CABINET	AGENDA ITEM No. 5
21 FEBRUARY 2022	PUBLIC REPORT

Report of:	Interim Corporate Director of Resources	
Cabinet Member(s) responsible:	Councillor Andy Coles, Cabinet Member for Finance	
Contact Officer(s):	Cecilie Booth, Interim Corporate Director of Resources Kirsty Nutton, Acting Service Director: Financial Services & DS151	Tel. 452520 Tel. 384590

MEDIUM TERM FINANCIAL PLAN 2022/23 - PHASE TWO

RECOMMENDATIONS	
FROM: Cabinet Member for Finance	**Deadline date: 11 February 2022**

It is recommended that Cabinet approves and recommends to Council:

1. This proposed budget includes a Council Tax increase of 2.99%, (1.99% general Council Tax and 1% Adult Social Care Precept), as outlined within section 5.2
2. The Phase Two budget proposals as outlined in Appendix B as the basis for public consultation.
3. The updated budget assumptions, to be incorporated within the Medium-Term Financial Plan 2022/23. These are outlined in section 5.
4. The revised capital programme outlined in section 5 and referencing Appendix C.
5. The establishment of a Budget Risk Reserve and the forecast reserve commitments to fund the cost of transformational investment and the implementation of the Improvement Plan. These are outlined in section 6 and Appendix F.
6. The Education budget as outlined in section 5.6 and within Appendix J.
7. The proposed approach to the development of an Asset Management Strategy, in line with that included within the improvement plan. This is outlined in section 5.5.
8. The Medium-Term Financial Plan 2022/23- Phase Two, as set out in the body of the report and the following appendices:
   - Appendix A – 2022/23 MTFP Budget Position Phase Two
   - Appendix B – Phase Two Budget Consultation Document
   - Appendix C – Capital Programme Schemes 2022/23-2024/25
   - Appendix D – Financial Risk Register
   - Appendix E – Fees and Charges
   - Appendix F – Reserves Commitments
   - Appendix G – Equality Impact Assessments
   - Appendix H– Carbon Impact Assessments
   - Appendix J – Dedicated Schools Grant and the Schools Budget 2022-23
   - Appendix K – Treasury Management Strategy
   - Appendix L – Capital Strategy
   - Appendix M – Budget Consultation Feedback

It is recommended that Cabinet and Council notes:

9. The strategic financial approach taken by the Council outlined in section 4 of this report.
10. The Council's core funding position following the Local Government Final Finance Settlement published on 7 February 2022. This shows a £0.005m favourable change in comparison to the provisional settlement previously reported. This is outlined in section 5.
11. The forecast reserves position, and the statutory advice of the Chief Finance Officer outlined in section 6 'The

Robustness (Section 25) Statement'.

12. The Councils Improvement Plan within Appendix I, as agreed at Council on 16 December, from which this plan is outlined as a key deliverable within the financial sustainability theme.
13. The following changes which have been made since the 31 January Cabinet report:
    a. Confirmation of Final Settlement and grant allocations such as Public Health resulting in a £0.005m favourable change in budget position
    b. Inclusion of the final parish precepts in section 5.2- net nil budget impact
    c. Confirmation of no changes to the estimates/assumptions included within the budget proposals
    d. Inclusion of the approach to the asset strategy
    e. Inclusion of the budget consultation feedback received up to 10 February 2022.

1.0 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 legal requirements to set a balanced and sustainable budget for 2022/23.

2.0 PURPOSE AND REASON FOR REPORT

2.1 **Purpose**

There is a legal requirement to set a balanced budget for 2022/23. The purpose of this report is to:

- Recommend that Cabinet approve the Phase Two budget proposals
- Ask Cabinet to agree that the Medium-Term Financial Strategy is necessarily delayed until September 2022, as proposed in the Improvement Plan that was approved by Council on 16 December 2021
- Outline the financial challenges facing the Council in setting a balanced budget over the medium term
- Outline the tactical approach and actions taken by the Council to deliver a balanced budget in 2022/23

Proposals agreed by Cabinet at this meeting, following consideration of the consultation feedback will be recommended to Council on 02 March 2022 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 deliver excellent services."

2.2 **Executive Summary**

At Council held on 8 December 2021, the Medium Term Financial Strategy (MTFS) 2022/23-2024/25 Phase One was approved, outlining a revised budget gap of £17.8m in 2022/23, rising to £20.5m at the end of 2024/25. This required the Council to make further savings in order to set a legally balanced budget in 2022/23.

The Council's financial challenge has developed over the years due to underfunding, exposure to greater levels of risk and low financial resilience, resulting from its low reserves balances. Despite all of this the Council has continued to perform well, providing vital services to its 200,000+ residents, whilst at the same time managing demand and keeping expenditure low.

Since 2018 the Council has subjected its financial strategy and approach to financial sustainability to rigorous external financial challenges and since the summer of 2019 have implemented an enhanced series of expenditure controls. The recently published report from CIPFA, on behalf of the Department for Housing, Levelling-Up, and Communities (DHLUC), should be seen as the position statement for the Council, and the basis of the December 2021 approved Improvement Plan.

The Council's negotiations with DHLUC (formally MHCLG) are well documented, and resulted in Capitalisation Directions to support balanced budgets in the years covering for 2020-22. For 2021/22 in order to set a legal balanced budget the Council was reliant on the receipt of exceptional support from Government. That exceptional support was conditionally provided in the form of a Capitalisation Direction which would enable the Council to borrow monies to fund revenue expenditure. As last year's budget report stated '***The Council has no recourse to alternative options. Without receipt of the exceptional support, the Council is not able to set a legal budget which is the requirement of Full Council*.'**

Last year's report to Cabinet on the MTFS stated that '*The Council has been operating in challenging financial circumstances for several 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.*' The budget proposed for 2022/23 reflects the parlous state of the Council's finances and is a necessarily tough budget, both in terms of having to propose a Council Tax increase and some reductions to services. However, more positively, the Council has been able to protect most services, and particularly all of those that provide care to our most vulnerable residents.

In setting the proposals for a legal and balanced budget for 2022/23, the following four overriding objectives have been considered:

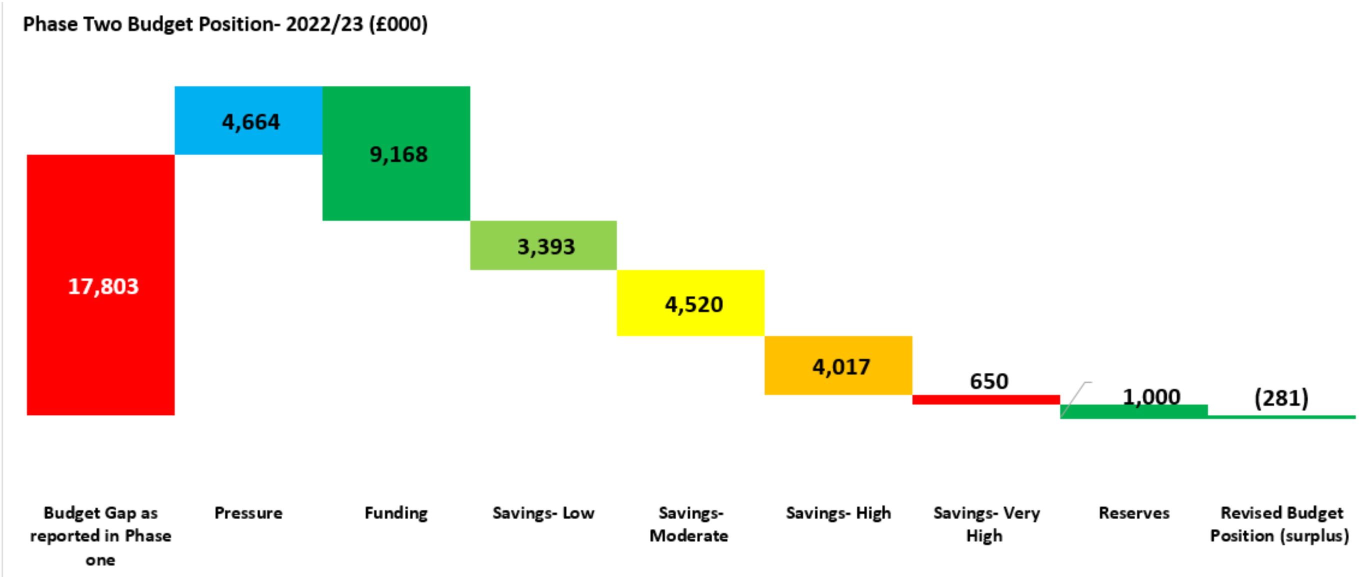
1. **To protect front-line services as much as possible**
2. **To avoid long-term borrowing to pay for day-to-day expenditure**
3. **To protect and improve the reserves position**
4. **To avoid short-term decisions that would result in increased costs in the medium term**

The Council is at a critical stage. Its financial stability is not guaranteed, and the future is uncertain. That is why tackling the finances and budget is being completed in a two-stage approach:

- **Stage One -** A tactical budget for 2022/23, which goes as far as possible to getting the appropriate balance between the four objectives outlined above and contained within this report
- **Stage Two -** A new Medium Term Financial Strategy (MTFS), that requires a fundamental review of how this Council operates, including deciding what services we can afford in addition to our statutory minimum and how services are delivered, how income is maximised, and how to invest in the City without compromising our very future

This document focuses almost entirely on stage one. Stage two, the development of an MTFS, is already underway, but will take time. The new MTFS will be presented to Cabinet in September, for consideration by Council in December. It is conceivable that the new MTFS may result in some changes to the 2022/23 approved spending plans, but cannot and will not affect Council Tax levels.

The proposed changes in 2022/23, from Phase One MTFS to Phase Two MTFS, are summarised in the following chart, with further detail shown in this report.



The following table summarises the overall budget position for both Phases One and Two, starting with the opening budget gap of £26.8m as identified within the 2021/22 MTFS.

Budget Position Summary - 2022/23 (Phases One & Two combined)

	2022/23
	£000
Budget Gap from 2021/22 MTFS	26,793
Budget Pressures & Service Demand	5,125
Revised Budget Gap	**31,918**
Savings	(18,831)
Funding Changes	(12,368)
Reserves	(1,000)
Budget Surplus*	**(281)**

**holding for further budget adjustments as a result of refining estimates and detailed plans and consideration of consultation feedback. If this is not needed there will be a contribution to the reserves position in line with the overarching financial strategy.*

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**YES**	If yes, date for Cabinet meeting	**21 February 2022**
Date for relevant Council meeting	**02 MARCH 2022**	Date for submission to Government Dept.	**N/A**

This process is to deliver a 2022/23 Revenue Budget and Capital Programme for the Council.

The following table setting out the budget timetable for phase two:

Budget Timetable

Meeting	**Date**
Cabinet	31/01/2022
Joint Scrutiny	09/02/2022
Cabinet	21/02/2022
Council	02/03/2022

4.0 STRATEGIC FINANCIAL APPROACH

4.1 **Financial Operating Context**

The Council has had, and is still facing, challenges with supporting rising service demand and increasing costs at a time when the Council's funding envelope is restricted. The Council's financial position creates an acute challenge to meet the requirement to set a balanced budget. The following diagram summarises the factors that influence the Council's financial operating context:

The Councils Financial Challenges are characterised by =

- **Low Council Tax Base,** restricting the Councils ability to raise income from local taxes.
- **Fast growing population teamed with an increase in demand for services** and the complexity of care and support required.
- Already providing many **services at a low unit cost,** demonstrating that the Council already delivers efficiency and value for money services.
- **Low government funding** in comparison to service need and the population of Peterborough. The Council's funding position is outlined in within this section and further 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.

