Appendix A – Final Medium Term Financial Strategy 2024 – 2027 (Q2 Update)

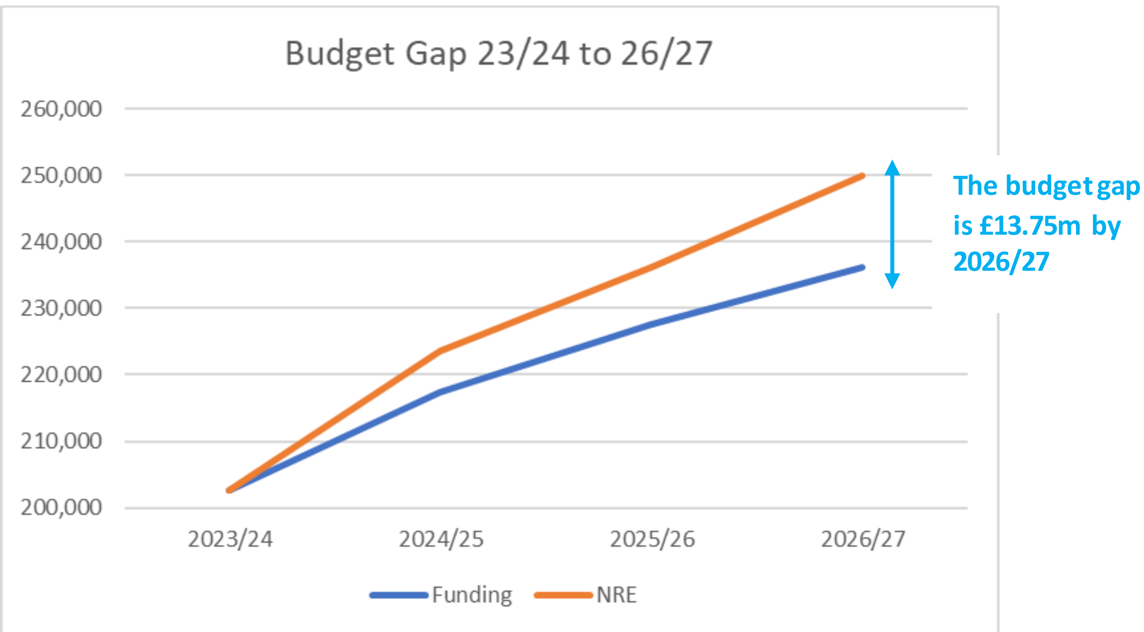
1. Executive Summary

The updated Medium Term Financial Strategy (MTFS) position for quarter two has been fully updated with all assumptions and demand driven changes reassessed. This was a comprehensive review. This identifies **gaps of £6.2m in 2024/25, £8.6m in 2025/26 and £13.8m in 2026/27**:

The findings are summarised in Table 1 and Figure 2 below, outlining a breakdown of how the gap changes each financial year. 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	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Funding	(202,634)	(217,441)	(227,613)	(236,230)
Net Revenue Expenditure	202,634	223,618	236,240	249,982
Aggregated Budget Gap	**0**	**6,177**	**8,627**	**13,752**
Aggregated Budget Gap breakdown	**2023/24**	**2023/24**	**2024/25**	**2025/26**
2023/24	0	6,177	6,177	6,177
2024/25			2,450	2,450
2025/26				5,125
MTFS Q2- Nov 23	**0**	**6,177**	**8,627**	**13,752**
MTFS Q1- Sept 23	**0**	**5,101**	**6,100**	**10,508**
Movement		**1,076**	**2,527**	**3,244**

