<u>Appendix A - Medium Term Financial Strategy 2023 – 2026 (Q3 update)</u>

1. Executive Summary

This report outlines the latest forecast position over the life of the Medium-Term Financial Strategy (MTFS) based on a set of financial assumptions which have been updated to provide an accurate reflection of the financial challenge facing the council. The revised position outlines a **balanced position in 2023/24**, a significant improvement on the £21.7m financial challenge reported in the Quarter 2 update in October. Given the economic climate, the scale of the challenge has been no surprise, and officers have been planning for it and developing strategies as early as possible to meet the very steep challenge. This has included:

- Working closely with councillors as part of our cross-party Financial Sustainability Working Group, to develop budget saving ideas and explore ways to support the council to achieve financial sustainability.
- Working with the Independent Improvement and Assurance Panel, who are experts in specific fields of local government to challenge, scrutinise and advise on our budget proposals to ensure they are robust and provide best value.
- Managing inflation has been a crucial part of our plan, and the council has taken steps to ensure we maintain a tight grip on these pressures, by:
  - Insourcing the procurement team and using some additional external specialist procurement expertise.
  - Reviewing all contracts to ensure they reflect best value and meet established needs.
  - Reviewing all expenditure budgets, whilst at the same time maintaining a tight grip and control on expenditure.
  - Establishing an inflation reserve to mitigate and smooth any immediate pressures.

The Corporate Leadership Team has been working closely with cabinet and all members to identify ways that we can make savings and transform service delivery. This includes:

- Continuing to look for ways to reduce spend and get a better deal from those organisations relied on to provide services.
- Continuing to transform the way the council delivers services, doing things differently in a way that improves outcomes, doing more for less or have somebody else doing it cheaper.
- Reducing the capital programme. The asset disposal programme has reduced the risk of future interest rates exposure and our cost of borrowing by selling surplus assets.
- Stopping ‘non vital’ services or charging more - as part of this the council must consider its statutory obligations to those who need help and support the most.

Additionally, the Local Government Provisional Finance Settlement has confirmed additional funding for Adult Social Care, and the Council Tax referendum limits for 2023/24 and 2024/25.

The MTFS position is summarised in table 1, outlining a breakdown of how the gap changes each financial year followed by a summary of the key assumptions. It should be noted that as the council identifies ongoing proposals to address the budget gap, the future years will reduce accordingly.

Table 1: Budget Gap	2022/23	2023/24	2024/25	2025/26
Funding	(181,603)	(202,032)	(216,323)	(222,315)
Net Revenue Expenditure	181,603	202,031	216,855	223,398
Aggregated Budget Gap	**0**	**0**	**532**	**1,084**

Key assumptions

- Pay award 3% pa
- Inflation in expenditure and Sales Fees and Charges income: 2023/24 – a baseline of 9%, 2024/25 – 2%, 2025/26 – 2%, has been factored into the budget but then a detailed review of all expenditure and contracts has taken place to look at ways to minimise the exposure to this (see section 5 for more details)
- Demographic and Volumatic service demand – 3% pa
- NNDR – increases based on business growth and CPI as per legislation
- Revenue Support Grant – CPI
- Council Tax increases – 4.99% in 2023/24 and 2024/25, then 2.99% from 2025/26.
- Council Tax base - reduced in 2023/24 due to slower housing growth than expected, but then estimated growth of 1,000 homes pa from 2024/25 onwards
- New Homes Bonus – reducing
- Business Rate Pool – based on performance of the Local Authorities within the Cambridgeshire Business Rates Pool.
- Adult Social Care (ASC) Grants– increasing
- Transport Levy (CPCA)- budgeted for an increase of 9%, however this is still to be agreed by the CPCA and could be as high as RPI (12%).

These are outlined in more detail within the report.

2. The Financial Challenge

It is important to note that although the council has presented a balanced budget, an underlying financial challenge still remains, one which the council is not alone in facing, with many other local authorities reporting significant budget pressures next year and into the future. This can be characterised into three core elements, revenue, reserves and capital, with these all being targeted with actions to improve the overall financial health of the council over the life of the MTFS. These are summarised in the following sections.