4.2 To date the Council has successfully set a balanced budget by being proactive in applying a range of financial measures available, including:

- continued development of innovative solutions to service delivery leading to savings and budget reductions
- proactively managing additional demand and increase pressures in the cost of service brought about from contract inflation and national pay awards
- thoroughly reviewing the income generation with regards to the Council Tax base, the Business Rates base and provisions, and contracting an external review of the Local Council Tax Support Scheme
- being an active key member championing the setting up of the business rates pool with other Cambridgeshire local authorities to reduce the levy for its participating members
- actively managing its asset base to secure efficiencies within its built environment and realise capital receipts
- a detailed and comprehensive review of its minimum revenue provision (MRP)
- since 2018 the Council has been working with external bodies including the Local Government Association, its auditors, the Department for Levelling Up, Housing and Communities (DLUHC), and external financial specialists to develop and deliver a sustainable financial strategy.

4.3 The difference between the resource envelope (funding) and the cost of providing services has increased. In the absence of additional funding and with the restricted ability to raise local taxes, the Council has applied other funding solutions. The following table shows the use of reserves and non-repeatable savings to balance the budget. This financial strategy was adopted for the Council to take a strategic and measured approach to transformational change which would lead to service efficiencies and savings. This strategy helped to mitigate and minimise the impact on services and customers over time, whilst creating the opportunity to develop and deliver a sustainable financial future.

One Off Strategic Funding Solutions

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000	£000
Re-deeming Debt with Capital Receipts	12,738	6,220	10,874	6,357	2,433	2,603
MRP Re-provision	-	3,700	-	-	-	-
Capitalisation direction*	-	-	5,564	1,217	-	-
Reserves	7,194	6,350	3,084	1,510	2,876	2,000
One Off Covid-19 related Funding	-	-	-	-	8,944	-
Total	**19,932**	**16,270**	**19,522**	**9,084**	**14,253**	**4,603**

** The budgeted £13.7m Capitalisation Direction in 2021/22 is forecast as not being required in the latest BCR, with £2.9m of reserves utilised to fund revenue expenditure.*

4.4 This report sets out the different approach that is being undertaken with regard to setting a legal budget for 2022/23 and developing a new Medium Term Financial Strategy. Until that MTFS is developed, it is appropriate to focus this report on the recent history, how that is impacting on the 'here and now', and the operating environment that is expected for 2022/23, along with the risks that this presents.

4.5 **Proactive Management, Expenditure Controls, External Expert Review and Verification**

In the Council's pursuit to achieve financial sustainability, it has been open to and welcomed external challenge and scrutiny. In 2018 the budget was reviewed by the Local Government Association (LGA), in 2019 the Council commissioned Grant Thornton to undertake a financial review and work collaboratively with the Council on the delivery of a savings programme and in July 2021 a Corporate Peer Challenge was facilitated by the LGA, with the full report being made available on the Council's website.

Most recently, the report from CIPFA, on behalf of the DLUHC, was published which should be seen as the position statement for the Council, and the basis of the December 2021 approved Improvement Plan.

The Council has always responded constructively to challenge and has taken decisive action to manage its finances. Below are examples of how the Council's approach has developed and strengthened to meet its current financial challenges:

- 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 18% 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.
- Used external benchmarking to pursue value for money and low costs. The most recent benchmarking report 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.

4.6 Additionally, the Council has put in place a series of financial controls designed to scrutinise and closely manage expenditure, ensuring that only essential expenditure is being incurred. These enhanced scrutiny measures were introduced as a short-term measure but due to their importance and successful operation they remain in place. These controls include:

- ✓ A panel to review all recruitment and agency requests.
- ✓ Business case requirement for all expenditure in excess of £10k - providing additional scrutiny and challenge with regular review from the Chief Finance Officer (CFO).
- ✓ Implementation of the 'review of the effectiveness and operation of financial and human resource controls' across the organisation.
- ✓ Departmental Management Teams, together with the Corporate Management Team (CMT), review the financial position monthly including the position in respect of revenue and capital budget performance, debt

management, and budget risks. Appropriate action is taken, including plans to address budget issues, and reported in monthly Budgetary Control Reports taken to Cabinet.

- ✓ Enhanced officer budget governance, with dedicated Boards overseeing the delivery of the budget setting process and monitoring of savings delivery.
- ✓ Enhanced member governance structure, with the introduction of the Financial Sustainability Working Group (FSWG) to ensure involvement and engagement from all political parties, with a common goal of achieving financial sustainability for the Council.
- ✓ An enhanced moratorium on both revenue and capital expenditure for the remainder of 2021/22, in order to reduce the budgeted draw-down from Reserves to support the Revenue Budget, and to minimise new borrowing requirements to fund the Capital Programme.

Financial Implications of the COVID-19 Pandemic

4.7 Before the pandemic started in March 2020, the Council had recognised the significant financial challenges it was faced with and was taking measures to address the financial position, including inviting expert external challenge to provide support and an additional layer of scrutiny to processes and decision making. The Council's response to the unprecedented challenges of COVID-19 have dominated the activities of the Council and that of its communities for almost two years, and, like most Councils across the country, it has not been able to implement all measures and savings plans in full as originally planned.

The COVID-19 pandemic has had a significant impact on the Council's financial position. It effected most Council services, but most notably a rise in Adults and Children's Social Care and rough sleeper costs, losses of business rates and council tax income, and losses of income from other sources such as parking (outlined in full in the Final Outturn 2020/21 Cabinet Report).

The Council budgeted for known financial challenges such as the non-delivery of savings plans totalling £5.7m and the £8.1m of additional Children's and Adults Social Care by rebasing them within the 2021/22 budget (MTFS 2021/22-2023/24). However, the pandemic introduced additional layers of financial complexity and uncertainty, and this unpredictability has continued to make financial and operational planning problematic. The Council continues to closely review its budget assumptions and the treatment and application of the following uncertainties in:

- long-term increases in demand for council services
- the market sustainability of key service providers
- the inability to forecast with any certainty the future profile for the recovery of income generators such as car parking
- how to profile business rate income given the reduction in government support, appeals, non-collection of rates and associated closures of businesses due to the impact COVID-19 restrictions
- Local Council Tax Support scheme with the ending of furlough and unknown timing for economic recovery

Exceptional Financial Support

4.8 The Council has been in ongoing discussions with the DLUHC in respect of its challenging financial environment since October 2020. In February 2021 the Council received conditional approval for Exceptional Financial Support (EFS) in the form of a £20m Capitalisation Direction for use in 2021/22.

The Council assumed the use of £13.7m of the EFS to set a balanced and legal budget for 2021/22. However, the EFS was conditional on the results of the financial assurance and governance reviews, together with a plan to deliver financial sustainability in the future. Over the summer 2021 period, CIPFA and Andrew Flockhart conducted those reviews on behalf of the DLUHC. These are available on the Council's website and form the foundations of the budget strategy outlined earlier in this document.

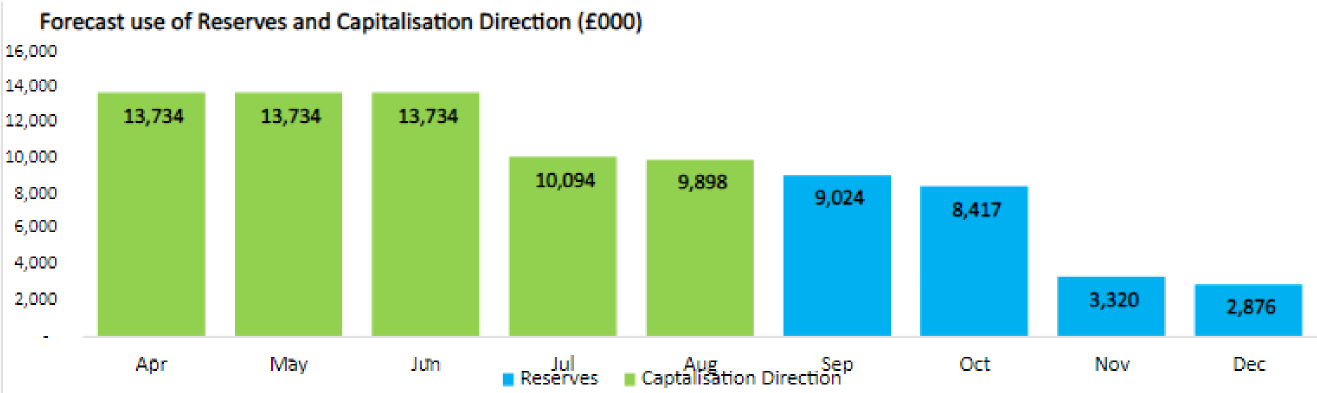
The Council has revised its budgeted funding strategy for 2021/22. As a result of stricter spending restrictions, lower than expected demand for some services, and through the application of funding from the COVID-19 Funding Reserve, it now expects to avoid the need to use any of the Capitalisation Direction. The COVID-19 reserve was created at the end of 2020/21 to ensure that additional costs anticipated from the additional demand and the longer-lasting impact of COVID-19 could be funded in 2021/22. However, the scale of the additional demand and budgetary pressures expected have been lower than the Council originally anticipated, and in most instances have been contained within the 2021/22 budget, meaning this reserve has been made available for alternative use, as recommended in the August BCR report

December Budgetary Control Report (BCR)

4.9 At the end of December, the Council's forecast outturn position has considerably improved in comparison to the forecast at the start of the year, with a break-even position being forecast. Although this position is with the use of £2.9m of reserves to underpin revenue expenditure, the Council assumes that it will not use any of the conditional Capitalisation Direction (borrowing to fund revenue costs) during 2021/22.

As referenced in 4.6, in November the Council introduced a moratorium on revenue to stop on all non-essential expenditure across the organisation. This was put in place to reduce reliance on the reserves balances in the current year so that these could be used to fund transformation, increase the Council's financial resilience and / or strategically support the 2022/23 MTFP.

So far, the forecast funding required from reserves has reduced by over £7m. This change in the forecast use of Capitalisation Direction and reserves to underpin the budget is illustrated in the following chart.



At the start of the year the Council was forecasting an overspend of £3.7m across all service areas due to the uncertainties surrounding the impact of COVID-19. For most services the forecast outturn position has stabilised, and budgetary performance is contained within the funding resources factored into the 2021/22 budget. The improvement in the Council's financial performance has been significant and demonstrates the positive actions taken by officers to manage in year demand, reduce expenditure and either maintain or increase income receipts. Some service delivery areas where the Council has experienced budgetary pressures remain, such as the loss of income from Parking, and Culture and Leisure services. However, officers are developing and / or implementing mitigating actions in these services such as the recent proposed changes to the operation of Key Theatre.

There is also notable favourable budget performance driven by the continuation of the additional income from the Business Rates Pool, additional grant in respect of lost Sales Fees and Charges compensation from central government, and a reduction in the cost of capital financing for the Council.