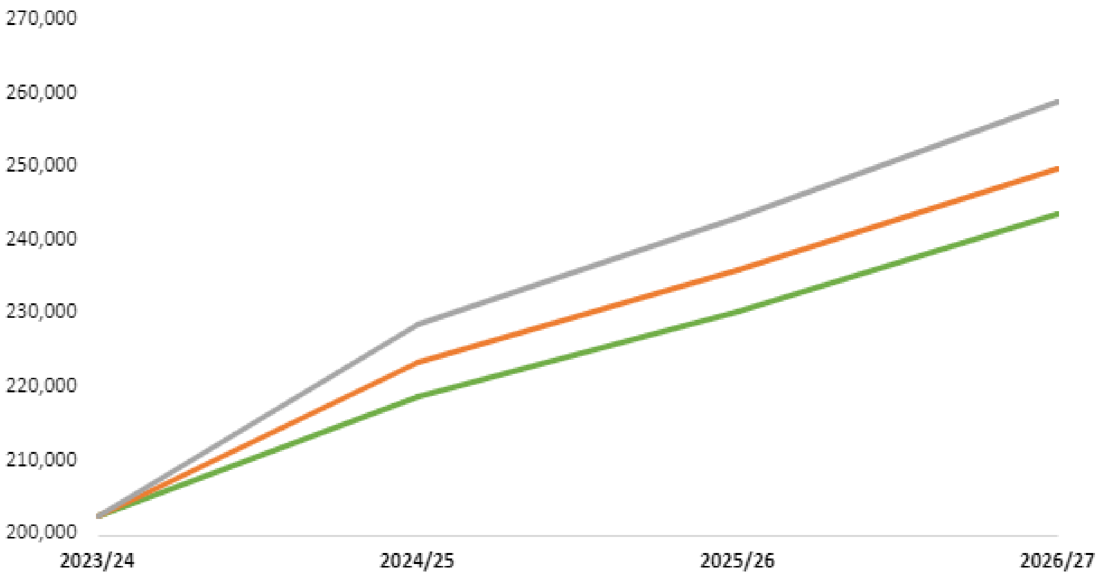
Figure 2- Budget Gap (£k)



2. Scenarios

All financial assumptions over the life of the MTFS have been reviewed and revised. Stress testing these is increasingly important in present times given the speed of change over the past two years. As part of this sensitivity analysis three scenarios have been considered, with the following graph summarising the outcome of these. The range of budget gap in 2024/25 spans from £1.7m to £11.4m, a £10.7m difference. This report is based on the midpoint assumption (represented by the orange line below.

Figure 3: Net Revenue Expenditure Sensitivity Analysis (£k)



3. Main drivers and action being taken

The main drivers of the pressures are:

- Inflation, most notably in energy costs in 2024/25 and adults care packages from 2025/26. This is responsible for £19.562m of the pressures over the MTFS period.
- Demand, especially in children's placements in 2024/25, in adults social care over the medium-term and in temporary accommodation. This creates £9.735m of pressures.

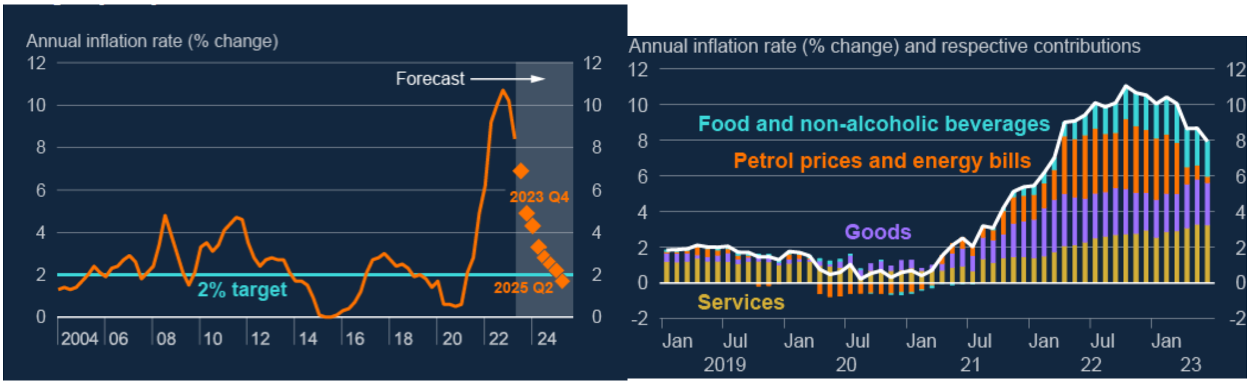
A full breakdown as to how the drivers affect different directorates in each of the three years is contained in Appendix Ai, at the end of this report.

3a. Inflation

Inflation is responsible for pressures of £9.8m in 2024/25, £4.9m in 2025/26 and £4.9m in 2026/27. This is the primary driver of the budget gap over the MTFS, creating total pressures of £19.6m.

The Bank of England (BoE) monetary report (August 2023) has been used to inform the revised MTFS assumptions for our expenditure and income. The following graphs highlights that Consumer Price Index (CPI) inflation remains well above the 2% target. According to the Office for National Statistics, CPI was 6.7% in the 12 months to September 2023. The current projections are that inflation is expected to fall to around 5% by the end of 2023, with the target 2% being met by late 2024.