Revenue

Aim: Maintain revenue costs within the funding envelope.

Challenge: This 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 council has made positive steps towards meeting this challenge over the last 12 months, leading to the proposed balanced budget for 2023/24. However, the key priority of driving forward long-term financial sustainability remains firm, and it doesn't come without some underlying challenges. These are summarised in the following points:

- Core Government grants increase much slower than demand and rates inflation.
- Uncertainty for the future in relation to funding levels and Adult Social Care reforms- making it difficult to plan with certainty in the longer-term.
- Greater reliance placed on local taxation- 80% of the Councils core funding now comes from Council Tax and Business rates, with the Council carrying the risks associated with collection.
- Inflationary pressures, with the Bank of England forecasting the rate of CPI peaks at 10.9% in Q4 2022/23, with this expecting to drop mid 2023.
- **65%** of the council's budget represents debt and social care costs:

- Cost of debt financing equates to **15%** of Net Revenue Expenditure (NRE) with interest rates expecting to rise and the council having some loans maturing and requiring refinancing over the period of the MTFS.
- Demand led budgets including Adult Social Care and Children's Social Care represent **50%** of NRE.

Capital

Aim: Reduce the level of debt on the balance sheet and the ongoing cost of borrowing

Challenge: The council has an ambitious capital programme, but at the same time its balance sheet health is poor with borrowing totalling £441m at 31 December 2022, which also puts a significant pressure on the council's 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 council's 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.
- The MTFS, assumes there will be borrowing only where necessary over the next three years (other than refinancing of maturing loans). It is assumed that capital receipts and external grants will be used to fund the programme.

Reserves

Aim: Increase reserves balances to a health level to improve financial resilience**.**

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 to become financially sustainable in the future it will not only need to build reserves balances, but investment will be required to support the transformation of services, in particular in the following areas:

- Capacity to deliver
- External expertise and advice
- Feasibility
- Maximisation of technology
- Physical and economic development of the city

At the end of 2023/34 revenue reserves balances are forecast to be at £50.1m but once accounting for commitments, ringfenced and risk related reserves and the general fund of £8m, only £10.2m of Innovation Delivery Fund is available for investment in programmes (after current 2023/24 transformation commitments are accounted for) to drive the change required to become sustainable.

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. Guidelines are outlined within the Reserves Strategy and Policy set out in Appendix D to the main report.

3. Future Sustainable Council - Strategic Direction for 2023-26

The council was one of those offered Exceptional Financial Support (ability to borrow to fund revenue) from the Department of Levelling Up Housing and Communities during 2021/22 due to the significant financial challenge it was facing. Much progress has been made since then, including:

- ✓ Appointed a new Chief Executive and restructuring the Corporate Leadership Team.
- ✓ Ended 2021/22 with a £4.5m underspend, which has boosted reserves, enabled investment in transformational change and provided greater financial resilience.
- ✓ Set a balanced budget for 2022/23 albeit with a challenging savings programme.
- ✓ Appointed a panel of independent experts - the Independent Improvement and Assurance Panel (IIAP), to provide external advice, challenge and expertise in driving forward the development and delivery of our improvement plan and priorities.
- ✓ Held dedicated 'all member' budget briefings.
- ✓ Held regular meetings with the Financial Sustainability Working Group
- ✓ Established Budget Principles to provide a framework for budget setting.
- ✓ Appointed independent Audit Committee members, who are providing additional scrutiny.
- ✓ Launched Budget Simulator and Budget Consultation to increase engagement and gather feedback from our key stakeholders, businesses and residents
- ✓ CIPFA have reviewed a number of key service areas with resulting recommendations, e.g. giving notice to NPS who run our property services and to Serco who run our Procurement Service.

In October 2022 city council members signed off a new Sustainable Future City Council strategy which sets out how the council will deliver long-term improvements and meet the changing needs of residents in the next three years. Our City Priorities document set out the proposed direction of travel for the council to deliver the long-term vision and the four priority outcomes:

- **The Economy & Inclusive Growth** - maximising economic growth and prosperity for Peterborough as a city of opportunity in an inclusive and environmentally sustainable way, together with our partners and communities.
- **Our Places & Communities** – creating healthy and safe environments where people want to live, work, visit and play, enabled by effective community engagement and strong partnerships.
- **Prevention, Independence & Resilience** - help and support our residents early on in their lives and prevent them from slipping into crisis.
- **Supported by a Sustainable Future City Council -** adjust how we work, serve and enable, informed by strong data and insight capability and led by a culture of strong leadership.