The following table outlines the budgetary performance by directorate as at December 2021:

Directorate	Budget £k	Forecast Spend £k	Dec Variance £k	Nov Variance £k	Movement £k	Overall Status
Chief Executives	1,219	1,183	(36)	(34)	(2)	Underspend
Governance	4,169	3,968	(201)	(190)	(11)	Underspend
Place & Economy	23,988	22,325	(1,663)	(1,105)	(558)	Underspend
People & Communities	101,216	101,745	529	86	443	Overspend
Public Health	(188)	(261)	(73)	(73)	(0)	Underspend
Resources	22,771	19,969	(2,802)	(2,557)	(244)	Underspend
Customer & Digital Services	7,356	6,744	(611)	(547)	(65)	Underspend

Business Improvement	722	686	(36)	(29)	(7)	Underspend
Capital Financing	27,994	25,307	(2,687)	(2,687)	0	Underspend
Total Expenditure	**189,247**	**181,667**	**(7,580)**	**(7,136)**	**(444)**	Underspend
Financing	(186,013)	(181,667)	4,346	3,902	444	Reduction in the Use of Reserves
Exceptional Financial Support (Capitalisation Direction)	(3,234)	0	3,234	3,234	0	Reduction in Borrowing
Net	**(0)**	**(0)**	**(0)**	**0**	**(0)**	Breakeven

The December Budgetary Control report is also reported at this meeting on Cabinet on 21 February and will provide further analysis of the directorate financial performance.

Budget position- Phase One 2022/23

The Council started the budget setting process for 2022/23 with an opening budget gap of £26.8m. The Phase One MTFS report set out plans to reduce the budget gap by £9m, £6.5m of savings proposals and £3.2m of funding changes with £0.7m of newly identified budget pressures. That left a remaining gap of £17.8m in 2022/23. The proposals are outlined in further detail in the Phase One MTFS 2022/23 report.

Strategic Budget Approach

Feedback from the external reviews that have been undertaken conclude that the Council can and must do more to deliver financial sustainability. The 2022/23 budget requires a renewed focus on the strategies available to the Council to close the budget gap and achieve financial sustainability.

In setting the proposals for a legal and balanced budget for 2022/23, there are four overriding objectives:

1. **To protect front-line services as much as possible**
2. **To avoid long-term borrowing to pay for day-to-day expenditure**
3. **To protect and improve our Reserves position**
4. **To avoid short-term decisions that would result in increased costs in the medium term**

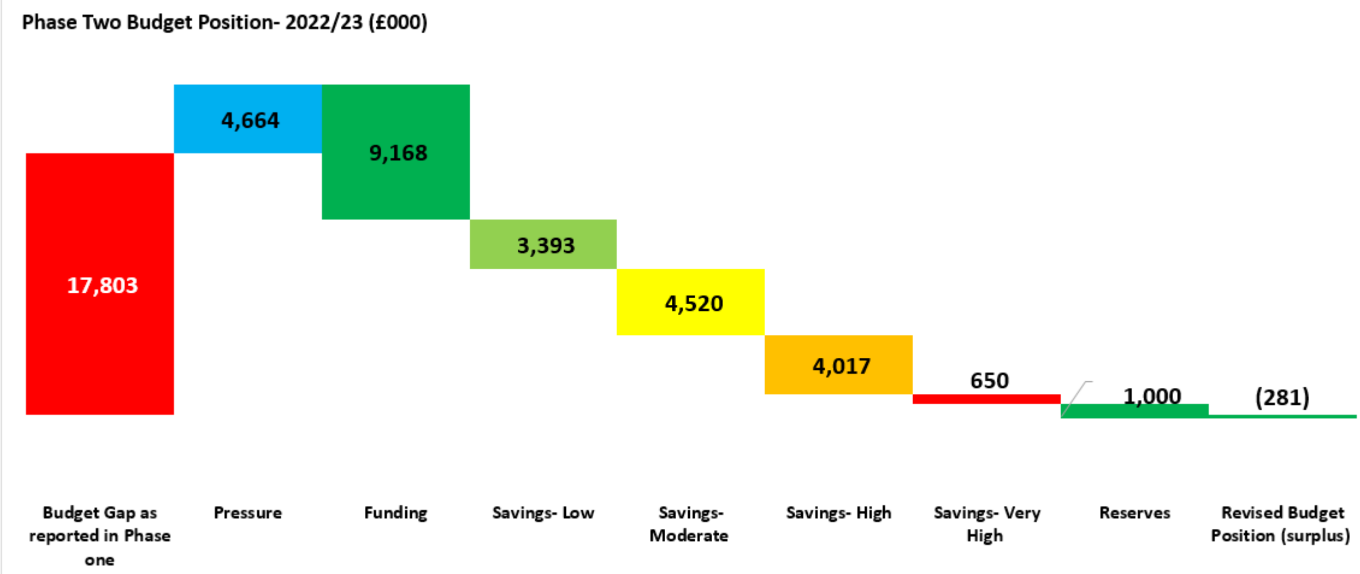
The Council is at a critical stage. Its financial stability is not guaranteed, and the future is uncertain. That is why tackling the finances and budget is being completed in a two-stage approach:

- **Stage One -** A tactical budget for 2022/23, which goes as far as possible to getting the appropriate balance between the four objectives outlines above.
- **Stage Two -** A new Medium Term Financial Strategy, that requires a fundamental review of how this Council operates, what services above the statutory minimum can be provided and how services are delivered, how income streams are maximised, and how to invest in the City without compromising its future.

The approach taken for Phase Two has been to examine all areas of the Council's business and service delivery, in order to find opportunities that, as a package, go some way to meeting the four objectives set out above. Although the Council has managed to protect the vast majority of its services, particularly in Children's and Adults' services, it is simply not possible to balance the books without some impact on service delivery. Every effort has been made to focus on how services might be delivered differently, and to look for additional funding from partners, and there are a small number of proposals that result in a diminution or ending of a service.

Some of the proposals have been included with a target saving, rather than a saving that is fully supported by a detailed delivery plan. This is far from ideal but is a necessary approach in order to protect services as much as possible. Other proposals include some one-off opportunities, which cannot be repeated in future years and will therefore need replacing in 2023/24 with ongoing savings.

The Phase Two budget position, starting from the end of Phase One position of a £17.8m gap is as follows:



The total of the four saving proposal risk categories is £12.6m, with £4.7m being categorised as very high or high risk.

Financial Risk

Given the magnitude of the financial challenge and the requirement for more fundamental and radical change, the proposals have inevitably increased the level of financial risk the Council will be exposed to during 2022/23. A number of the proposals rely on factors that are not within the Council's direct control, which naturally adds to the risk. In addition, there are assumptions made about the future demand and cost pressures that are uncertain and will need careful monitoring over the coming weeks and months. Perhaps the biggest uncertainty is the rate of inflation throughout the remainder of this financial year and 2022/23, given the level of third-party spend in our budget. Further consideration of risk is set-out in Section 6 of this report

Appendix D sets-out the Budget Risk register in full. This has informed the approach to Reserves as set-out in Section 6 of this document.

Priorities

The updated Corporate Strategy that was approved at Council on 16 December 2021, makes it clear that the Council's top priority has to be on getting a grip on the Finances. Without that, the future is bleak. This budget, along with a new, challenging MTFS to be considered in the Autumn, will be the start of achieving financial stability and putting the Council in a position where the City can grow and prosper. In addition, the tightened spending controls will ensure value for money for every pound spent is achieved, and a programme of updated budgetary control training for budget managers will focus on managing ever tighter budgets, in a volatile and unpredictable environment.

Immediate Options

Since Phase One of the budget was agreed in December 2021, the Corporate Management Team have overseen a process of initial service reviews and a review of all previously identified pressures. This has led to the Phase Two proposals included in this report.

This built on the Phase One work where the Council has considered the outputs of the draft reviews from CIPFA (on behalf of DLUHC) and the final LGA Peer challenge which has the view that more can be done and no one service is protected. Specific areas of the work are well underway and the initial findings from the Children's and Adult service reviews are factored in to these 2022/23 budget proposals. Cabinet and the FSWG will be engaged with the further development of proposals in these key areas over the coming months. The specific areas include:

- **Capital programme**: A revised Capital Strategy is attached at Appendix J. This sets-out a strategy much more cognisant of the financial position the Council is in. The Council has high borrowing costs, and high levels of debt compared to its asset base. It is vital that any future capital programme only includes projects that are all or mostly grant-funded, do not incur future revenue pressures for asset maintenance and running costs, lead to future income streams that pay back the investment in the short-to-medium term, and/or will lead to transformation and future revenue savings.
- **Sale of assets**: The Council will undertake a thorough review of its asset base in accordance with the Improvement Plan, with a view to maximising value wherever possible, before selling assets that are surplus or do not generate sufficient revenue benefit. Incorporated within this review will be the consideration of the Council's future working practices to establish whether office space can be further rationalised to deliver more efficiencies.
- **Contracts and partnerships**: The Council will review its key contracts and partnerships. This review will ensure that the Council's contracts reflect value for money, specifications are clear and manageable, and performance is reported appropriately to the size of the contract.
- **Service expenditure:** The Council will carry out a forensic review of budgets at service level including an evaluation of the key cost drivers, the expected outcomes and their contribution to meeting statutory duties and other top priorities.

These work streams are outlined in more detail in the Improvement Plan included within Appendix I.

5.0 BUDGET DETAIL

5.1 Phase Two Budget Position

The following tables summarise the budget position and detail of all proposals included within this Phase Two MTFP 2022/23.

Budget Summary Position- Phase Two

Budget Gap	2022/23 £000
Budget Gap as reported in Phase one	17,803
Pressure	4,664
Funding	(9,168)
Savings:	
Low	(3,393)
Moderate	(4,520)
High	(4,017)
very High	(650)
Reserves	(1,000)
Revised Budget Position (surplus)*	**(281)**

**holding for further budget adjustments as a result of refining estimates and detailed plans, and consideration of consultation feedback. If this is not needed it will contribute to the reserves position in line with the overarching financial strategy.*

Phase Two budget proposals

Pressures	2022/23 £000
Adult Social Care- Lifelines	124
Adult Social Care- Market sustainability and Demand	1,869
Adult Social Care Reforms	535

Adult Social Care - Review Backlog	225
Chief Executive Personal Assistant (PA)	50
Clare Lodge - Loss of Income	480
Equality Diversity & Inclusion Joint Role	50
Home to School Transport	486
Housing Enforcement - selective licensing	217
Housing - Temporary Accommodation Pressure-TA Pressure mitigation	178
HR Resource – Capacity	37
Loss of Parking Income	413
Total	**4,664**

Savings	**2022/23 £000**
Low	**(3,393)**
Adult Social Care - Interim Bed Review	(120)
Aragon Direct Services	(41)
CCTV	(25)
City College Peterborough - Use of Surplus Balances	(1,000)
Communities Grant Income	(250)
Disband Tourist Information Centre (TIC) team	(73)
ICT Savings	(342)
Pension Costs	(41)
Review Inflation assumptions	(172)
Review of Constitutional Services	(85)
Review of Planning Services	(30)
Serco	(92)
Supporting Families (previously Tackling Troubled Families) continuation	(753)
Unauthorised Encampments	(10)
Transport Levy	(226)
Peterborough Highways Services (PHS)	(133)
Moderate	**(4,520)**
Adult Social Care - Direct Payments	(87)
Adult Social Care - Front Door	(250)
Adult Social Care - Hospital Discharges	(419)
Adult Social Care - Increased Technology Enabled Care	(100)
Adult Social Care - Reablement	(200)
Citizens' Advice Peterborough	(20)
City Centre Events	(69)
City College Peterborough - Operating Model Review	(500)
Culture & Leisure - Delivery of savings on services	(1,431)
ICT Savings	(550)
Reduction in Tree Management	(250)
Serco - Business Support	(250)
Solar Roof Top Asset Portfolio	(394)
High	**(4,017)**
Capital Programme Reduction - Revenue impact	(750)
Children Social Care - increased income	(500)
Children Social Care - inhouse fostering	(372)
Contracts and Procurement Saving	(1,700)
Redesign of Communities and Place departments	(316)

Regulatory Services	(135)
Review Energy from Waste (EfW) Budget Assumption	(244)
Very High	**(650)**
Adult Social Care - Increased Income	(400)
Children Social Care - reunification	(250)
Total	**(12,580)**

The total package of savings and income can be further analysed into the following:

Category	**Recurring savings £000**	**One-off savings £000**	**Total saving in 2022/23 £000**
Income Generation	(1,926)	-	(1,926)
Contract Efficiencies	(2,109)	-	(2,109)
Use of Technology & Process Efficiencies	(696)	-	(696)
Demand Management	(1,798)	-	(1,798)
Reduction or change in service offer	(3,244)	(250)	(3,494)
Other	(1,557)	(1,000)	(2,557)
Total	**(11,330)**	**(1,250)**	**(12,580)**

Further detail in respect of the proposals is contained in the following appendices:

- Appendix A – 2022/23 Detailed Budget Position
- Appendix B – Phase Two Budget Consultation Document

5.2 **Core Funding Assumptions**

The following table outlines the Council's forecast core funding for 2022/23 and has been updated to reflect the Local Government Final Finance Settlement announced on 7 February 2022. Further details of the assumptions used are outlined within this section.