Graphs 4 & 5: BoE Inflation Projection and Drivers of inflation



Energy inflation

Higher energy prices have been contributing to the high rate of inflation. The Council's energy prices will increase 20% in comparison to current budgeted levels in 2024/25, due to the nature of the energy contract the Council is in, which buys energy in advance.

The Council has put in place actions as part of an inflation strategy to mitigate the impact of inflationary increases in energy. These actions include reviewing energy use in all buildings and council facilities to use less energy to mitigate the increase. A workstream has been put in place specifically to tackle the energy pressure and to find ways to mitigate it.

Contract inflation

Contract inflation is also driving pressures; and the procurement team, having been recently insourced, are taking actions to drive efficiencies as some key contracts such as those that provide social care are linked to inflation. They are reviewing all contracts to ensure they reflect best value and meet established needs. At the same time the Finance team, together with the service, are reviewing all expenditure budgets, whilst at the same time maintaining a tight grip and control on expenditure.

Pay award inflation

Inflationary risks have already been identified in 2023/24 including the pay award. The assumptions within the MFTS are that the pay award is 4.5% in 2023/24 and 3% in the three subsequent years.

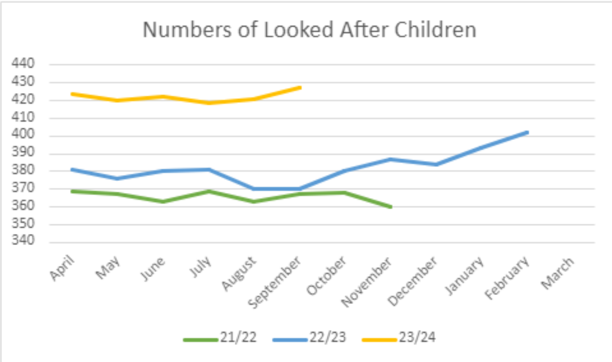
Pension rates are included at the rate of the latest tri-annual valuation carried out during 2022, covering the period 1 April 2023 to March 2026. The same rates have been assumed for 2026/27 as it is difficult to predict the outcome of the next tri-annual valuation.

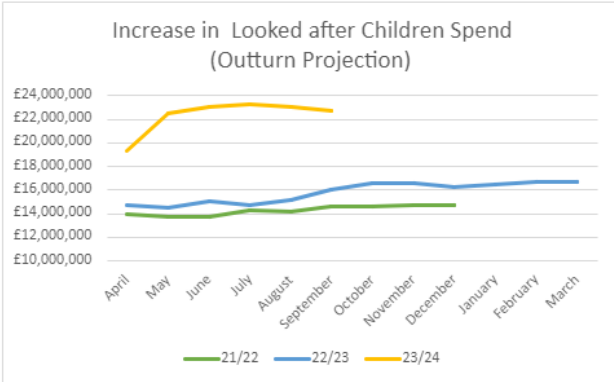
3b. Demand

Childrens Social Care Demand

The majority of the expenditure from within children's is spent on supporting children in care otherwise referred to Looked after Children (LAC). The numbers of Looked After Children has been steadily increasing from 369 in April 2021 to 427 in September 2023. This represents roughly a 16% increase in children's care placements in 2 ½ years, with some of these increasing costs further due to the complexity of their needs.

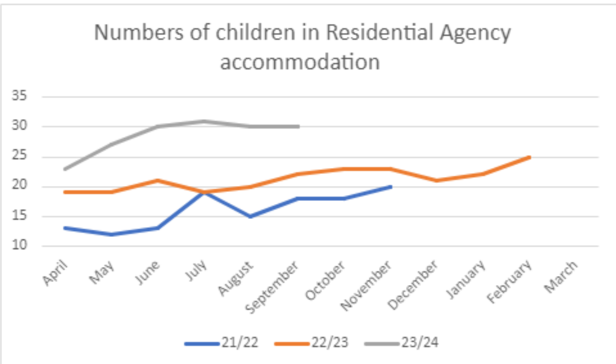
Graphs 6 & 7- Looked after Children

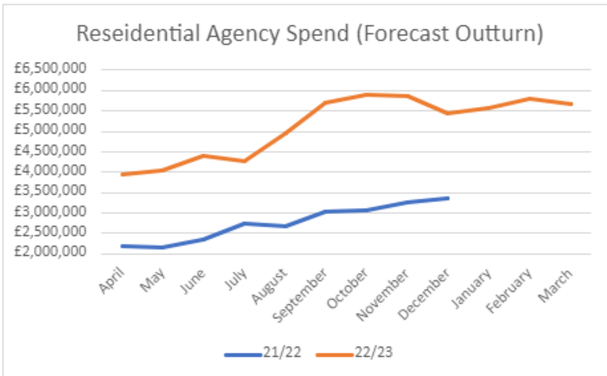




The most complex placements are the ones that have risen significantly. The number of children within Residential Agency Accommodation has increased from 13 in April 2021 to 30 in September 2023. This is a 131% increase in 2 ½ years. Due to increases in demand and complexity of these cases costs increased by 158% over two years.

