Appendix A - Medium Term Financial Strategy 2023 – 2026 (Q1 update)

1. Executive Summary

Table 1 outlines the forecast budget position over the life of the MTFS, which incorporates the revised assumptions included within this report. These are summarised below. The table outlines a breakdown of how the gap changes each financial year. It should be noted that if the Council identifies ongoing proposals to address the budget gap, the future years will reduce accordingly.

Table 1: Budget Gap	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Funding	181,883	198,007	205,763	211,994
Net Revenue Expenditure (NRE)	181,883	207,527	218,639	227,117
Aggregated Budget Gap	**-**	**9,520**	**12,876**	**15,122**
Aggregated Budget Gap breakdown				
2023/24	-	9,520	9,520	9,520
2024/25	-	-	3,357	3,357
2025/26	-	-	-	2,246
	-	**9,520**	**12,876**	**15,122**

Key assumptions

- Pay award 3% pa
- Inflation in expenditure and Sales Fees and Charges income: 23/24 – 8.73%, 24/25 – 1.45%, 25/26 - 1.61%
- Risk to the delivery of 2022/23 savings plans- £4.4m
- Demographic and Volumatic service demand – 3% pa
- NNDR – increases based on business growth and inflation as per legislation
- Revenue Support Grant – no increase
- Council Tax – 2.99% pa and 1000 homes per annum
- New Homes Bonus – reducing
- Adults social care Grant – significant increase however offset by corresponding increase in expenditure
- No increases on the following
    - Business rates pool
    - Improved better care fund
    - Social care grant
    - Services grant

These are outlined in more detail within the report.

2. Future Sustainable Council

The Council has a balanced budget for 2022/23, which included savings plan of approximately £17m in place. There is no expectation of government financial help now or in the future. The Council is amongst a number of Councils facing significant financial pressures and has been placed on the first step of external intervention through the form of ongoing scrutiny from DHLUC, which is expected to continue until sufficient progress has been made. In response, the Council has acted swiftly through the appointment of a new Chief Executive solely focused on the city compared to the shared arrangement with Cambridgeshire County Council. A revised Corporate Leadership Structure has also recently being published for consultation, which continues to strengthen the focus on the City and the Councils future.

The Corporate Leadership Team has set out plans for a Future Sustainable Council, and the following five priorities have been identified:

Budget	Getting a grip of the financial position and ensure delivery of robust savings plans to deliver a balanced budget for each financial year
Vision and priorities	Setting a future direction for the City, working with partners where the role of the Council is clearly understood by all.
Organisational resilience and capacity	Taking stock of leadership and managerial capacity and structures across the organisation and define a new target operating model for the Council
Governance and Culture	Looking at the way we do things, including the formal decision making process and general communication and engagement
Economic growth	Maximising the impact of growth for all communities which is delivered in a more sustainable and inclusive way. Peterborough is a city of opportunity

Further work will be undertaken to develop a strategic framework which will start with the creation of a City manifesto, a corporate plan and performance framework which will then work through into the MTFS, Service Strategies and Service Delivery Plans. It is expected that the first draft of this will be published for the public in November 2022.

3. Detailed Assumptions

The Council has undertaken an exercise to fully review its financial assumptions over the life of the MTFS, increasingly important in present times given the speed of recent economic changes. As part of this sensitivity analysis 9 scenarios have been considered, with the following graph summarising outcome of these. The range of budget gap In 2022/23 spans from £5.2m and £17.4m, a £12.3m difference. This report is working to the midpoint assumption (represented by the red line below) which identifies **gaps of £9.5m in 2022/23, £12.9m in 2024/25 and £15.1m in 2025/26**:

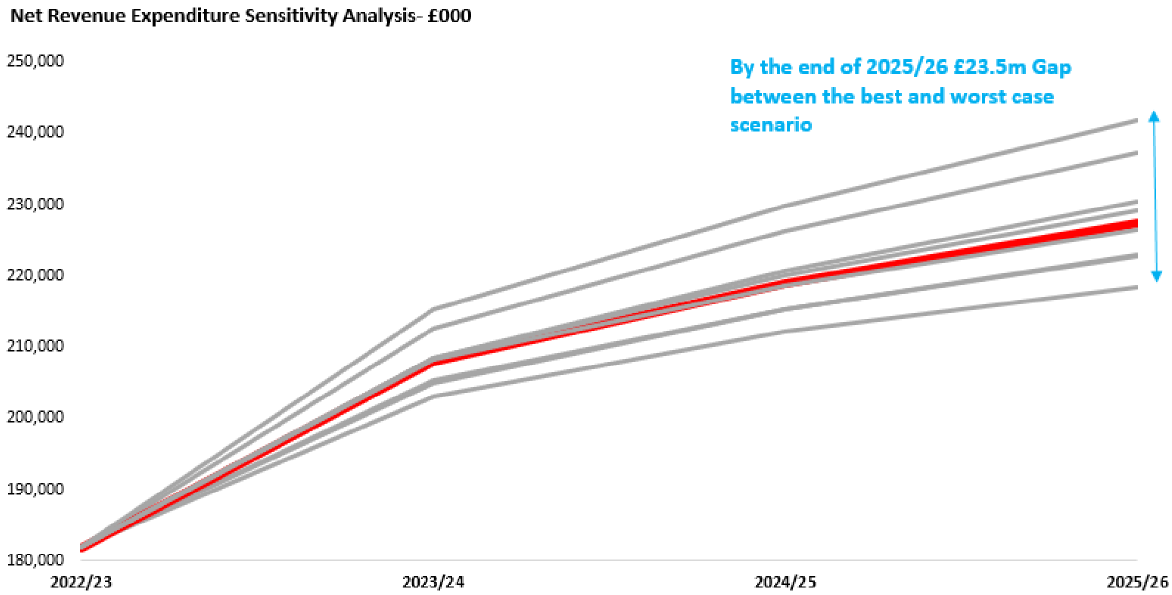


Table 2 summarises the forecast Net Revenue Expenditure budget, the assumptions included:

Table 2: Expenditure assumptions			
	2023/24	**2024/25**	**2025/26**
Pay Award	3%	3%	3%
Inflation- based on Q4 CPI OBR forecast published May 2022	8.73%	1.45%	1.61%
Risk of a Shortfall on the Savings 22/23 delivery	Savings categorised as High Risk		
Sales Fees and Charges/Income Generation -based on Q4 CPI OBR forecast published May 2022	8.73%	1.45%	1.61%
Demographic and volumetric service demand	3.00%	3.00%	3.00%

Savings delivery- The 2022/23 budget incorporates £16.7m savings and programmes. Most comprising ongoing sustainable savings which have been permanently removed from the base budget, £1.8m comprises one-off savings, e.g. a transfer from City College (£1m), a reduction in bad debt Provision (£0.5m) and a reduction in the tree maintenance Budget (£0.3m). The following table outlines the latest risk RAG rating, highlighting that £4.4m of savings plans are currently high risk. Due to the nature of this risk the anticipated shortfall has been built into the budget gap for 2023/24 onwards. However, this is being closely monitored and the delivery of the savings remains a focus and high priority for the Councils Corporate Leadership Team, therefore this will be reviewed and updated as part of the quarterly MTFS update.

Table 3: Current 2022/23 Savings and Programme Risk Rating

Rag	Savings	No of Savings plans	Target £000
Blue	Saving Realised	25	(4,186)
Green	Saving forecast to be realised as originally planned, or to be realised through alternative actions.	16	(4,258)
Amber	Medium risk to savings delivery, with mitigating actions being considered/worked on.	20	(3,826)
Red	High risk to savings delivery with limited scope of mitigation.	6	(4,403)

Rag	Savings	No of Savings plans	Target £000
		67	(16,673)

Inflation - The May 2022 **OBR Forecast** has been used to inform the assumptions on our expenditure (including supplies and services, transport, agency and premises) and Sales Fees and Charges income budgets. An Inflation Risk Reserve with a balance of £4.7m has also been established to enable to Council to respond to the financial risk resulting from the rapidly rising rates of inflation as the economic landscape.

Source BoE : https://www.bankofengland.co.uk/monetary-policy-report/2022/may-2022

Demographic and volumetric service demand- Peterborough is a growing city, and although this brings additional income from housing and business growth, it also brings additional demand for our services. The Covid pandemic is now hopefully coming to an end and demand for service provision will stabilise. The much needed stability will provide the perfect opportunity for the Council to robustly challenge its assumptions and develop forecasts which reflect this growth, resulting additional demand and the strategy for that service.