Funding Summary Position 2022/23

	2022/23 £000
NNDR (Business Rates)	(54,038)
Revenue Support Grant	(10,794)
Council Tax	(91,593)
New Homes Bonus	(2,951)
Business Rates Pool	(2,541)
Improved Better Care Fund	(7,480)
Services Grant (one-off)	(2,896)
Social Care Grant	(7,753)
Lower-Level Services Grant	(302)
Adult Social Care – New Burdens Grant	(535)
Net Contribution from Reserves	(1,000)
TOTAL CORE FUNDING	**(181,883)**

Council Tax

The level of proposed Council Tax income is based on 2.99% Council Tax increase (1.99% general and 1% Adult Social Care Precept) on the 2021/22 rates. This is in line with the 2022/23 referendum limits confirmed in December 2021 and means the **Band D rate will increase from £1,467.76 in 2021/22 to £1,511.65 in 2022/23.**

The Council tax base is forecast to steadily increase by 1,000 homes each year, which equates to 780 Band D equivalents. This forecast is in line with the housing growth experienced within the City which has averaged at 1,100 new homes over the past five years.

The Council's share of the estimated deficit on the collection fund for 2021/22 is £1.1m. For budgetary purposes this is accounted for in the 2022/23 budget. The estimated deficit at the end of 2020/21, was spread over three financial years covering 2020/21-2023/24, in accordance with the government legislation. In order to mitigate any adverse impact of the national COVID-19 restrictions on Council Tax collection the Regulations made provision for the estimation and phasing of an 'exceptional balance' when billing authorities estimated their collection fund surpluses and deficits at 15 January 2021. For the Council this means that £0.6m of the £1.1m collection fund deficit has already been accounted for within the budget. At the end of 2020/21 the Council received £2.3million of Tax Income Guarantee compensations grant from the government, like many other councils, in recognition that the Council has suffered significant losses on NNDR and council tax income as a result of COVID-19 restrictions. The Council put this money in to reserves to cover any future Collection Fund deficits, therefore £0.5m will be utilised from the reserve to cover the adjustment to the deficit.

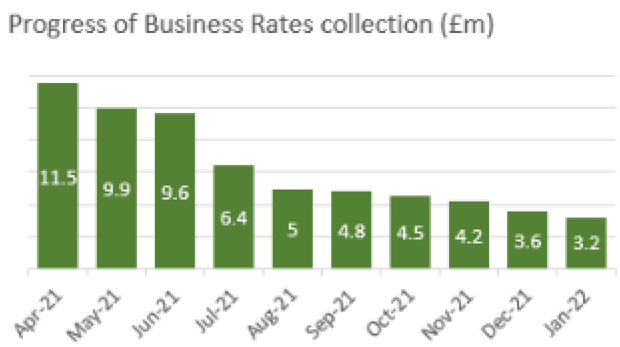
The following table summarises the Council's current Council Tax income assumptions for 2022/23:

Council Tax breakdown	**2022/23**
Council Tax increase	1.99%
ASC precept increase	1.00%
Council Tax Band D	**£1,511.65**
Council Tax Base	60,494.82
Council Tax Income (Band D x Tax Base)	**(£91,446,995)**
Parish Precept*	(£704,855)
Collection Fund	
Council Tax Deficit (spread over 3 years- already budgeted for as per 2021/22 MTFS)	£558,727
Council Tax 2021/22 Deficit Adjustment	£525,705
Total Collection Fund deficit	**£1,084,432**
Gross Council Tax Budget	**(£91,067,418)**
Use of the COVID-19 Tax Income Reserve to offset the 2021/22 Deficit Adjustment	(£525,705)
Total Council Tax Budget	**(£91,593,123)**

**now updated to reflect the final parish precept returns*

Business Rates (NNDR) and the Cambridgeshire and Peterborough Business Rates Pool

Business Rates is a major source of income for the Council providing £54m, with additional income of £2.5m expected in 2022/23 as a result of the continuation of the Business Rates pool arrangement with the other Cambridgeshire Local Authorities. The pool takes into account the business rates levy owed by each of the authorities, pooling them together, which produces a lower percentage levy calculation for the councils included within the pool. The Business Rates Pool originally started in 2020/21 and has been a success with the Council receiving a £1.6m pool gain share in 2020/21, with £2.2m forecast in the current year, and £2.5m for 2022/23.



The Council has also been closely reviewing its Business Rates collection rates. At the end of 2020/21 the Council held £11.5m of uncollected business rates balances. The Council commenced active recovery in February, and since the 1 April 2021 these actions have reduced the outstanding balance by 72% to £3.2m, as shown in the chart. Due to the level of outstanding debt held when setting the budget, the bad debt provision contributions had been increased to ensure the Council had sufficient mitigation to cover the risk on non-collection, however given the improvement in position the Council is able to reduce these forecast contributions, which in turn improves the overall business rates income forecast.

This position was confirmed in the NNDR1 return submitted to DLUHC on 31 January. As a result of the retail relief scheme extension and the Covid-19 Additional relief scheme (CARF) the Council will receive section 31 grants during the year, which will result in a timing/accounting difference on the Collection Fund. This will result in a contribution into reserves at the end of the financial year and will be released into the general fund (revenue) budget in 2022/23, to mitigate the effect of the deficit. Alongside this a full review of the appeals provision will take place, including external verification via the use of a rating valuation professional. The final position will be confirmed as at 31 March and reported within the Outturn Report, the Statement of Accounts, and the NNDR3 return which will be submitted to DLUHC.

Grants and Local Government Final Finance Settlement

The Local Government Final Finance Settlement was published on 7 February which confirmed the allocations from the provisional settlement announced in December. The settlement was overall beneficial for local government, with a Core Spending Power increase of over 4% (real terms). The majority of the settlement was a roll over from 2021/22, with the priority of providing 'stability in the immediate term'-Therefore only providing a one- year settlement. A more fundamental review of local government funding is expected to start in 2022 and could be implemented as early as 2023/24.

The settlement has provided the Council with £8.8m of additional funding, over and above the original budget estimates outlined in Phase One. This includes the following key changes:

- **New Homes Bonus**: the current scheme which incentivised and rewarded councils for housing growth within their area, is being phased out with the last payment expected in 2022/23, and a new scheme expected to replace it and to be announced in advance of Local Government Provisional Finance Settlement, but a final scheme is still to be confirmed. As a result, the current scheme was rolled over for an additional year, meaning an additional £1.5m of grant funding for the Council
- **Services Grant:** is a new grant which has been created to fund general responsibilities. The Council should receive £2.9m, however this is one off and likely to be replaced by more radical funding changes in future years.
- **Revenue Support Grant, Improved Better Care Fund and Lower tier services grant:** have received an inflationary (3.1%- CPI) up lift in comparison to the 2021/22 grant levels.
- **Adult Social Care Reforms**: The Council is expecting to receive £0.5m of new funding in 2022/23, to commence implementing the Social Care Reform White paper and the Fair Cost of Care and Market Sustainability Fund. A corresponding pressure has also been factored into the budget, to take account of the additional cost the Council expects to see as a result of implementation.
- **Social Care funding**: is expected to increase by £2.1m as part of the Government is committed to ensuring local government has the resources it needs to support the most vulnerable through adult and children's social care.
- **NNDR (Business Rates) multiplier cap compensation:** the Chancellor announced within the Spending Review that businesses will see a freeze in their Business Rates bills, which in turn would reduce the amount of income the Council would receive to fund services. The government acknowledges this and

therefore compensates councils with a grant to cover the income lost had an increase in line with CPI (3.1%) been applied. An estimate of £1.3m was factored into the budget, but this is to be finalised along with the NNDR. It is expected that in the final finance settlement the government will confirm RPI will in fact be used in this calculation which will be more beneficial.

Other Specific funding announcements

- **Supporting Families programme (previously Troubled Families programme)**. In Budget 2021, the Chancellor announced a £500m families package, including £200m cross-government Supporting Families programme. Local government was allocated £40m funding for 2022/23 in SR21. Local authority allocations for this programme have now been confirmed with Peterborough expecting to receive £1.002m.
- **Public Health-** 2022/23 allocations were confirmed early February with the Council seeing a 2.8% increase in grant from £11.252m in 2021/22 to £11.568m in 2022/23. This is expected to be used to support the 'catch up' on services where performance has been impacted following the pandemic national restrictions, ie health checks and smoking support.
- **Cyber security-** £12m of national funding to tackling cyber security challenges and investing in local authority cyber resilience. The Council has been successful in a bid for £0.100m of funding.
- **Homelessness Prevention Grant-** Confirmation of the continuation of the 2021/22, with a further £5.8m nationally. This means the Council expects to receive an additional £0.025m in addition to £1. 337m already received
- **Adults Social Care Grant-** £60m national funding top-up to local authorities to support adult social care sector in the new year, in response to the rapidly rising Omicron cases. This provides the Council with £0.2m of additional funding within the current financial year.

Longer Term Local Government Funding Reform, Levelling up & 'building back better'

For a number of years, the Local Government sector has been anticipating the implementation of major structural changes within the funding system, to reflect changes in relative need, resources and the continuing pressures, such as those most noticeable within Adults and Children's Social Care budgets. As a result of the scale of the changes required, the COVID-19 pandemic, and a change in ministerial roles, the Local Government funding reforms (also referred to as Fairer Funding Review) has been postponed and will not be implemented until 2023/24, at the earliest. Ministers have signalled they will be re-starting the local government funding reforms in the Spring 2022.

Local Authorities have also been budgeting based on one-year funding settlements, with 2022/23 being no exception to this trend. This means operating under increased levels of uncertainty and difficulties when setting a strategic financial plan due to nature of short-term budgeting. This makes it difficult for the Council to plan how best to allocate resources and provide services. For the Council to become financially sustainable, certain long-term funding, reflective of the needs within Peterborough is required.