Graphs 8 & 9- Residential Agency Numbers and Spend





Within the MTFS it is assumed that the increase continues into 2024/25, with £4m of children's demand pressures, and then in the later years the demand begins to stabilise due to the transformation of Childrens Services and the increase in other services such as fostering.

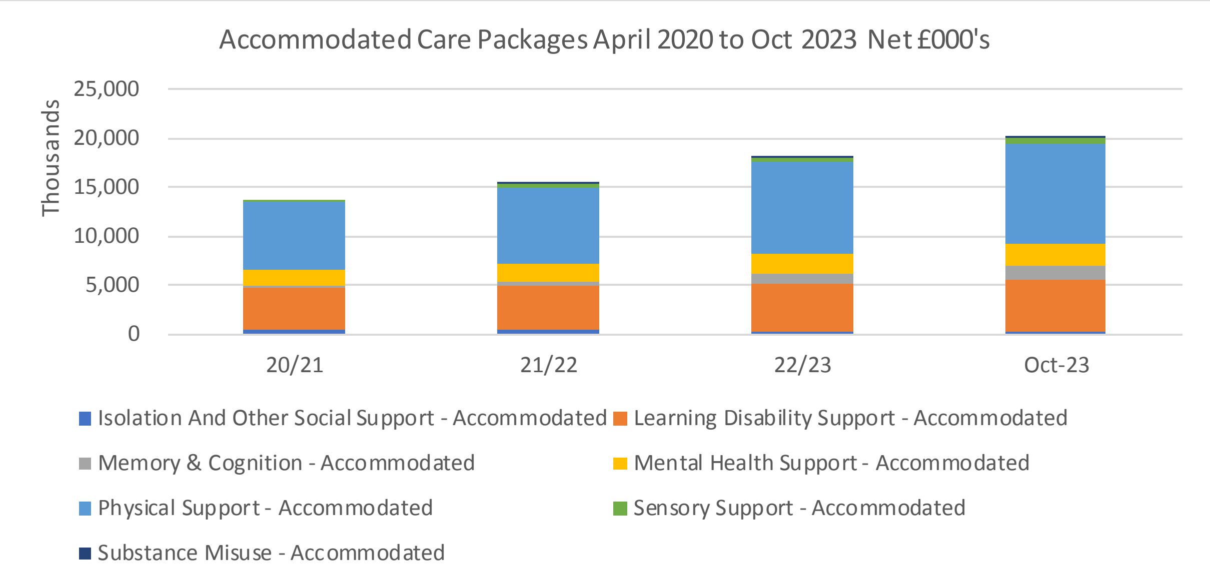
Work on transformation in Children's Services has started in earnest following decoupling. The monetary effects of this are not included in the MTFS but will begin to be in later versions, as the ambitions become more tangible. The only assumption due to this work currently is a £1.6m reduction in Childrens Services in 2024/25.