Capital Financing (cost of borrowing)- The Capital Strategy sets out the need to reduce external borrowing and that all capital expenditure should be funded by grants and capital receipts, or through invest to save schemes where the cost of borrowing will be funded from future income streams. A new Asset Management Strategy and Plan is being prepared, with a new asset disposal schedule. The asset disposal plan has identified the following potential capital receipts over the life of the MTFS, set out in Table 4 below:

Table 4: Capital Receipts	2023/24	2024/25	2025/26
	£000	£000	£000
Capital Receipts Planned	9,500	4,400	6,000
Capital Receipts Target subject to review	2,200	2,750	2,150

Pensions Contribution Rates - The latest outcome of the tri-annual valuation, which covers the period 1 April 2020 to March 2023, is included within the baseline budget. The Pension Fund will be revalued during 2022 and the rates for the period 1 April 2023- 31 March 2026 will be set. The current budget assumptions are based on a 17.4% contribution rate and £1.880m annual lump sum contribution. Both of these combined give a primary contribution rate of 17.5%. Once further information is made available the MTFS will be updated to reflect the likely impact of any changes.

Table 5 table outlines the Council's estimated core funding levels over the life of the MTFS:

Table 5: Funding	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£000	**£000**	**£000**	**£000**
NNDR	(54,038)	(64,579)	(65,716)	(67,714)
Revenue Support Grant	(10,794)	(10,794)	(10,794)	(10,794)
Council Tax	(91,593)	(95,542)	(100,176)	(104,411)
New Homes Bonus	(2,951)	(1,490)	(1,490)	(1,490)
Business Rates Pool	(2,541)	(2,541)	(2,541)	(2,541)
Improved Better Care Fund	(7,480)	(7,480)	(7,480)	(7,480)
Social Care Grant	(7,753)	(7,753)	(7,753)	(7,753)
Services Grant	(2,896)	(2,896)	(2,896)	(2,896)
Lower Level Services Grant	(302)	(302)	(302)	(302)
Adult Social Care - New Burdens Grant	(535)	(4,630)	(6,614)	(6,614)
Core Funding	**(181,883)**	**(198,007)**	**(205,763)**	**(211,994)**

Overall, it is difficult to foresee how Local Government Funding Reforms (LG Reforms) will change the distribution of funding across local government. There has been no further consultation and it is now highly likely to be postponed until 2024/25. At this stage it assumes that the grant funding remains flat in most cases, in line with confirmed Departmental Expenditure Limits (DEL's) for DLUHC as per the Spending Review 2021 (SR21).

Council Tax

- Assumed annual Council Tax increase of 2.99%.
- **Band D rate will increase from £1,511.65 in 2022/23, to £1,556.85 in 2023/24, £1,603.40 in 2024/25 and finally to £1,651.34 in 2025/26**
- The Council tax base is forecast to increase by 1,000 homes each year, which equates to 780 Band D equivalents. This is based on historical local housing growth.

NNDR (Business Rates)

- The new Rating Valuation (RV) list which will come into play in 2022/23. This has been based on 2019/20 (pre-pandemic) values, so it is hoped changes will be minimal.
- Business Rates Baseline Reset, which re-distributes the baseline set in 2013/14 and therefore reallocated the cumulative growth in rates local authorities have generated
- Business Rates Reforms, which is a fundamental review of the system ad will be a key element of the wider LG Reforms
- Business Rates Pool: Additional income of £2.5m assumed as a result of the continuation of the Business Rates pool arrangement with the other Cambridgeshire Local Authorities.
- Business Growth: This includes specific growth in business rates based on planning and economic development information, including Fletton Quays, Great Haddon (Roxhill) and Flagship park (Fengate).
- The multiplier will be increased by CPI - There is potential that the government could continue to compensate Local Authorities for
- Bad debt: A loss on non-collection equivalent to 1.2% of gross rates.

- Appeals: The appeals provision is forecast to equate to roughly 2.6% of the Councils total RV.

Grants

- The following grants are assumed at the 2022/23 levels:
  - Improved Better Care Fund
  - Lower tier services grant
  - Social Care funding
  - Services Grants
- **New Homes Bonus:** The current scheme is being phased out. The last payment was originally expected in 2022/23, but a final scheme is still to be confirmed and the current scheme will be rolled for a further year.
- **Adult Social Care Reforms:** £0.5m is due to be paid in 2022/23 to commence implementing the Social Care Reform White paper and the Fair Cost of Care and Market Sustainability Fund. This then rises significantly in 2023/24 and 2024/25 as the funding cap and other elements of the reforms are introduced. A corresponding expenditure pressure has been factored into the budget.