From January 2023, detailed service delivery plans, backed by robust business cases will be developed, with expertise and resources having already been secured to drive this transformation in line with the City Priorities. These will set out the milestones, desired outcomes, savings expected, and resources/investment required to ensure delivery. At the same time work will continue to deliver a balanced MTFS by:

- Continuing to look for ways to reduce spend and get a better deal from those organisations relied on to provide services.
- Continuing to transform the way the council delivers services, doing things differently in a way that improves outcomes, doing more for less or have somebody else doing it cheaper.
- Reducing the capital programme. The asset disposal plan has reduced the risk of future interest rates exposure and our cost of borrowing by selling surplus assets.
- Stopping 'non vital' services or charging more - as part of this the council must consider its statutory obligations to those who need help and support the most, but it must also ensure that there is a robust charging strategy.

This is not only about money, our long-term financial resilience rests on our ability to **manage demand** and help and support people before they reach crisis point while finding ways to improve outcomes and to tackle inequality in our communities by maximising economic growth that benefits everyone.

The starting point for this has been identifying opportunities which will provide long term financial sustainability. This has meant balancing the identification of shorter-term savings which can be delivered at pace, whilst at the same time considering plans for the medium and longer term which will achieve financial sustainability. Recognising these differing timescales, and the requirement to deliver a balanced budget for 2023/24, the Corporate Leadership Team (CLT), Cabinet and the Financial Sustainability Working Group have collectively been progressing plans to deliver this.

Shorter-term (Survive & Save)

The short-term approach has involved setting cash limit targets across all departments. Since July 2022 officers have worked on plans to deliver services within these, with review taking place in a series of check and challenge sessions workshops with the Extended CLT. The development of outline business cases has taken place with other options also having been or are still being progressed including:

- Review of outsourcing arrangements with a view to streamlining services:
    - NPS: as reported to Cabinet in July 2022 the Council has now given 12 months notice on this arrangement and are working to bring the service back in house on 31 January 2023.
    - Opportunity Peterborough: is in the process of being brought back in house.
    - Serco: The Council is working with Serco to negotiate the contract and transform services, with the Procurement team already being successfully insourced from October 2022.
- Review of all current contracts arrangements including:
    - Procurement Board oversight of all new contracts and contract renewals
    - A Procurement specialist has been recruited to drive forward this programme
    - Developing an inflation strategy to mitigating further rising pressures
- Review of all Sales, Fees and Charges was reported and approved by Council in December.
- Set out an Asset Disposal Programme for approval. report

Medium-Term (Strive & Improve)

For the Medium term there have been a series of workshops with the Extended Leadership Team, supported by the Independent Assurance and Improvement Panel members. These have been set with a focus on identifying key cross cutting transformational opportunities across the Council, to deliver medium to longer term financial benefits. The first stage of these ('ideas on a page') have been developed and are being progressed to the next phase of review to ensure ideas are in line with the Councils City priorities and resource is prioritised appropriately to deliver.

A delivery unit has been formed to support and drive the delivery of service transformation, with external resources being secured to provide specialist advice and programme support.

Longer- term (Thrive & Plan)

These options will require investment and will take longer to embed new practices and thus see the financial benefits. It is vital we ensure this is completed in line with the performance and improvement framework. The key elements of this wider programme will include:

- Focus on Managing Demand, prevention and early intervention
- Embedding Data insight to enable the Council to best support the needs of residents
- Developing Service Delivery Plans, aligned to the four city priorities
- Developing Performance Key Performance Indicators (KPI's) and monitoring progress against these
- Developing the required workforce structure and embedding Workforce Planning, including building organisational resilience and succession planning.
- Continuing to ensure the MTFS strategy sets out in financial terms how the service delivery plans will be delivered. This will be the golden thread between the Service Delivery Plans and the City Priorities.
- With Specific work programmes already being
- Deliver a programme of transformation, which includes:

Aduit Social Care (ASC) Digitisation: Removing avoidable contacts and demand management. **Digitally Enabled Social Care – Tec and Systems** - The digitisation of ASC will provide efficiencies, cost and savings. This will include Online Financial Assessment, Care Assessment and a Customer Portal. We will also be Improving ASC data access and reporting.