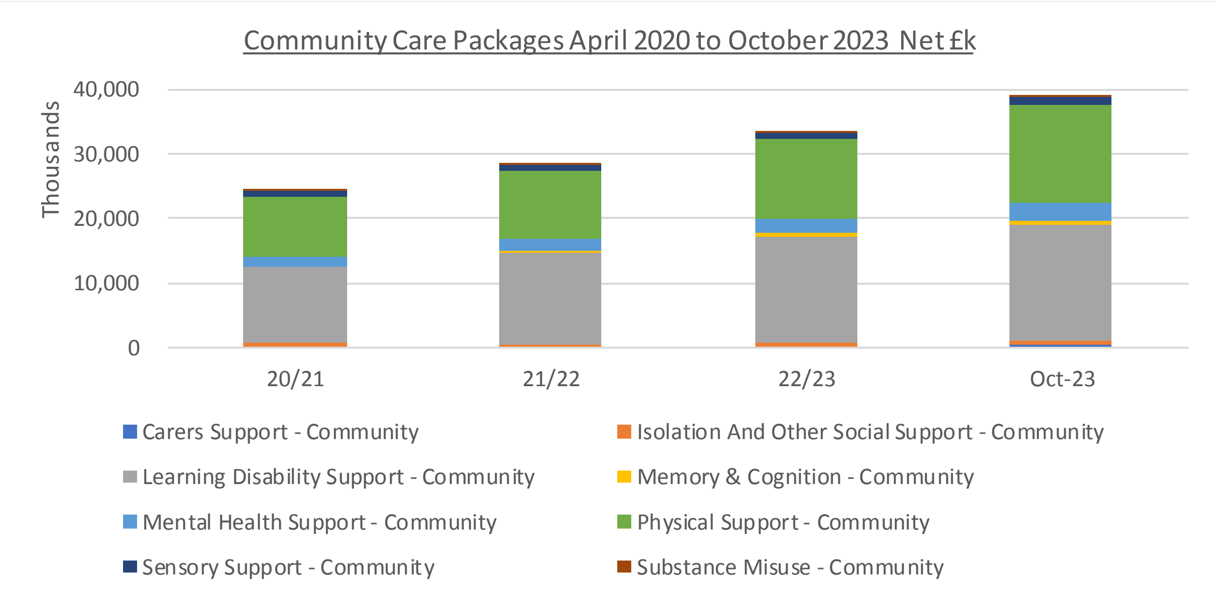
Adults Social Care Demand

Pressure on Adults Social Care (ASC) care packages continues to grow. The pressure is due to rising demand in a number of areas including community care and accommodated care for all age and client groups. A small cohort of complex cases continue to add to the more generic pressure. Operational and commissioning activity continues to review and find solutions that meet need whilst trying to avoid additional costs and applying relevant funding tools to share costs fairly with health partners.

The graphs below show the steady increase in costs both in accommodated care, which increased by 59%, and community care, which has increased by 46%, over the past three years. This cost increase is predicted to continue over the period of the MTFS, with demand increasing the most at the end of the MTS period, in 2026/27, by £2.8m.

Graphs 10 & 11- Adult Care Packages over 3 years





Work continues to look at this care to create efficiencies. As previously mentioned in the report many contracts are linked to inflation and in particular the rise in the National Living Wage.

Temporary Accommodation

There is a pressure due to increased demand and complexity in Temporary Accommodation and Housing need, due in part to increasing housing costs. This is a national issue with homelessness increasing across the country.

The Council has set up a workstream to tackle this and is developing a plan to create a larger supply of accommodation upon which to call to reduce the use of bed and breakfast. This will reduce costs and provide a better outcome for residents. This plan is at an early stage of development and so the financial benefits are not fully developed and included in the MTFS.

4. Capital Strategy

4a. Capital Financing & Capital Programme

The capital financing costs are predicted to increase by £1.5m in 2024/25 due to the increased Bank Of England base rates, which currently are 5.25% and are predicted to remain at a similar level for the next two years.

An outline new capital programme is being brought together and developed and is undergoing refinement. Bids with outline business cases are presented to and assessed by the Capital Review Group and recommendations made on which projects can be taken forward for full business case preparation to the Capital and Transformation Board. The final proposed capital programme will refine the required capital financing revenue costs for the MTFS period. The Capital and Investment Strategy 2023/24 - 2025/26 sets out a strategy that the Council will only borrow where absolutely necessary due to health and safety issues, a statutory duty or where there is a sound business case. The Council will look to fund the Capital Programme from grants, third-party contributions or capital receipts, and is pursuing an accelerated Asset Disposal programme to generate these receipts.