4. The Financial Challenge

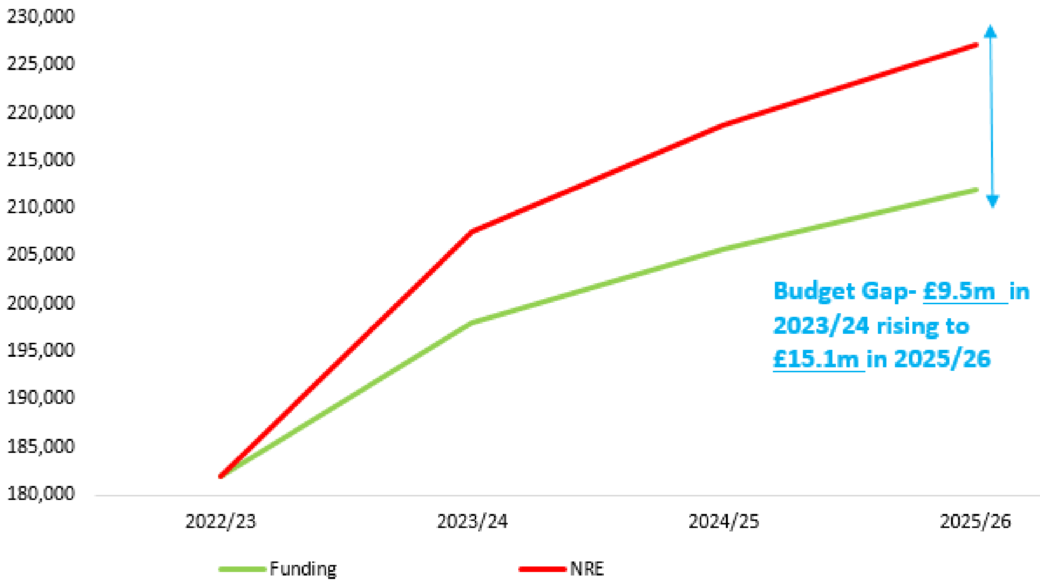
The councils financial challenge can be characterised into three core elements, revenue, reserves and capital, with these being summarised in the following sections.

Revenue challenge

The Council's financial challenge has developed over the years due to underfunding, exposure to greater levels of demand and reliance on one off solutions in order to set a balanced budget. The key priority for the Council is to drive forward a balanced and sustainable budget for 2023/24- 2025/26, but this doesn't come without underlying challenges. These are summarised in the following points:

- Core Government funding remains flat as per the spending review 2021, with increases in Council Tax and NNDR built into current projections (outlined in section 5)
- Risk of a shortfall on 2022/23 saving delivery- **£4.4m**
- Inflationary pressures- Expecting to reach **9%** by the end of 2022- driving up costs (£4.7m inflation risk reserve to mitigate immediate exposure)
- **72%** of the Councils budget represents either debt or social care costs:
  - Cost of Debt financing equates to **16%** of Net Revenue Expenditure with interest rates expecting to rise.
  - Demand led budgets including Adult Social Care and Children's Social Care represent **56%** of NRE
- Financial Risk as a result of the Adult Social Care Reforms & Fair Cost of Care changes require implementing from October 2022.
- Forecast budget gap of **£9.5m** in 2023/24 rising to **£15.1m** by 2025/26. The gap between the Councils funding and expenditure budget is outlined in the following graph:

Forecast Budget Gap- 2023/24- 2025/26 £000



Capital Challenge

The Council has an ambitious capital programme, but at the same time its balance sheet health is poor with borrowing totalling £448m at 31 March 2022, which also puts a significant pressure on the Councils revenue budget. The Council recognises it needs to invest in the City to encourage economic development and provide vital services such as school places and infrastructure, but these need to be prioritised, within the context of the Councils financial position. The following points summarise the Capital challenge the Council faces:

- For every £10m borrowed to fund Capital expenditure it costs £0.8m per year, in revenue.
- Savings included within the 2022/23 MTFS, were based on no additional borrowing over next 3 years- Assumed that capital receipts used to fund programme

Reserves Challenge

The council has been exposed to greater levels of risk and low financial resilience, resulting from its low reserves balances and limited ability to fund transformational change. It recognises that in order to become financially sustainable in the future investment will be required in in the following areas:

- Capacity to deliver
- External Expertise & Advice
- Feasibility
- Technology
- Economic Development

At the end of 2022/23 revenue reserves balances were £60m (summarised in table 6), but once accounting for commitments, ringfenced/risk reserves and the general fund, only £20.3m of Innovation Delivery Fund is available for investment in programmes to drive the change required to become sustainable.