In addition to the plans to review and implement Local Government funding reforms, the government has also outlined the timetable for the implementation of the Social Care reforms, and plan to progress a wider government agenda for levelling up, which it outlined further in the whitepaper, published on 2 February 2022. Implementing these wide-ranging changes within a short timeframe, could present difficulties nationally, therefore the current timescales could be seen to be optimistic. The Council will closely monitor and work through these policies, to ensure the local impact of it is fully understood, aligned and factored into future strategies. The following timeline summarises the key announcements and reforms expected in the future:

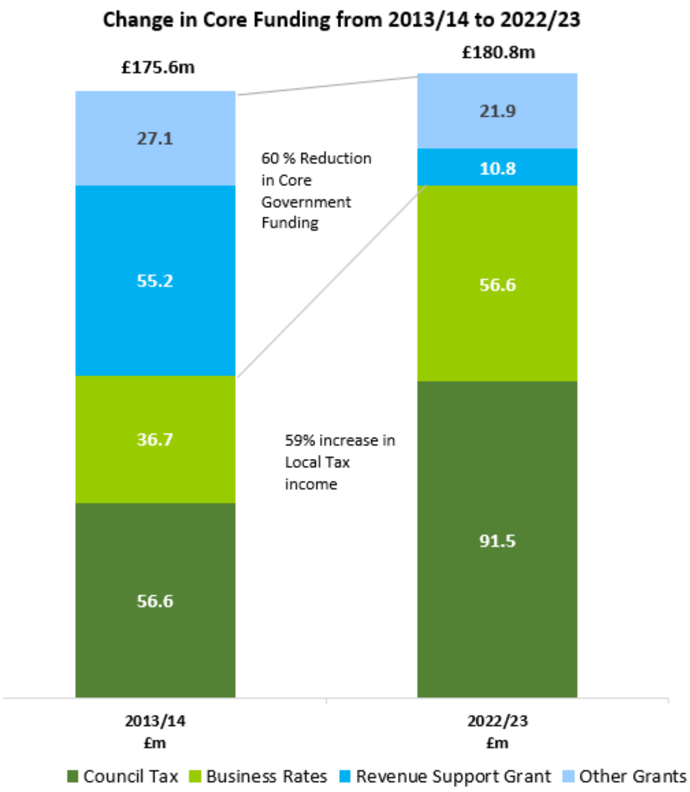
High Level Funding Reform Timeline

2022
Fundamental Review of Local Government Funding

2022/23
Confirmation of replacement New Homes Bonus Scheme
'Build Back Better'- Social Care Reforms implementation

2023/24
Local Government Funding Reforms & Business Rates Reforms impementation

Change in Core Funding



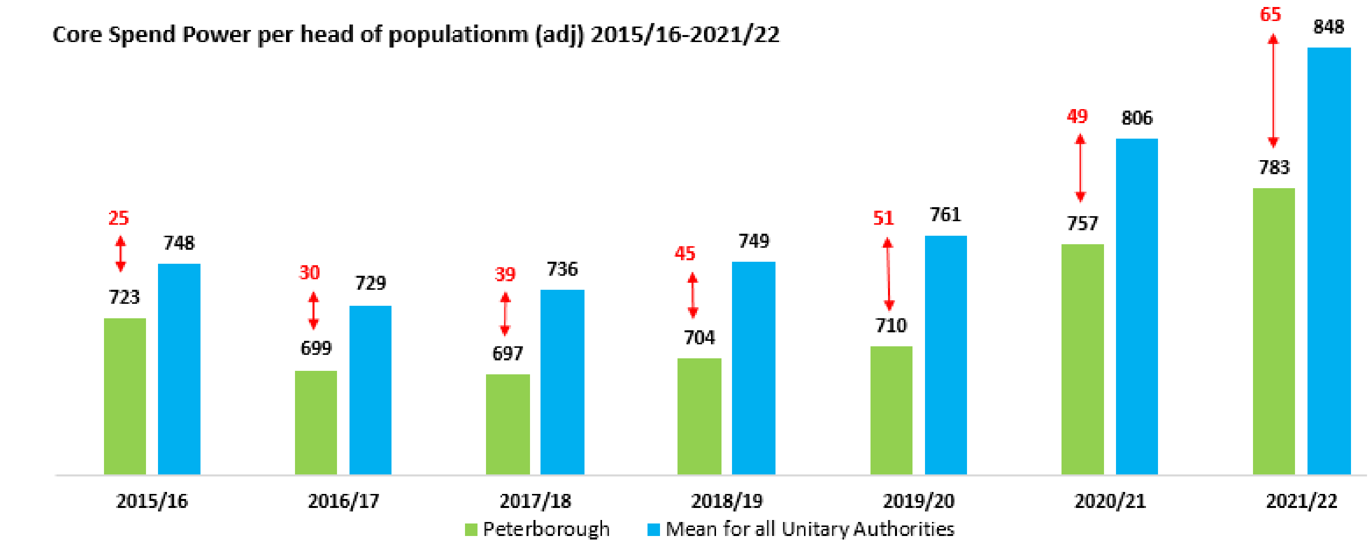
Since 2013/14 the Council has experienced a 60% reduction in the level of core grant funding and over the same period has relied on council tax increases and business rates growth to bridge the resultant funding gap. This chart illustrates the shift in core funding and the increased reliance on two funding streams more exposed to economic fluctuations: Business Rates and Council Tax.

The reliance now placed on council tax and business rates as the Council's core resource exposes the Council to greater levels of risk inherent in these funding streams. This was demonstrated over the pandemic when these income sources suffered because of greater levels of non-collection, lower income growth and a rise in Local Council Tax Support claimants. The change in risk profile for funding is also evident in the Council's core spend power in comparison to other unitary authorities.

Core Spending Power

Core Spending Power (CSP) per head of population is shown in the following chart. CSP is a measure of total council revenue funding from all sources, with the exception of ringfenced grants and often contains assumptions on funding Councils may or may not approve. In 2021/22 the Council had a CSP of £159m, **£42m less than the**

average unitary authority.



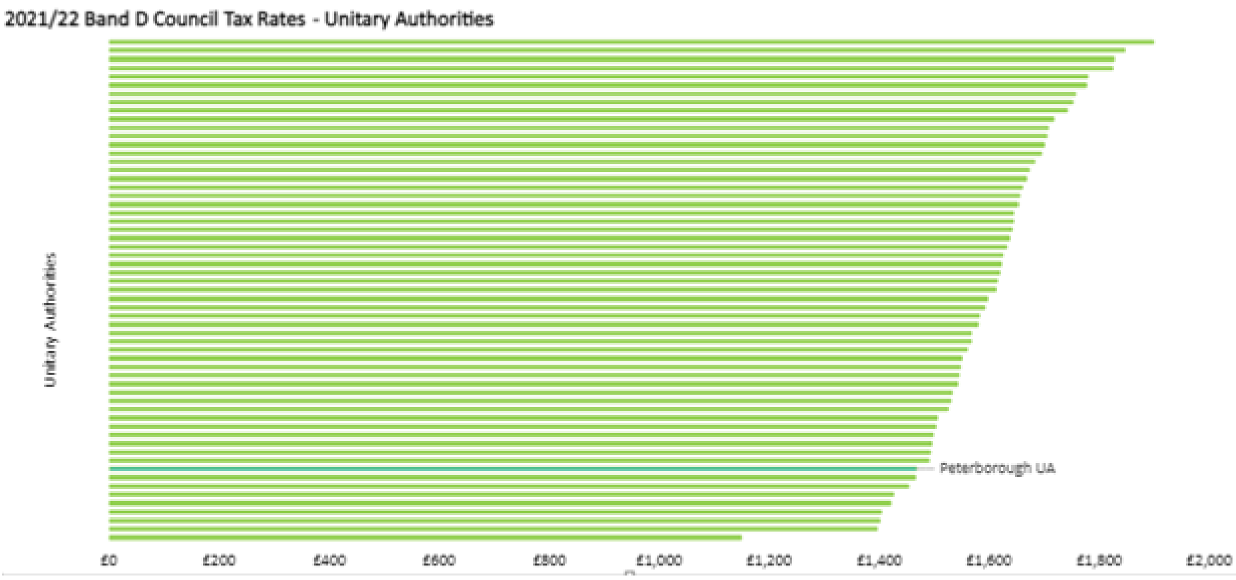
Data source- LGinform

The Council's CSP per head, £783, compares to the average across other unitary authorities £848, a notably greater proportion. The chart illustrates how that difference has increased over the seven-year period, from £25 rising to £65 per head by 2021/22.

This gap has widened due a couple of contributary factors.

Firstly, due to the limitations which affect the Council's ability to raise Council Tax income. These include:

- The Council Tax referendum limit restricts the Council's ability to raise the level of its total resources. Since the local tax lock, introduced in 2012/13, Councils have been encouraged to receive a Council Tax Freeze Grant or apply a minimal increase to council tax.
- Having a low council tax base, resulting from a large proportion (65%) of properties that fall within Bands A and B.
- Having the 9th lowest average Band D council tax rates in 2021/22 when compared to other unitary authorities. The 2021/22 Band D rate is £1,476.76 and if Peterborough were able to move to the average unitary council tax rate of £1,599.35 **(a difference of £131.59 – 8.9%)** and applied to the tax base of 59,714.7 band D equivalents, this would generate an additional **£7.2m per year**. If Peterborough was at the same level as the **highest rate (£1,898.55), this would generate an additional £25m per year.**



The second factor driving this gap is the absence of a revised relative needs and resources formula, which determines the distribution of funding to local authorities. This has not been reviewed since 2013/14, and therefore has not taken account of changes to the local demographics, needs or council funding levels. Over this period service demand pressures have increased the Council's net revenue expenditure, and with limited additional funding and council tax restrictions in place, the Council has applied other funding solutions, such as reserves and the sale of assets to ensure the delivery of a balanced budget.

5.3 **Fees Charges and Inflation**

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

The Council is expecting to generate additional income of £78,000 in relation to fees and charges changes. The following Table outlines the service areas the additional income will come from:

Fees and Charges Summary

Fees and Charges Summary by Service Area	2022/23 £
Asset Management	4,260
Business Regulations - Hackney Carriages	6,240
City Centre Operations	2,500
Peterborough Cemeteries - Interment Fees & rights of burial	8,794
Peterborough Crematorium - Cremation Fees - Main Fee inc Env surcharge	46,872
Peterborough Crematorium - Memorial Sales	5,199
Peterborough Highway Services	4,000
Trading Standards	309
Total	**78,144**

Further detail on the Council's fees and charges are set out in Appendix E and on the Council's website.

Inflation

A review of the Council's inflationary budget assumptions has been conducted by officers. This includes reviewing budget assumptions in relation to the Council's key contracts, pay, rates and utilities.

Following the SR21 announcement, the Council has updated budget assumptions to reflect the freeze (for the second year running) on the Business Rates multiplier. This means the business rates due on the Council's properties will be at the same rate as they were in 2021/22. There have been other minor amendments to the inflationary assumptions as a result of the lower utilities costs, this is due to lower energy and water consumption and stable prices as a result of the Council being locked into tariffs which mitigated exposure to the recent energy increases. This is however only expected to be a short-term benefit and will be reviewed in advance of the 2023/24 budget, in line with the contract end dates.

Future inflationary rises represent a high risk for the Council, especially when taking into account recent increasing energy prices, rising rates of CPI (4.6% November) and increasing pay costs. It is likely the Council will see an increase in expenditure, and will be reviewing this closely during 2022, in advance of the September MTFS report.

The following table summarises the overall inflationary budget and the associated saving expected.