4b. Asset Disposal Programme

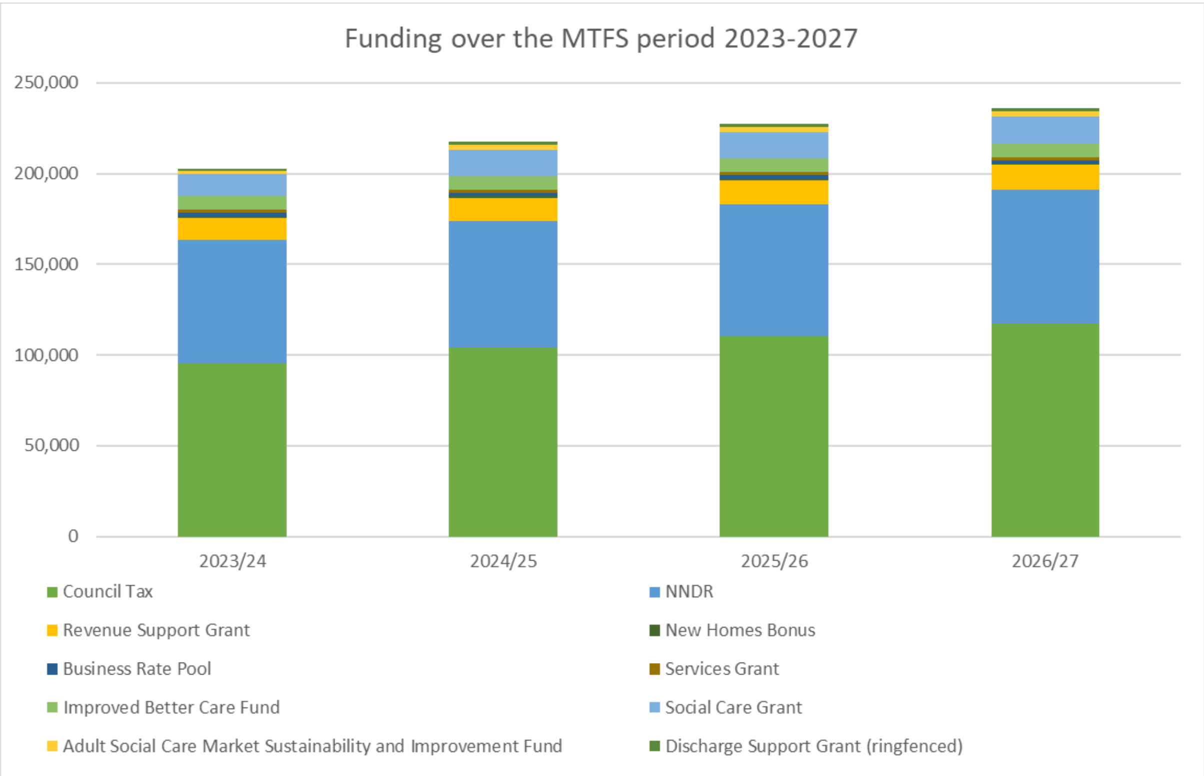
The Councils Property team are undertaking a detailed review of all assets, and at this time hope to achieve receipts of £10.7m in 2023/24 as a result of asset disposals. As part of the review process properties which are deemed surplus, not value for money, or not meeting current regulations are being considered for sale. Further work on this is coming forward as part of the Localities Review, including part of the rural estate, locality assets, possible development land options etc. However, it should be noted that the priority is to ensure the Council achieves best value under Section 123 of the Local Government Act 1972.

5. Funding Assumptions

Table 3 outlines the Council's estimated core funding levels in the current year and over the life of the MTFS. The majority of funding continues to come from Council Tax and NNDR, comprising 80-81% of the total budget, as the bar chart below demonstrates.

Table 12 and Graph 13: Funding over the MTFS Period (£k)

	2023/24	2024/25	2025/26	2026/27
NNDR	67,823	69,764	72,318	73,697
Revenue Support Grant	12,117	13,014	13,391	13,525
Council Tax	95,440	103,957	110,611	117,507
New Homes Bonus	811	811	811	811
Business Rate Pool	2,070	1,894	1,934	1,949
Services Grant	1,699	1,699	1,699	1,699
Improved Better Care Fund	7,480	7,480	7,480	7,480
Social Care Grant	12,287	14,280	14,694	14,841
Adult Social Care Market Sustainability & Improvement	1,858	2,794	2,875	2,904
Discharge Support Grant (ringfenced)	1,049	1,748	1,799	1,817
Core Funding	**202,634**	**217,441**	**227,612**	**236,230**



5a. Council Tax:

- **Assumed annual Council Tax increase of 4.99% in 2024/25, 2025/26 and 2026/27 (including adult social care precept of 2%).**
- Band D rate will increase from £1,587.08 in 2023/24, to £1,666.27 in 2024/25, £1,749.42 in 2025/26 and finally to £1,836.72 in 2026/27
- 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.

5b. NNDR (Business Rates):

- Business Rates Pool: Assumed based on the performance 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).
- Business Rates income: Assumed this will increase in line with CPI. If the Government freeze the multiplier for businesses, local authorities will be compensated via section 31 grant based on an increase equivalent to the rate of CPI (September), as per legislation.
- 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.

5c. 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. The MTFS assumes that core grants will continue and will increase in line with CPI.

The Q1 MTFS assumed that the New Homes Bonus would continue for one year, this has now been assumed to continue for all three years.