Table 6: Reserves Summary	31 Mar 22	31 Mar 23	31 Mar 24
	£000	£000	£000
General Fund	7,300	7,300	7,300

Table 6: Reserves Summary	31 Mar 22	31 Mar 23	31 Mar 24
	£000	£000	£000
Risk and Volatility Reserves	19,001	14,329	14,329
Innovation Delivery Fund and Departmental Reserves	29,993	20,938	20,629
Ring-Fenced Reserves	4,183	3,741	3,741
Total Earmarked Reserves and General Fund Balances	**60,477**	**46,309**	**46,000**

The Council will ensure the financial decisions taken will strike a balance between investing wisely to maximise return, meeting its strategic priorities and seeking to improve its balance sheet health and resilience by replenishing balances.

5. Strategic Direction and Proposals for 2023/24 - 2025/26

The Council is now adopting a balanced approach to delivering financial sustainability. It is faced with delivering a challenging savings programme in the current financial year in addition to developing plans to meet the £9.5m forecast budget gap in 2023/24. This will mean balancing the identification of shorter term savings and transformation options which can be delivered in 2023/24, whilst at the same time considering plans for the medium and longer term which will achieve financial sustainability.

Shorter-term (Survive & Save)

- Options being considered, which can be implemented at pace and within 2023/24. These will not be considered in the re-active way the Council has considered savings plans in the past. Whilst considering these options the Council will have a focus on the longer-term aim, and therefore will not pursue options that will hinder that:
  - Detailed Review of the 2021/22 Outturn Position (reported to Cabinet on 20 June 2022)
  - Review of outsourcing arrangements with a view to streamline services
  - Review of all current contracts and procurement arrangements including:
    - mitigating future inflationary related pressures.
    - Procurement Board oversight of all new contracts and contract renewals
  - Review of the workforce with a view to the deletion of vacant posts following an establishment review.
  - Review of all Sales Fees & Charges, rents and commercial opportunities
  - Review of Investment Strategy
  - Review of Council Tax Premiums, Discounts and Local Council Tax Support Scheme.
  - Review of teachers pensions overpayments and Amey Pension Surplus (£6m)

Medium-Term (Strive & Improve)

- Review of all services and introduction of new Service Strategies (referred to as Service Visions)
- Service and Improvement review of key areas outlined within the DLHUC Financial Assurance (completed in Summer 2021). The council have enlisted CIPFA so support with the delivery of this programme, and will focus on the following areas:
  - Adults and Children's
  - Housing
  - Planning
  - Community & Leisure
  - Property & Assets
  - Company arrangement and Key contracts

Longer- term (Thrive & Plan)

- These options will require investment and will take longer to embed new practices, and thus see the financial benefits. This will include:
  - Managing Demand, prevention and early intervention
  - Corporate Strategy and the performance framework.
  - Workforce Planning

6. National Context & Risks

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. These funding reforms (also referred to as Fairer Funding Review) and Business Rates Reforms have been further postponed and will not be implemented until 2024/25, at the earliest. This means Local authorities across the country continue to operate with uncertainty around its future funding levels.

In addition to the plans to review and implement funding reforms, the government have also outlined the timetable for a plan to progress a wider government agenda for levelling up and the implementation of Adult Social Care reforms. A recent report by County Councils Network and Newton Europe, outlines some of the financial risks. By 2031-32 social care will need 50% of the health and social care levy to implement the proposed changes (£5.6 - £6.2bn per annum) to implement proposed changes. £10bn more than Government predictions with the operational impacts likely resulting in 200,000 more assessments per annum nationally. This equates to a 39% increase in social workers and 25% increase in financial assessors.

More Recently the government has published Child Safeguarding Practice Review Panel Report: National Review into the murders of Arthur Labinjo-Hughes and Star Hobson and an Independent Review of Children's Social Care which will include a number of national recommendations, which will require local authorities and other partners to implement.

All of these reforms will bring significant financial and operational difficulties that Local Authorities nationally will need to work through.

Risks

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. Some of the key risks identified will naturally have a knock on impact on the Councils financial position. These include:

- **Rising Inflation** including rising energy costs and the increasing cost of living.
- The impact of the Economy on the **Councils income streams**- Council Tax & NNDR (of which now equates to 82% of the Councils core funding) and Sales, Fees and Charges
- **Ukrainian War** and the wider impact on the economy, supply chains, energy and demand for services.
- **Increased service demand**- which could increase as a result of ASC reforms and the cost of Living Crisis
- **Adult Social Care Reforms**

- Implementation of recommendations outlined within the **Child Safeguarding Practise Review Panel Report & the Independent Review of Children's Social Care**
- **NHS integration**- Integrates Care System (ICS)