENTS

- 13.1 [Medium Term Financial Strategy- 2020/21- 2022/23](#)
Budget Setting Process: ([Item 9a, Cabinet Report, Appendix A](#))
[COVID-19 Financial Update: 11 May Cabinet, Item 5](#)
[Final Outturn Position20219/20: 22 June 2020 Cabinet, Item 6](#)

[Budgetary Control Report April 2020: 22 June 2020 Cabinet, Item 8](#)

[Budgetary Control Report May 2020: 13 June 2020 Cabinet, Item 6](#)

[Budgetary Control Report July 2020: 21 September 2020 Cabinet, Item 8](#)

Budget Setting Process: [\(Item 9a, Cabinet Report, Appendix A\)](#)

[COVID-19 Financial Update: 11 May Cabinet, Item 5](#)

[Final Outturn Position 2019/20: 22 June 2020 Cabinet, Item 6](#)

[Budgetary Control Report April 2020: 22 June 2020 Cabinet, Item 8](#)

[Budgetary Control Report May 2020: 13 June 2020 Cabinet, Item 6](#)

[Budgetary Control Report July 2020: 21 September 2020 Cabinet, Item 8](#)

Budgetary Control Report August 2020 – 26 October 2020 Cabinet (same meeting)

14 APPENDICES

- 14.1
- Appendix A – 2021/22- 2023/24 MTFS Detailed Budget Position-Phase One
 - Appendix B – Capital Programme Schemes 2021/22- 2023/24
 - Appendix C – Budget Consultation Document, including Phase One Budget Proposal detail
 - Appendix D – Financial Strategy pre-C-19
 - Appendix E – Financial Risk Register
 - Appendix F – Equality Impact Assessments
 - Appendix G – Carbon Impact Assessments