6. Reserves

The General Fund reserve is increasing to 5% of net revenue over the life of the MTFS, to ensure it increases the financial resilience of the Council. However, other reserves are reducing over the MTFS period, most notably the innovation and inflation reserves.

All reserves, over the MTFS period, are shown in the table below:

Table 14: Reserves over the MTFS Period

	March 2023	March 2024	March 2025	March 2026
	£000	£000	£000	£000
General Fund	9,942	10,342	10,742	11,142
Departmental & Grant Related Reserve	10,300	7,359	5,537	3,847
Innovation Fund Reserve	23,784	3,935	3,402	3,216
Local Taxation Risk Reserve	9,555	8,382	7,982	7,582
Inflation Risk Reserve	11,532	5,014	5,014	5,014
Ring-Fenced Reserves	4,883	4,723	4,322	4,291
Earmarked and General Fund Balance TOTAL	**69,996**	**39,754**	**36,998**	**35,092**

Innovation

This reserve is also called the Transformation Reserve. It held £23.8m as at the last year end. It is currently predicted to reduce by £19.8m in 2023/24, with £3.9m remaining at March 2024. This is due to the level of transformation taking place across the Council. Further transformation is planned, through the Council's Portfolio Board's, over the MTFS period and the funding requirements for this will be developed over the next few months.

Inflation

This reserve was created to mitigate the financial risk resulting from rising rates of inflation. There is £11.5m within the reserve currently. £6.5m of this is forecast to be used throughout 2023/24 which will reduce the amount available for future years, even though inflation continues to be the greatest driver of pressures in 2024/25.

7. Transformation

The Council has four Portfolio Boards to drive transformation across the Council. These are driven by the Sustainable Future City Council strategy, which sets out how the Council will deliver long-term improvements and meet the changing needs of residents, and the Our City Priorities document, which sets out the proposed direction of travel for the Council to deliver this vision.

The vision includes building a Sustainable Future City Council which requires us to have an organisational structure that is built around needs, fixes the basics and delivers excellent customer services using a 'OneCity – OnePartnership' approach. This means looking at all aspects of not only what we do but how we do it, together with our City partners.

The four Portfolio Boards are:

- Places & Community; to improve health, community and children's confidence
- Economy & inclusive Growth; to grow the economy attracting well paid jobs, enable more affordable homes, ensure Peterborough is attractive with a healthy environment
- Prevention, Independence and Resilience; to better understand our community and links, and to focus on young people and those with social care needs, and
- Creating a sustainable future city council, which enables the governance to ensure the council's priorities are met and a sustainable budget is delivered

These Boards will identify and drive the opportunities for improvement, particularly where there are cross-cutting opportunities. These Boards will make services more efficient; creating savings in the medium-term which are mostly not yet quantified and so are not included in the MTFS but will create solutions to help tackle the budget gap in the medium-term. As transformation initiatives mature and a more comprehensive understanding of the benefits (savings, cost avoidance and better outcomes) emerges, these will be fed into the MTFS accordingly. Transformation will be essential to drive a sustainable budget over the MTFS.

In the short-term there are transformational targets built into base budgets which is why the Service Transformation changes in Appendix Ai are small as they are not shown separately.

To balance the budget in 2024/25 four workstreams have been set up address the primary drivers of pressure. These are looking at energy, children's demand, adults social care and temporary accommodation, and the outcomes of this work have not yet been fully quantified. As they are, they will feed into the MTFS.

Figure 15: Slides from the 'Our Improvement Journey' presentation about the Portfolio Boards

Places and Communities

We will:

- Improve people's health and physical activity.
- Improve safety and support people's sense of community.
- Improve children's confidence, resilience and enthusiasm for learning.

Our priorities

- Delivering partnership prevention hubs that provide more timely intervention and support for residents in need.
- Creating environments that encourage physical, cultural and leisure activities.
- Enabling community engagement.
- Providing public spaces that are safe, fit for purpose and welcoming.

The Economy & Inclusive Growth

We will:

- enable more affordable homes for local people
- attract well paid Jobs for our thriving and inclusive local economy
- make sure our places are attractive and vibrant
- treat our environment with respect and as a valuable asset for inclusive growth

Our priorities are:

- City council and citywide net zero
- City centre transformation
- New Local Plan
- New Housing Strategy
- Major growth and regeneration projects
- Skills and employment

Prevention, Independence and Resilience

We will:

- Better understand our communities.
- Link better with the community and voluntary sector.
- Focus on children and young people.
- Use technology to best support our residents with their social care needs.