Inflation Summary

2022/23 Inflation requirement	2022/23 Inflation £000
Pay and Staffing Costs	1,096
Utilities	154
Contracts	825
Sales, Fees and Charges	(78)
Total 2022/23 Inflation Required	**1,997**
Inflation Built in to previous MTFS	**2,169**
Change in Budget Assumption*	**(172)**

**Total of the inflation budget proposal*

5.4 **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, with the first three years forming part of the MTFS. The Council is proactive in attracting external funding for as many schemes as possible. An officer-led Capital Review Group oversees the Council's capital requirements. The Capital Programme includes estimated project costs and profiling of expenditure whilst detailed business cases and due diligence is completed on individual schemes.

Following the report published by the Chartered Institute of Public Finance and Accountancy (CIPFA) on behalf of DLUHC into the Councils financial position, a moratorium on Capital spend has been implemented for the remainder of 2021/22. Council approved a report on the 16 December 2021 on schemes that are not legally committed and are to be funded from borrowing with the intention of reducing the capital programme further.

A revised Capital Strategy forming Appendix J, sets-out a strategy much more cognisant of the financial position the Council is in, and once approved will guide the way for revising the Capital Programme in accordance with the key objectives within the Improvement Plan. One of those objectives is to reduce borrowing costs as a proportion of the annual revenue budget. The Council has high borrowing costs, and high levels of debt compared to its asset base. It is vital that any future capital programme only includes projects that are all or mostly grant-funded, do not incur future revenue pressures for asset maintenance and running costs, lead to future income streams that pay back the investment in the short-to-medium term, and/or will lead to transformation and future 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 all of an asset's useful economic life were treated as off-balance sheet and charged to revenue. The new accounting rule 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 2023.

Additional investment schemes that have been added to the previous MTFS for approval are summarised in the following table.

Major Capital projects post Phase One

Directorate	Project and Funding Source	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
People & Communities	Clare Lodge Refurbishment and Safety works (Third Party Funding) *	871	352	-	-
Place & Economy	Treescape Grant (Third Party Funding)	102	53	53	53
Place & Economy	A1260 Nene Parkway Junction 15 Improvements (Third Party Funding)	563	7,604	-	-

Place & Economy	Traffic Signals Maintenance Fund (Third Party Funding)	50	450	-	-
Place & Economy	Re-landscaping projects Hampton Court and The Dell (Third Party Funding)	32	-	-	-
Place & Economy	Additional Funding for University (Third Party Funding)	-	20,000	-	-

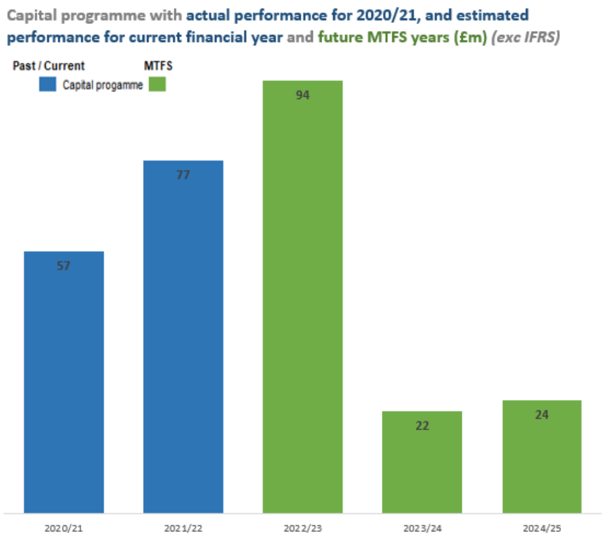
**Based on detailed business case – funding now confirmed*

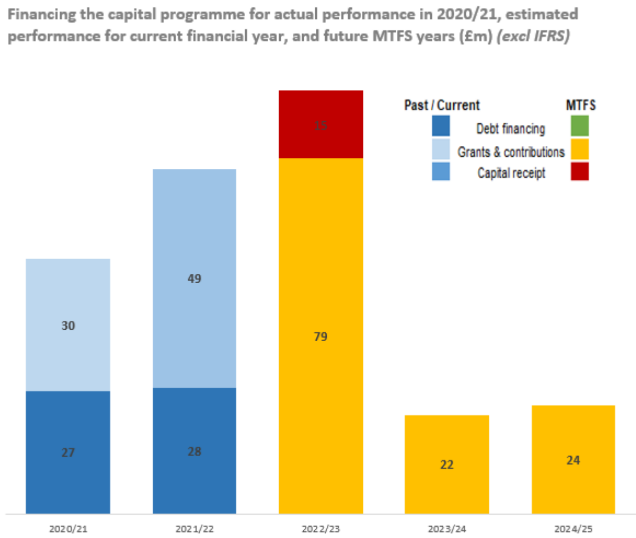
The following table provides a summary of the capital programme over the MTFS period. The full list of schemes is detailed in Appendix C - Capital Programme Schemes 2022/23-2024/25. The tables include the changes to the programme listed above and those agreed by Cabinet as part of the Phase One budget proposals.

The table shows a target reduction in expenditure in each of the next three years of £9.2m, £9.8m and £9.4m, a combined total of £28.4m. The reason for this is to meet a condition of the Improvement Plan that there be no new borrowing unless failure do so would result in a breach of our statutory duties. The table below shows that as the Programme currently stands, there is still over £28m of borrowing (including Invest to Save schemes) needed to fund the existing Programme. Before it can be decided which projects need to be removed, the Council needs to approve the capital strategy (this will be published as a supplementary report prior to Cabinet meeting on 31 January). From that strategy, a reprioritisation will be undertaken, and a revised Capital Programme will be brought back to Council. It should also be noted that the removal of borrowing in the current year and 2022/23 is needed in order to deliver the £0.75m revenue saving shown in the High-Risk category of savings in section 5.1 of this report.

The Capital Programme 2022/23- 2024/25 Summary

Capital Programme	2022/23 £000	2023/24 £000	2024/25 £000
Customer & Digital Services	3,164	2,080	3,000
People & Communities	22,441	7,203	15,720
Place & Economy	71,457	21,147	13,586
Resources	2,965	1,510	1,560
Total Capital Programme	**100,027**	**31,940**	**33,866**
Grants & Third-Party Contributions	78,994	21,871	24,213
Capital Receipts repayment of loans	15,000	-	-
Capital Receipts - used to fund capital programme	-	233	233
Borrowing	6,033	9,836	9,420
Total Capital Financing	**100,027**	**31,940**	**33,866**
Invest to Save	3,201	-	-
IFRS16 Transition (estimated)	22,000	-	-
Target reduction (tbc)	(9,234)	(9,836)	(9,420)
Total Capital Programme (Including Invest to Save, IFRS16 & reduction to programme)	**115,994**	**22,104**	**24,446**





5.5 Asset Management Strategy

The Council has recognised the need for a refreshed approach to managing its asset portfolio and will be looking to conduct a root and branch review of everything 'we do' 'how we do it' and 'where from', to develop an Asset Management Strategy (AMS) that ensures value is maximised over the short, medium and long term. This may result in rationalisation as a result of disposals where it is deemed assets no longer present a commercial, community or strategic case for retaining the property.

The Council will be working with CIPFA as part of this review. To summarise some of the actions will include:

- A review of the asset base- including valuations and the use of subject matter experts.
- Compile a list of possible asset disposals
- Reduce liabilities and expenditure to the Council in revenue and capital as a result of a rationalised asset portfolio (including asset disposals)

These objectives and deliverables are outlined in more detail within the Council's Improvement Plan, approved at Full Council on 16 December. The Council's constitution outlines an expectation for an asset management plan to be incorporated within the MTFS, however in light of the work ongoing, and in line with the approved Improvement Plan this is now expected to be presented to Council later in the financial year, in line with the revised Medium Term Financial Strategy (MTFS).

5.6 Dedicated Schools Grant and the Schools Budget 2022/23

The Local Authority retains a statutory duty to annually set the schools budget for all schools in Peterborough (maintained and Academy schools). The majority of the funding for Education comes through the Dedicated Schools Grant (DSG) which totals £255m for 2022/23. Officers have worked with the Schools Forum, who are the representative group of education providers in the city, to develop budget proposals. A consultation exercise has been undertaken with schools over how the funding is allocated via the Council's funding formula.

The local funding arrangements operate within the context of national requirements and guidelines, but the Council is able to use the national arrangements to target funding at priorities within the City. On the 19 January 2022, the Schools Forum agreed unanimously the budget proposals outlined in Appendix J. The final budget proposals require formal Council agreement at the meeting on 2 March.

6.0 ROBUSTNESS (SECTION 25) STATEMENT

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 Deputy Section 151 Officer as part of fulfilling this duty and gives the required advice relating to the Council's current and next 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 2022/23 budget to inform the advice on robustness.

6.2 **Overall Financial Position**

The Council's financial position has been well documented in recent months, and has regularly featured in national headlines, and within the local government press especially.

In December 2021, the Council approved an Improvement Plan which details how the Council will set about achieving financial sustainability, keeping spending within its annual income, avoiding further borrowing wherever possible, and having a level of reserves that are appropriate to the level of risks and uncertainty it faces over the medium term.

Despite being permitted a capitalisation direction for 2021/22, the Council will not need to use that flexibility. The Council has also declined the opportunity to request a Direction for 2022/23.

It is vital that the finances of Peterborough City Council are repaired, and the level and cost of services in the future needs to be reviewed as part of a Medium-Term Financial Strategy (MTFS). That strategy is being developed and will be reported to Council in the Autumn of 2022.

In lieu of a new MTFS, the immediate focus has been to propose a budget that is deliverable, and largely within the gift of the Council to deliver. This is not as easy as it sounds, as the Council continues to operate in a challenging financial environment, with additional uncertainties and significant risk factors featuring from the on-going impact of the COVID-19 pandemic, which is likely to be a feature not just this year and next, but into the medium-term as people's habits and behaviours change. Previous MTFS's have 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. This fragility has not improved in the past twelve months, however this budget plan for 2022/23 takes the first step toward improving financial resilience.

Section 5.1 of this report shows that the Council must make £12.3m of savings, including additional income, in order to balance expenditure with available resources. This equates to around 7% of the total revenue budget. In addition, the Council needs to manage down some of the demand and cost pressures it can expect to face during the year ahead. The use of one-off savings and funding streams is relatively modest, and likely to be in-line with many other Councils.

It is encouraging that the forecast outturn for the current year 2021/22 is much better than budgeted, which provides some comfort in the form of a reserves position being significantly better than expected. This is covered in more detail in section 6.4.

In conclusion, the overall financial position of the Council remains a highly challenging one. Its resilience is relatively weak and, as detailed in section 6.3, there are significant risks attached to this proposed budget. However, this proposed budget can be seen as the first step toward financial sustainability, is free of any capitalisation direction from Government and contains risk mitigation considerations.

6.3 **Robustness of the 2022/23 budget estimates**

The revenue budget has been formulated having regard to several factors including:

- **Funding availability**
- **Risks and uncertainties**
- **Inflation**
- **Priorities**
- **Demography & Service pressures**
- **Emerging opportunities**
- **Recovery from the COVID-19 pandemic**

It is important in setting any budget, in any year, that estimates are based on the best available information at the time of setting it. The accuracy and reliability of that information varies depending on what you are trying to forecast. Where the accuracy and reliability are uncertain, it is important not to be overly pessimistic or optimistic.