Culture and Leisure Services and Community Hubs:

- **Heritage**: Bring together the operation of Flag Fen and the Museum as a single service.
- **Libraries and Community Hubs:** Reviewing our library service as it offers us great potential to focus our work on supporting households with the current cost of living challenges at a very local level. The model would be based on assembling officers and partners from different services, including housing, adult skills, and debt advice, to be based within our libraries or community centres, making access to help at the earliest possible opportunity as simple as possible.
- **Leisure**: Exploring delivery options for this service, including soft market testing, developing a refreshed service scope and carrying out a procurement exercise to ensure the service provides value for money and meets the needs of users.

Childrens Services Transformation programme: This will include the four key pillars:

- **Workforce planning**, including a focus on development, recruitment and retention and strengthening pathways in the social care pathways.
- **Fostering and Adoption/Special Guardianship Orders (SGOs)**, Increasing in-house provision, more focused commercial approach underpinning delivery.
- **Childrens Placement sufficiency**: Strategic commissioning to deliver the right mix of cost-efficient capacity to meet demand, including generating options and models (e.g. Clare Lodge)
- **Education and SEND,** including transformation of the Home to School Transport provision, education teams role and function in line with government reform and new duties of the local authority and maximising IT Systems, striving for digitalisation.

4. National Context & Risks

Since the MTFS Quarter 2 report in October, the political landscape has much changed with the appointment of Rishi Sunak as Prime Minister together with further cabinet changes, resulting in Michael Gove returning to his role as Minister for the Department of Levelling up Housing and communities (DLUHC).

Local Government Provisional Settlement and Autumn Statement

The Autumn Statement took place on the 17 November 2022 and on the face of it the settlement for local government seemed fairly positive, with additional council tax flexibility, additional support for households and businesses and additional Adult Social Care (ASC) funding.

Following this, the Local Government Provisional Settlement was published in a written statement on 19 December 2022, confirming the details outlined within the Autumn Statement. Although there has been additional ASC funding and council tax flexibility, other grants were reduced and removed to fund the new 3% Funding Guarantee to ensure all local authorities received a 3% increase in their core spending power. The key headlines (along with the impact on the councils MTFS) include:

- Social Care Grants - to support rising adult's and children's social care, fair cost of care and hospital discharges (£7.4m additional funding)
- Revenue Support Grant (RSG) (increased by £1.3m) - but Local Council Tax Support Administration Subsidy (£0.2m) and Independent Living Fund (£0.1m) have been rolled into RSG.
- New Homes Bonus reduction due to the removal of legacy payments and slower housing growth (£0.7m reduction in grant)
- Removal of Lower-Level Services Grant (£0.3m reduction in grant)
- Council Tax core threshold will increase from 1.99% to 2.99% and the ASC precept will be 2% in both 2023/24 and 2024/25.
- 3% Funding Guarantee Grant - the Council will not receive this as overall Core Funding is over the 3% increase.
- Services Grant reduced to fund the reversal of the national insurance (NI) social care levy and support other grants (£1.3m reduction in grant)
- Business Rates:
    - confirmation that the multiplier will be frozen with local authorities receiving compensation based on Septembers CPI (10.1%).
    - Further retail, leisure and hospitality relief for businesses
    - 2023 valuation list released - with Peterborough seeing an increase in valuation from £243m to £269.2m (10.8%)

Ministers have "noted" that local authority reserves have increased significantly in recent years and made clear in the statement that they want local authorities to apply these to funding pressures. However, the Chief Financial Officer is required to report to the council on the adequacy of the proposed financial reserves.