Our priorities are:

- Integrated neighbourhoods – offering services tailored to local needs.
- Improving and modernising children's services.
- Making services more efficient, customer services more effective, and reduce the need for ongoing physical care and support.
- Improved education and training to improve life chances for some of our most vulnerable residents.
- Understanding and co-ordinating the range of community and voluntary services available.

Creating a sustainable future city council

We will:

- start negotiations with Serco.
- deliver a balanced budget in 2023/24, set a balanced budget for 2024/25 and identify future budget gaps.
- strengthen our approach to staff recruitment and retention.
- review our assets in line with the Capital Strategy.
- review current arrangements for oversight and governance for commercial activity and companies and ensure robust governance.
- ensure our ICT service is fit for purpose.

Our priorities are:

- Review of Serco services
- Medium Term Financial Strategy / Strategic Sustainability Framework
- People and Culture Programme
- Locality Asset Review
- Companies and commercial activity
- Digital, date and analytics

8. Risks

The Council assesses financial risks as part of its budget setting process and regular Budgetary Control Review. The Council also invested in a dedicated Risk Manager who oversees this and chairs a Risk Management Board, 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:

- **Inflation** – risk that inflation does not come down as quickly as anticipated. The Council is mitigating these by maintaining control of expenditure, reviewing all contracts and establishing an inflation reserve to deal with any immediate financial pressures.
- The impact of the Economy on the **Council's income streams** - Council Tax & NNDR, of which now equates to 81% of the Council's core funding.

- **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.
- **NHS integration**- Integrated Care System (ICS) - and the risk resulting from health also looking to make savings.
- **Climate Change-** balancing the need to reduce the Councils carbon footprint and deliver financial sustainability.
- **Energy generator levy-** Proposed legislation for an Electricity Generator Levy is still in draft but could result in a Levy charge for the Council from January 2023.
- **Interest Rate risk**- the risk of the Councils budget being affected by changes in interest rates when refinancing maturing debt.

Appendix Ai

Budget changes by Directorate, for each year

	Base 2024/25 £k*	Pay	Inflation	Savings & Efficiencies	Service Demand	Borrowing	Cost & Income Pressures	Service Transformation	Income Generation	Budget 2024/25 £k
Children and Young People	48,456	0	2,764	0	4,001	0	473	(186)	0	55,508
Adult Social Care	72,129	0	2,529	(1,315)	(249)	0	0	0	0	73,094
Corporate Services	67,521	1,729	3,265	(1,549)	16	1,000	1,833	(250)	(242)	73,323
Place & Economy	23,262	0	1,242	(1,575)	208	0	485	0	(1,598)	22,025
Public Health	(332)	0	0	0	0	0	0	0	0	(332)
Total	**211,037**	**1,729**	**9,800**	**(4,439)**	**3,976**	**1,000**	**2,791**	**(436)**	**(1,840)**	**223,618**
Funding										**(217,441)**
Gap										**6,177**

	Base 2025/26 £k*	Pay	Inflation	Savings & Efficiencies	Service Demand	Borrowing	Cost & Income Pressures	Service Transformation	Income Generation	Budget 2025/26 £k
Children and Young People	55,580	0	1,071	0	853	0	160	0	0	57,664
Adult Social Care	76,601	0	2,730	(865)	901	0	0	0	0	79,368
Corporate Services	75,207	100	0	(122)	6	0	341	27	27	75,586
Place & Economy	23,187	0	1,070	(155)	3	0	0	(124)	(124)	23,857
Public Health	(332)	0	0	0	0	0	0	0	0	(332)
Total	**230,243**	**100**	**4,871**	**(1,142)**	**1,763**	**0**	**501**	**(97)**	**(97)**	**236,143**
Funding										**(227,613)**
Gap										**8,530**

	Base 2026/27 £k*	Pay	Inflation	Savings & Efficiencies	Service Demand	Borrowing	Cost & Income Pressures	Service Transformation	Income Generation	Budget 2026/27 £k
Children and Young People	57,737	0	892	0	933	0	150	0	0	59,712
Adult Social Care	81,138	0	3,011	(525)	2,754	0	0	0	0	86,378
Corporate Services	78,037	100	0	(30)	305	0	503	0	(73)	78,842
Place & Economy	24,629	0	988	(215)	4	0	0	0	(24)	25,382
Public Health	(332)	0	0	0	0	0	0	0	0	(332)
Total	**241,209**	**100**	**4,891**	**(770)**	**3,996**	**0**	**653**	**0**	**(97)**	**249,982**
Funding										**(236,230)**
Gap										**13,752**

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