In the opinion of the Deputy Section 151 Officer, the over-arching conclusion is that the estimates prepared are realistic and deliverable, albeit very challenging. There are however a number of issues to highlight:

- The two very high risk rated savings shown in section 5.1 rely on external factors not totally within the Council's control. The certainty of delivery of those savings is therefore less than ideal. However, this needs to be considered in the context of savings of £0.650m within an overall budget of £182m.
- Similarly, the high risk rated savings include options that are not directly within our gift to deliver. For example, the Council will need to attract more PCC foster carers to deliver the £0.372m saving. The Council is always looking for more in-house foster carers and despite advertising, success has been limited.
- The overall savings options do have a 'spread' across the Council's services and from a range of measures, most of which are within the Council's control to deliver on time and on budget. However, there is a considerable amount of work needed to deliver these savings and additional income, and there is therefore a risk of the capacity and pace needed to deliver the whole package of savings.
- Predicting demand pressures will always be a challenge, particularly when individual placements can be hugely expensive. Using historic trends, along with forecast population data, and intelligence from the Council's own internal management information systems, would normally provide a reasonable estimate. However, given the impact of the pandemic for almost two years, there is added uncertainty of demand projections. In the 2021/22 budget we expected to see some latent demand for services coming through to the Adults and Children's social care budgets, but this has not been as significant as expected. The Council cannot be certain if this is a 'permanent' position, or if demand continues to build and will then 'surge' through the systems.
- One of the great unknowns from the pandemic is what the 'new normal' will be. People's behaviours have undoubtably changed and may continue to do so. The Council has previously seen the impact of on-line shopping on the high street footfall, and therefore visitors to the City, and the impact on local businesses is uncertain.
- For many years, inflation has been low and stable. Nationally CPI / RPI rates are at their highest for some time; the November 2021 RPI was 7.1%, the highest since early 1991. Predicting where these rates will go over the coming year is difficult, and if they continue at current rates, or increase, then there will be a pressure on the budget that will need mitigating by good commissioning and procurement and / or other mitigations.

Given the above issues, the Deputy Section 151 Officer requires the creation of a Budget Risk Reserve in order to provide an overall satisfactory conclusion on the robustness of budget estimates. This is therefore included in the proposed budget and is detailed in section 6.4.

6.4 **Adequacy of Reserves**

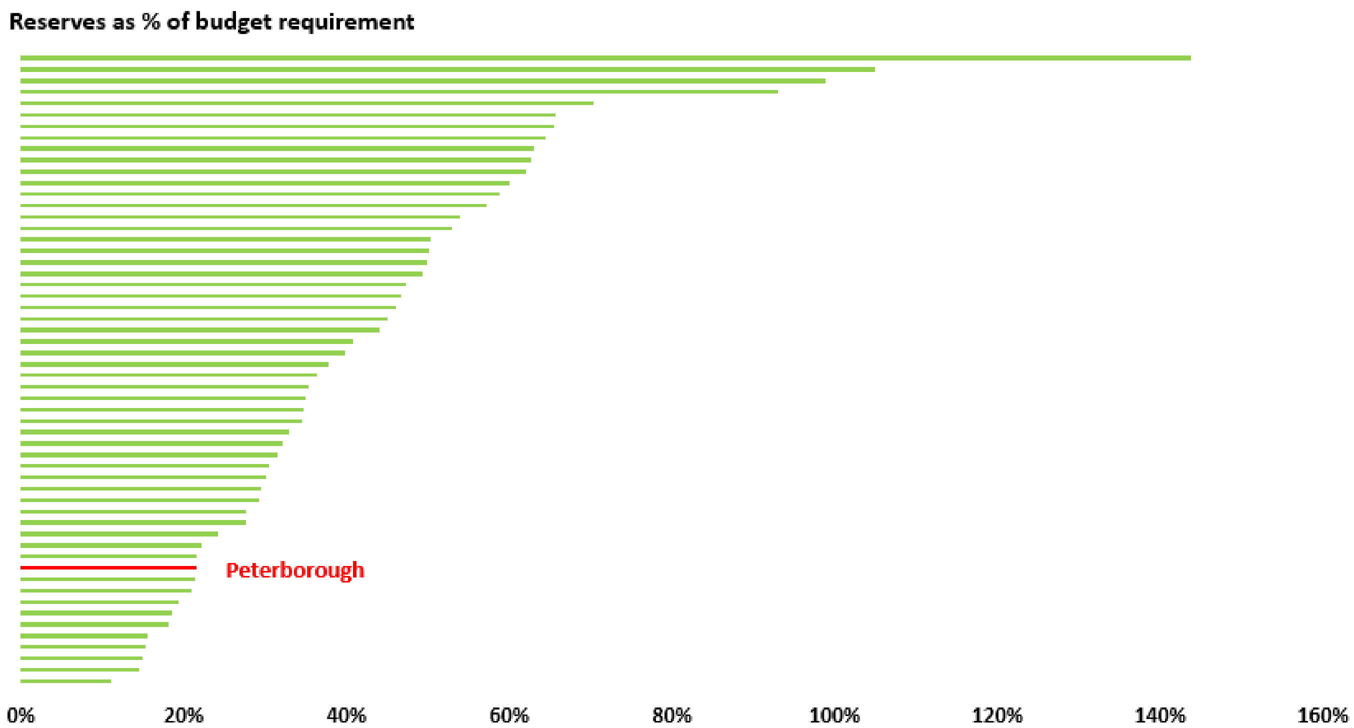
Each year, reviewing the level of reserves the Council holds is an important part of the budgetary process. The review must be balanced and reasonable, factoring in the current financial standing of the Council, the funding outlook into the medium term and beyond, and most importantly, the financial risk environment operating in.

The Chartered Institute of Public Finance and Accountancy (CIPFA) recommend that the following factors should be taken into account when considering the level of reserves and balances:

1. Assumptions regarding inflation and interest rates
2. Estimates of the level and timing of capital receipts
3. The capacity to manage in-year demand led pressures
4. Ability to activate contingency plans if planned savings cannot be delivered
5. Risks inherent in any new partnerships
6. Financial standing of the authority (level of borrowing, debt outstanding etc.)
7. The authority's record of budget management and ability to manage in year budget pressures
8. Virement and year-end procedures in relation to under and overspends
9. The general financial climate
10. The adequacy of insurance arrangements

It should be noted that the assessment of the adequacy of reserves is subjective. There is no 'right' answer as to the precise level of reserves to be held. There is also no formula approach to calculating the correct level; it is therefore a matter of judgement. The duties of the Council's Section 151 Officer include the requirement 'to ensure that the Council maintains an adequate level of reserves, when considered alongside the risks the Council faces and the general economic outlook'.

Each Council must make their own decisions about the level of reserves they hold, taking into account all of the issues referred to above. A graphical analysis of the 2019/20 reserves follows. Peterborough is ranked 11 out of 56 Unitary Councils in terms of the percentage of reserves held. The range of reserves held as a percentage of budget is wide; the lowest authority at 11%, up to the highest at 144%. Peterborough's figure is 22%. It is also worth looking at reserves alongside borrowing, as borrowing can be used to protect reserves, or reserves used to reduce borrowing. Unfortunately, Peterborough holds a high level of borrowing and therefore that 'trade-off' is not an option.



The reserves that the Council estimates to hold as at 1 April 2022 are, in the opinion of the Deputy S151 Officer, just about adequate for the year ahead. In considering the ten factors listed above, as well as the risks associated with the budgeted pressures and savings, it is the opinion of the Deputy S151 Officer that the overall risk environment for the Council has increased over the past twelve months. For that reason, the budget proposal adds £5.5m into the reserves position, which results in the adequate judgement.

It must be noted that the adequacy of reserves balances will be reviewed in line with the publication of a new MTFS in the Autumn, which will include a review of all the individual reserve accounts, and an assessment of the collective sum of those reserves against the risks associated with that new MTFS for Peterborough. That MTFS will almost certainly require a managed increase in the totality of the Council's reserves over the medium-term, and a reclassification of existing reserves to ensure they cover the Council's greatest areas of risk.

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

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

The Council's General Fund working balance is forecast to be £6.0m, usable reserves at £36.3m and ring-fenced reserves at £4.7m. The latter reserve type includes the £3.7m insurance reserve and £0.7m of reserves held on behalf of schools for future capital expenditure.

The General Fund

The General Fund is held at a balance of £6.0m and is the working balance to manage in year risks.

Usable Reserves

Reserves are the only source of financing to which the Council has access to fund risks and one-off pressures. 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.

Capacity Building Reserve - includes an element for investment required to enable transformational change and implementation of the service saving proposals. Appendix F outlines the new planned commitments against this reserve, to fund the costs associated with delivering the savings and improvement plans.

This reserve also includes a commitment to fund £2.9m of the revenue expenditure budget in 2021/22 (as per Decembers BCR position) and a net £1m commitment to fund the 2022/23 revenue budget, as outline within the core funding assumptions table (section 5.2)

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 during 2021/22 due to several specific grants being used to fund expenditure. These funds have been received for specific projects covering multiple years, and include:

- Family Safeguarding Innovation Programme
- Integration Area Programme (Integrated communities)
- Controlled Migration Fund (CMF)

At the end of 2022/23 the departmental reserves balance is forecast £0.8m which relates to balances being held on behalf of Peterborough City College.

COVID-19 Funding Reserve- at the end of 2020/21 the Council contributed £12.8m to a Covid-19 Funding Reserve, to ensure that additional costs resulting from anticipated additional demand, and long-lasting impact of Covid-19 would be covered in 2021/22. The £12.8m Covid-19 Funding Reserve, was established based on the most up to date available at the time. The complexity and uncertainty of the pandemic has made forecasting future income and demand in some areas difficult.

As highlighted in the regular BCR reporting to Cabinet over the course of the year the scale of the additional demand and budgetary pressures, been lower than the Council originally anticipated. This has meant that the Council is now able to redirect the use of this reserve. This has been used to establish a £2m Budget Risk Reserve, with the remaining balance of £10.8m being transferred into the Capacity Building Reserve. This results in a nil balance to carry forward on this reserve.

Budget Risk Reserve- as outlined within section 6.3 a £2m Budget risk reserve has been established a Budget Risk Reserve to acknowledge the additional contained within the budget and in order to provide an overall satisfactory conclusion on the robustness of budget estimates.

Tax Income Risk Reserve – this reserve includes two elements outlined in the following points, both relating to local taxation, and result from grant received in respect of Covid-19:

1. **Business Rates (NNDR) section 31 grants (£8.5m):** this reflects the grant received in 2021/22 to compensate the Council for the additional cost of providing the extended business rates relief to businesses in retail, leisure, hospitality and nurseries. Section 31 grants are accounted for through the General Fund, whereas business rates income is accounted for through the Collection Fund. The estimated balance on Collection Fund at the end of 2021/22 was for a second year running exceptionally low as a result of the additional discounts applied to business rate payers, and this balance has carried forward as a deficit in to 2022/23. This grant has been put into reserves and will be drawn down in 2022/23 to smooth the budgetary effect of this deficit and the Collection Fund accounting.
2. **Tax Income Guarantee (TIG) scheme (£2.3m):** The TIG scheme compensated Local Authorities for 75% of lost Business Rates and Council Tax income in 2020/21, in comparison to budget. The Council has received £2.3m, and in accordance with accounting policies this grant was included within the 2020/21 final position and form part of the contribution to reserves to mitigate future reductions in Council Tax and Business Rates. The Council plans to use £0.5m on this reserve in 2022/23, to mitigate the budgetary impact of the adjustment required on the Council tax collection fund balance. This will mean the reserves balance will be reduced to £1.8m by the end of 2022/23.