Funding Reforms: 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. However, no Business Rates Reset or review of Relative Need will take place in this Spending Review period. Although the Government remains committed, it will be in the next parliament (2025/26). This means Local authorities across the country continue to operate with a high degree of uncertainty around its future funding levels, at the same time the gap between funding levels and need grows increasingly wider. The recently published 2021 census data demonstrates this with the population in Peterborough having increased by 17.5% since 2011, much higher than the national picture at 6.6%.

Social Care Reform: The Government recently published 'Build Back Better: Our Plan for Health and Social Care' and 'People at the Heart of Care: Social Care Reform', which outline significant legislative changes to Adult Social Care.

Whilst the key changes are associated with the introduction of a cap on care costs, changes to financial means testing and the Fair Cost of Care will bring significant new financial implications for the Council. The reforms bring wider changes including Care Quality Commission assurance, carers support, new models for housing and care and a focus on digitalisation and technology.

Whilst, following the Autumn Budget announcement, the reforms relating to the cap on care costs and changes in financial means testing have been delayed for two years, we still face challenges next year to implement non-delayed elements of the reforms, including the Fair Cost of Care and Care Quality Commission Assurance. It should be noted that these changes bring significant challenge and will be extremely challenging to deliver both in terms of complexity and cost.

With our local Fair Cost of Care, Market Sustainability Plan due to be formally published at the end of March 2023 in line with Government requirements, early indications are that this will present a pressure of circa £10.7m to the Council. With Government 'Market Sustainability and Improvement' funding expected to be in the region of £1.9m for 2023/24 and £2.8m for 2024/25, this presents a significant funding gap for the Council.

During 2021 the Government 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.

Waste Strategy : Several significant policy changes will impact on recycling and waste services. These are listed below with current proposed implementation dates:

1. Extended Producer Responsibility – 2025
2. Deposit Return Scheme (DRS) – 2025
3. Consistency in collections (& separate Food Waste) (Consistency) – 2025
4. Monitoring, Reporting & Verification (MRV) for ETS – 2025
5. Emissions Trading Scheme (ETS) - 2028

The specific financial implications of the combination of legislative instruments mentioned above are not fully understood at this time, however there is a commitment from the government to publish their responses to the second round of consultations on DRS and Consistency early in 2023. As more information becomes available following this publication, this will be included in future iterations of the budget setting process.

All of these reforms and reports 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 Assistant Director, Customer & Digital Services 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 inevitably have an impact on the Council's financial position. These include:

- **Rising Inflation** including rising energy costs and the increasing cost of living. The Council will be looking to mitigate these by maintaining control of expenditure, reviewing all contracts, bringing inhouse the procurement function together with the support of an external specialist and establishing an inflation reserve to deal with any immediate financial shocks.
- The impact of the Economy on the **Councils income streams** - Council Tax & NNDR, of which now equates to 81% of the Council's core funding.
- **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 reform, the cost of living crisis and rising complexity of need. The current drive from the Government to work with the NHS to speed up and increase the levels of hospital discharges will also have a long-term impact on our social care services.
- Implementation of recommendations outlined within the **Child Safeguarding Practice Review Panel Report & the Independent Review of Children's Social Care**
- **NHS integration**- Integrated Care System (ICS) - and the risk resulting from health also looking to make savings.
- Brexit.
- Climate Change.
- **Adult Social Care Reforms** (further information in the previous section)

5. Detailed Assumptions

This section outlines the detailed assumptions incorporated within this MTFS update.

Pay: The employers offer for the 2022/23 pay award, outlining a £1,925 increase to all NJC salary SCP's was approved at the end of 2022. The ongoing cost of this has been built into budget in addition to an assumption the annual pay award of 3% in the years 2023/24-2025/26.

Savings delivery: The 2022/23 budget incorporates £16.7m savings plans with the following table outlining the latest risk RAG rating, highlighting all but £0.5m of plans are on track to be realised, with £3.4m RAG'd as high risk in 2023/24, due to a number of one-off mitigating solutions being identified in the current year and therefore not recurring.

Due to the nature of this risk highlighted in 2023/24 the proposed budget takes account of this potential shortfall by adjusting the savings built into the budget gap from 2023/24 onwards. Some of these plans have also been re-visited and re-engineered with a fresh approach. The delivery of these savings plans remains a high priority and focus for the Council's Corporate Leadership Team, therefore, this will be reviewed and updated as part of future quarterly MTFS updates.