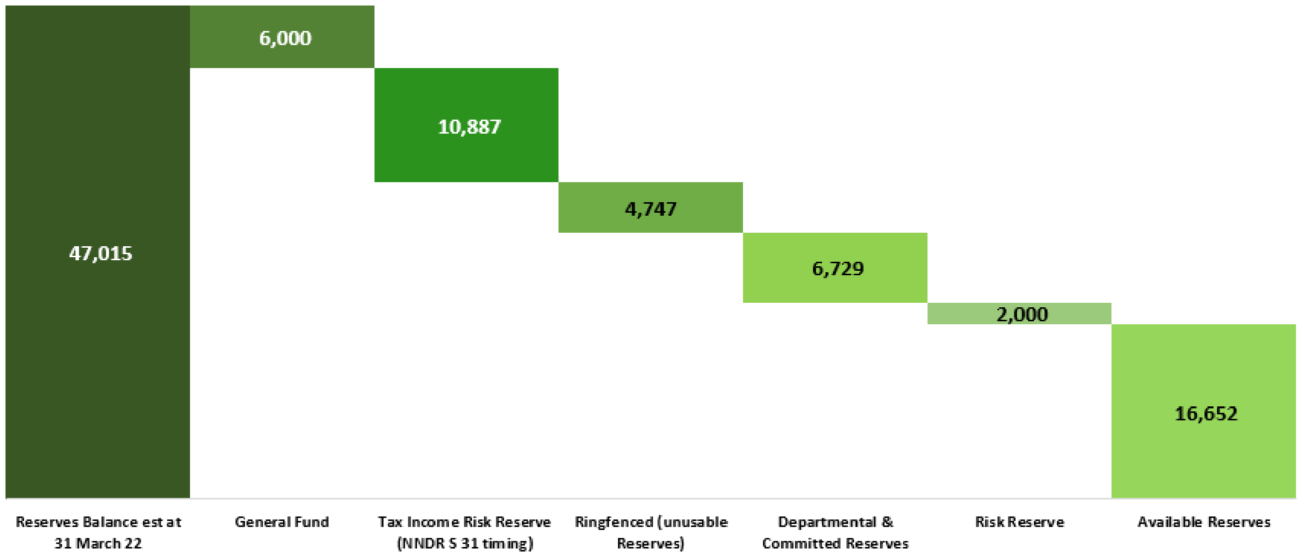
The following table outlines the forecast position on the General Fund (unallocated reserve), the usable and ring-fenced reserves (earmarked reserves).

The Reserves Position 2020/21 to 2023/24

Summary of Reserves	2020/21 Bal at 31.03.21 £000	2021/22 Est Bal at 31.03.22 £000	2022/23 Est Bal at 31.03.23 £000	2023/24 Est Bal at 31.03.24 £000
General Fund	**6,000**	**6,000**	**6,000**	**6,000**
Usable Reserves:				
Capacity Building Reserve	15,035	20,788	16,936	16,652
Departmental Reserve	5,380	2,593	805	805
Tax Income Risk Reserve	22,521	10,887	1,790	1,790
COVID-19 Funding Reserve	12,841	-	-	-
Budget Risk Reserve	-	2,000	2,000	2,000
Usable Reserves	**55,778**	**36,268**	**21,531**	**21,247**
Ring-Fenced Reserves:				
Insurance Reserve	3,315	3,730	3,730	3,730
Schools Capital Expenditure Reserve	658	658	658	658
Parish Council Burial Ground Reserve	57	56	56	56
Hackney Carriage Reserve	173	173	173	173
Public Health Reserve	131	131	131	131
Ring-Fenced Reserves	**4,333**	**4,747**	**4,747**	**4,747**
TOTAL Earmarked and General Fund Balance	**66,110**	**47,015**	**32,278**	**31,994**

The following chart shows a breakdown of the reserves balance forecast at 31 March 2022. Of these reserves balances only **£16.7m is uncommitted, un-ringfenced and available for use**.

Reserves Forecast Balance breakdown at 31 March 2022 (£000)



7 BUDGET VIREMENTS

7.1 The Council's Budget and Policy Framework, paragraph 4.9 enables the council to specify the extent of virements within the budget and degree of in-year changes to the Policy Framework, which may be undertaken by Cabinet. Virements allows the Council to move spend approved in the budget to another budget in accordance with Financial Regulations.

7.2 Having reviewed the existing framework and the council's Financial Regulations the principle remains that approved budget cannot be moved from one area of spend or project to another unless it meets Financial Regulations. This applies to both revenue and capital budgets.

7.3 The virement limits for 2022/23 are as follows:

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

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

a) Reflecting organisational structure changes e.g., changes in reporting line
b) Allocating corporate budgets or savings to departments agreed in the MTFS
c) Allocating budgets to individual schemes e.g., from school places capital programme or local transport plan projects.

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

- 3.13.2 The Chief Executive is authorised:
- (d) to take any action, including the incurring of expenditure, where emergency action is required

7.6 In the event that this applies to virements, it will be reported to the next relevant meeting in line with the limits in 7.3 above.

8.0 FINANCIAL RISK

8.1 Local government has become increasingly exposed to risk and instability within the system. It has become financially stretched following a decade of funding cuts and austerity measures, and the uncertainty around future funding and wider public sector reforms causes' added difficulty for strategic planning.

The Council assesses financial risks as part of its budget setting process and regular Budgetary Control Review.

The Council also has a Risk Management Board, led by the 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 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 de liver 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. In addition, there are rising external factors creating an additional layer of financial risk such as the rising cost of the national living wage, soaring inflation forecasts and increasing energy prices.

Reasonable mitigating actions have been made where possible to the identified and managed risks, this is included within Appendix D. Cabinet and Council should consider when reviewing the Phase Two budget proposals.

10.0 CONSULTATION

10.1 Hard copies of the budget consultation document (Appendix B) 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 the following table 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.

Stakeholder groups and events

Groups and Stakeholders we are consulting with	Lead Officer/Member
Discussion with Trade Unions Joint Consultative Forum (JCF)	Cecilie Booth and Mandy Pullen
Joint Scrutiny of Budget meeting	Cecilie Booth
MP Paul Bristow	Wayne Fitzgerald
MP Shailesh Vara	Wayne Fitzgerald
Parish councils	Adrian Chapman
Connect Group – Churches Together	Adrian Chapman
Cambridgeshire and Peterborough Combined Authority	Cllr Wayne Fitzgerald
Opportunity Peterborough Bondholders	Steve Cox/ Cllr Wayne Fitzgerald
Greater Peterborough City Leaders Forum	Wendi/Matt
Peterborough Disability Forum	Oliver Hayward
Age Concern UK	Oliver Hayward
Cambridgeshire Police	Matthew Gladstone/Wendi Ogle-Welbourn
Peterborough Civic Society	Steve Cox
Cohesion and Diversity Forum	Adrian Chapman
Joint Mosques Group	Adrian Chapman
Interfaith Council	Adrian Chapman
Peterborough Youth Council	Cllr Wayne Fitzgerald & Matthew Gladstone/Wendi Ogle-Welbourn
Peterborough Living Well Partnership	Jyoti Atri
Health Care Executive	Jyoti Atri /Charlotte Black
Healthwatch Partnership Boards	Oliver Hayward
School unions	Jon Lewis
Schools Forum	Jon Lewis
Peterborough Pensioners Forum	Oliver Hayward

Responses received to date from these meetings, Joint Scrutiny of the Budget meeting and the online survey have been outlined for Cabinet to consider in Appendix M.

11.0 ANTICIPATED OUTCOMES OR IMPACT

11.1 The release of MTFP Phase Two 2022/23 report, outlines budget proposals and strategic approach to addressing the financial gap and the financial challenges facing the Council.

Cabinet have sought 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 2022/23 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 21 February 2022, before making a final recommendation to Council on 2 March 2022.

12.0 REASON FOR THE RECOMMENDATION

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

13 ALTERNATIVE OPTIONS CONSIDERED

13.1 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.

14.0 IMPLICATIONS

Elected Members

14.1 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.

14.2 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 that they will not be voting on the decision for that reason.

Legal Implications

14.3 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.

14.4 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.

14.5 When it comes to making its decision on 2 March 2022, 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.

14.6 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.

14.7 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.

14.8 It should be noted that the consultation taken place on the contents of this report, the Budget proposals, and consequently the Cabinet's general approach to balancing the budget, 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.

14.9 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 COVID-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 COVID-19 to MHCLG at the same time as providing a potential a s114 scenario report to the Cabinet and the external auditor.

14.10 **Human Resources**

Whilst it is anticipated that there will be some staffing implications as part of this budget, much of the management focus will be looking at how the Operating Model needs to change in order to meet the needs moving forward and to ensure any staffing impact is minimised.

It is the aim of the council to try and minimise any compulsory redundancies and the impact on our service delivery. In the first instance there are a number of elements which the council considers first which are looking for redeployment opportunities, deleting vacant posts, restricting 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.

14.11 **Equality Impact Assessments**

All budget proposals published in this budget process have been considered with regards to equalities issues, and where an Equality Impact Assessment (EIA), has been required these have been completed and compiled within Appendix G- Equality Impact Assessments

14.12 **Carbon Impact Assessments**

All budget proposals published in this budget process have been considered with regards to the carbon impact and where appropriate carbon impact assessments (CIA) have been completed. In some instances proposals are in the early stages of development and until detailed plans are available the carbon impact cannot be determined. These have been identified as 'unknown' at this stage, but will be reviewed once detailed plans are available.

These have been summarised within Appendix H– Carbon Impact Assessments

15.0 BACKGROUND DOCUMENTS

15.1 Medium Term Financial Strategy Phase Two- 2021/22- 2023/24: Budget Cabinet 23 February 2021, item 5
Budgetary Control Report – May 2021: 12 July 2021 Cabinet, item 9
Budget Monitoring Report Final Outturn Report – 2020/21: 21 June 2021Cabinet, item 10
Medium Term Financial Strategy Phase One- 2022/23 - 2024-25 - Budget Cabinet 25 October 2021, item 5
Budgetary Control Report - August 2021 - Budget Cabinet 25 October 2021, item 6
Budgetary Control Report - September 2021 - Cabinet 15 November, item 8
Budgetary Control Report- October 2021 - Cabinet 29 November 2021, item 6
Council Tax Base 2022/23 and Collection Fund Declaration 2021/22 - Cabinet 10 January 2022, item 9
Budgetary Control Report - November 2021 - Cabinet 10 January 2022, item 10
CIFPA Financial Review Report - on behalf of DLUHC
Andrew Flockhart Governance Review- on behalf of DLUHC

16.0 APPENDICES

16.1
- Appendix A – 2022/23 MTFP Budget Position Phase Two
- Appendix B – Phase Two Budget Consultation Document
- Appendix C – Capital Programme Schemes 2022/23-2024/25
- Appendix D – Financial Risk Register
- Appendix E – Fees and Charges
- Appendix F – Reserves Commitments
- Appendix G – Equality Impact Assessments
- Appendix H– Carbon Impact Assessments
- Appendix I – Executive Summary of the Council's Improvement Plan
- Appendix J – Dedicated Schools Grant and the Schools Budget 2022-23
- Appendix K – Treasury Management Strategy
- Appendix L – Capital Strategy
- Appendix M - Budget Consultation Feedback

This page is intentionally left blank