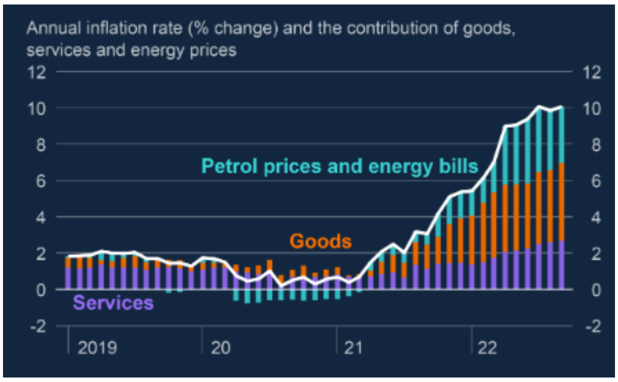
Table 3: Current Savings Programme Risk Rating

Rag	Savings	2022/23 £000	2023/24 £000
Blue	Saving Realised	(7,414)	(4,167)
Green	Saving forecast to be realised as originally planned, or to be realised through alternative actions.	(8,758)	(6,348)
Amber	Medium risk to savings delivery, with mitigating actions being considered/worked on.	(502)	(1,891)

Rag	Savings	2022/23 £000	2023/24 £000
Red	High risk to savings delivery with limited scope of mitigation.	0	(3,352)
	Total Savings	**(16,674)**	**(15,758)**

Inflation: The Council has been keeping a keen eye on the regular releases of the Bank of England monetary report and using this to inform its MTFS assumptions on our expenditure (including supplies and services, transport, agency third party costs and premises) and Sales Fees and Charges income budgets. Graph 2 highlights the forecast levels of CPI, demonstrating how the rates are expected to peak at 10.9% in quarter 4 (2022), then drop sharply in 2023, with graph 1 demonstrating how fuel and energy prices are a significant driver for these increases.

Graph 1: CPI breakdown



Graph 2: CPI forecast

Inflation Strategy: mitigating the impact of inflationary increases has been a crucial part of the Councils financial strategy plan, with the following actions being actions being taken as part of a Council wide **inflation strategy** to ensure we maintain a firm control on these pressures:

- Insourcing the procurement team and getting external procurement expertise to support this work.
- Reviewing all inflationary requirements and expenditure budgets as part of the cash limits work, whilst at the same time maintaining a tight grip and control on expenditure.
- Reviewing all contracts to ensure they reflect best value and meet established needs. where the Council opens up negotiations or looks at de-specing contracts, any significant financial risks, will be considered and reviewed before contract changes are approved.
- Developing a Market Sustainability Plan for our Social Care contracts, which enable us to move towards implementing a Fair Cost of Care, alongside managing inflationary pressures. This will involve negotiating on a case by case basis with our providers and will involve closely managing risks of market sustainability.
- Utilising the additional income generated from the Energy from Waste (EfW) facility to hedge the Councils rising energy costs and other inflationary pressures.
- Establishment of an inflation reserve to mitigate and smooth any immediate pressures.

Inflation Reserve and the EfW income:

An Inflation Risk Reserve with a balance of £4.7m was also established at the end of 2021/22, to enable the Council to respond to the immediate financial risk resulting from the rapidly rising rates of inflation and the economic landscape. The Council operates an EfW facility which generates income as a result of selling the electricity it generates. As a result of the current energy market this income is forecast to be £9.7m in excess of budget, which is being contributed to the inflation reserve to mitigate the Council's rising energy costs and other inflationary pressures. The Council is expecting to utilise £6.9m, during 2022/23 to meet the immediate cost of rising energy prices, the pay award and rising adults and c hildren's social care provider contracts.

This leaves a remaining balance of £7.5m to smooth the future years impact of inflation, not already budgeted for. We know from previous years trends that the energy market can be volatile, therefore we will be closely monitoring our electricity expenditure and income generated from the EfW facility to ensure overall the Council is hedging the financial impact of rising unit pricing. Additionally it should be noted that:

- Additional EfW 'windfall' income has been factored into the 2023/24 budget and it is planned that the inflation reserve will support the 2023/24 energy budgets.
- Beyond 2023/24 the EfW income budget has been reduced significantly, if this level of income continues the additional income will be used to hedge the corresponding pressure on expenditure budgets.

Demographic and volumetric service demand - Peterborough is a growing City, with a 17.5% growth in population since the 2011 census. Although this does generate additional income from housing (Council Tax) and business growth (NNDR), it also brings additional demand for our services. A detailed review has been undertaken on the Councils core Social Care budgets to assess the demand projections over the life of the MTFS.

Adults -Based on 2021/22 data there has been an overall increase in demand of 3.3% which can be broken down into the following categories and age groups.

Age band	Demand Increase Bed Based	Demand Increase Community Based
18-24	(3.3%)	3%
25-64	3%	6%
65+	9.2%	(0.5%)

There is a high increase in demand for 65+ bed-based care which is largely due to a shift in hospital discharge pathways to the discharge to assess (D2A) model, as this had led to a greater push to move people out of hospital earlier (particularly during the pandemic), often to bed based care as an interim arrangement until they are fully assessed in the community. The reality of this however, is once someone is in bed based care, it is very difficult to move away from this provision due to the level of dependency that develops. Alongside, people presenting with higher levels of need. This is reflected in the increased number of referrals to the long term care team leading to assessment for older people. indicating increasing complexity. Based on analysis of future projections a rise in demand equivalent to c2.8% of the Adults Social Care net budgets has been included within the budget, this is after taking account of using prevention and early intervention activity to support people remain independent for longer and reduce costs.

Children's – the majority of the expenditure from within children's is spent on supporting children in care (Looked after Children - LAC). During 2021 the council had 352 LAC, 354 in 2022 and is forecasting to have 358 in 2023 and 353 from 2024 onwards. Additionally, there is a rise in demand across other children's services including 15% rise in the numbers of families accessing short breaks and a 25% increase in the use of homecare and direct payments. This equates to an overall increase in demand equating to around 3% of the Children's budgets in 2023/24, which the Council hopes to reduce in future years.

Capital Financing (cost of borrowing) and Capital Programme update - The Capital Strategy sets out the need to reduce external borrowing levels and that all capital expenditure should, as far as possible, be funded by third party contributions and capital receipts, or through invest to save schemes where the cost of borrowing could be funded from future income streams.

The Bank of England's Monetary Policy Committee (MPC) hiked the Bank Base Rate for a ninth consecutive time in the meeting in December 2022, with a 50bps move taking the rate to 3.5%. The Councils treasury advisors, Link Group, have predicted that the MPC will continue to increase the rate and peak at 4.5% in early 2023 before reducing in 2024, although there are several challenges ahead that could see the Bank leave rates at an elevated level for longer, once the peak is reached.

The Council is currently maintaining an under-borrowed position, with a high level of internal borrowing which should help in the current interest environment. The Council's treasury team will be focussing on optimising cash flow forecasts and given the elevated level of rates right across the curve at present, seek to fund either temporarily from local authorities or with short-dated loans from the PWLB until gilt yields settle down.

With the rise in interest rates and shift up in gilt yields and swap rates, there is potential risk that some LOBO loans could be called by the Lender or write to the authority with the intention to increase the interest rate of the loan at the next call date. The Council currently holds £17.5m of LOBO's and if this were to happen, it can either repay the loans at par (i.e. repay principal with no penalty) or accept the new rate. It was initially considered that a new rate would unlikely be advantageous, however, discussions are ongoing at the time of writing this report and modelling options are looking more favourable than expected.

The Capital Strategy 2022/23 - 2025/26 sets out a strategy much more cognisant of the financial position the Council is in and guides the way for revising the Capital Programme in accordance with the key objectives within the Improvement Plan. The process for approval for capital projects over the MTFS period is a structured approach with projects being developed in line with the Corporate Strategy and Priorities (approved at Cabinet on 30 September 2022). Bids with outline business cases have been assessed by the Capital Board and recommendations made on which projects can be taken forward for full business case preparation. These have been presented to the Capital Board and recommendations for setting the capital programme have been prepared and to be included in the 2023/24 MTFS and budget setting process.

A new Asset Management Plan is yet to be prepared but it is due to be considered alongside the MTFS, In September a report to Cabinet outlined a proposed Asset Disposal Programme for approval and the requirement for the Asset Management Plan.

Pensions Contribution Rates - The outcome of the latest tri-annual valuation carried out during 2022, covering the period 1 April 2023 to March 2026, is included within MTFS. The assumptions are based on a 17.4% contribution rate and an annual lump sum contribution of £2.2m in 2023/24, £2.0m in 2024/25 and £1.7m in 2025/26. This is an increase on the previous tri-annual valuation period there the lumpsum contribution was set at £1.9m Both of these combined give a primary contribution rate of 17.5%.

Funding - Table 3 table outlines the Council's estimated core funding levels over the life of the MTFS:

Table 3: Funding	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£000	**£000**	**£000**	**£000**

NNDR	(54,038)	(67,308)	(68,808)	(70,382)
Revenue Support Grant	(10,794)	(12,117)	(13,014)	(13,014)
Council Tax	(91,593)	(95,419)	(103,686)	(108,104)
New Homes Bonus	(2,951)	(811)	(811)	(811)
Business Rate Pool	(2,541)	(2,070)	(2,070)	(2,070)
Services Grant	(2,896)	(1,632)	(1,632)	(1,632)
Improved Better Care Fund	(7,480)	(7,480)	(7,480)	(7,480)
Social Care Grant	(7,753)	(12,287)	(14,280)	(14,280)
ASC Market Sustainability and Improvement Fund	(535)	(1,859)	(2,794)	(2,794)
Discharge Support Grant ringfenced	-	(1,049)	(1,748)	(1,748)
Reserves	(720)	-	-	-
Lower Level Services Grant	(302)	-	-	-
Core Funding	**(181,603)**	**(202,032)**	**(216,323)**	**(222,315)**

Council Tax:

- Assumed annual Council Tax increase of 4.99% in 2023/24 and 2024/25 and 2.99% from 2025/26 onwards.
- **Band D rate will increase from £1,511.65 in 2022/23, to £1,587.08 in 2023/24, £1,666.27 in 2024/25 and finally to £1,716.09 in 2025/26**
- The Council tax base for 2023/24 was set at 61,023.62, as outlined within a report to Cabinet on 19 December 2022 and forecast to increase by 1,000 homes each year from 2024/25, which equates to 780 Band D equivalents. This is based on historical local housing growth.

NNDR (Business Rates):

- The 2023 Rating Valuation (RV) list has been published which will come into effect in 2023/24, with Peterborough's total RV increasing by 10.8% to £269m.
- Business Rates Pool: Additional income of £2.1m assumed as a result of the continuation of the Business Rates pool arrangement with the other Cambridgeshire Local Authorities. This is lower than previously expected, this is a result of the dividend distribution methodology being reviewed as part of the 2023/24 pool application.
- 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 was frozen for businesses, however the local authorities will be compensated via section 31 grant, based on an increase equivalent to the rate of CPI (September)
- Bad debt: A loss on non-collection equivalent to 1.2% of gross rates.
- Appeals: The appeals provision is forecast to equate to roughly 1.5% of the Councils total RV as per an assessment commissioned from advisors Wilks Head and Eve.

Grants:

Overall, it is difficult to foresee how Local Government Funding 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 at least 2025/26. At this stage it assumes that the grant funding in 2025/26 remains at the same levels of 2024/25, with the following assumptions being made for 2024/25:

- Revenue Support Grant - increasing in line with CPI
- Improved Better Care Fund - remains at the same level as per 2023/24 allocation.

- Social Care funding- have al increased in line with the national value announced in the spending review in 2021. Some of this includes the repurposed ASC reforms funding.
- Services Grant: has been kept at the same level as it was reduced to fund other grants in 2023/24, so there is a risk this could happen again in the future.
- New Homes Bonus: The current scheme is being phased out, with a new scheme still to be confirmed by the Government. In the absence of the new scheme the government has continued to pay a grant based on the most recent years housing performance.