

# Supplementary Papers for Cabinet

Date: Wednesday, 7 September 2022



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**6. Finance Update Includes Quarter One 2022/23 Budget Monitoring Report**

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This addendum report provides details of an additional letter received from the Department of Levelling Up, Housing and Communities (DLUHC) as an addendum to the Finance Update (including Quarter One 2022/23 Budget Monitoring) report to the 7 September 2022 Cabinet.

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**CABINET**



Report subject	<b>Addendum to the Finance Update Including Quarter One 2022/23 Budget Monitoring Report</b>
Meeting date	7 September 2022
Status	Public Report
Executive summary	This report provides details of an additional letter received from the Department of Levelling Up, Housing and Communities (DLUHC) as an addendum to the Finance Update (including Quarter One 2022/23 Budget Monitoring) report to the 7 September 2022 Cabinet.
<b>Additional Recommendations</b>	<b>It is RECOMMENDED that Cabinet:</b>  <b>9) Prepare financial forecasts based on the assumption of accepting and receiving a £20m capitalisation direction for 2022/23 from government which will need Council approval, to be sought once a final offer has been received from DLUHC.</b>
Reason for recommendations	To ensure Councillors are sighted on the latest correspondence from government in support of their consideration of the 7 September Finance Update report to Cabinet.
Portfolio Holder(s):	Councillor Drew Mellor, Leader, and Portfolio Holder for Finance & Transformation
Corporate Director	Graham Farrant, Chief Executive
Report Author	Adam Richens, Chief Finance Officer and S.151 Officer <a href="mailto:adam.richens@bcpcouncil.gov.uk">adam.richens@bcpcouncil.gov.uk</a>
Wards	Council-wide
Classification	For Decision

## Background

1. The finance update (including quarter one 2022/23 budget monitoring) report to Cabinet on the 7 September provides an update on the council's financial position further to the financial forecasts set out in the June Medium Term Financial Plan Update (MTFP) report to Cabinet. The report included acknowledgment of the recent update to the Government's Flexible Use of Capital Receipts statutory guidance and the application under the Exceptional Financial Support (EFS) programme for a capitalisation direction of £76m (£20m in 2022/23).
  2. By way of a further update the Council received a letter from Paul Scully MP, Minister of State at the Department for Levelling Up, Housing & Communities on the 2 September 2022 which is attached as Appendix A to this report.
  3. The letter, in response to our Exceptional Financial Support application offers a minded to, in principle, £20m Capitalisation Direction of 2022/23 subject to the following conditions.
    - An external review of the councils' finances and governance arrangements to take place in the Autumn of 2022.
    - The production of a plan for addressing its budget gap in 2023/24 and beyond by the end of September 2022. This plan should seek to utilise all the resources available to the Council to close the budget gap, be fully within the spirit and intent of all local government guidance, and aim to eliminate any amount of exceptional financial support required going forward
  4. No decision in respect of 2023/24 or 2024/25 capitalisation directions will be made until after the above reviews have been completed and even then, not before the Local Government Finance Settlements for those years are known. The external reviews will also enable a final decision on any total amount of EFS for 2022/23 as well as any further conditions that may be imposed such as the application of a 1% premium on any borrowing from the Public Works Loan Board associated with the capitalisation direction.
- 5. 2022/23 Capitalisation Direction**
6. The 15 July 2022 application for a capitalisation direction requested the following amount for 2022/23.

**Figure A:** Capitalisation Direction for 2022/23

	22/23 £m
Transformation Investment Programme	25.3
Children's services transformation programme ( <i>not budgeted</i> )	2.0
Adult Services transformation programme ( <i>not budgeted</i> )	2.0
Capital Receipts - already delivered	(1.9)
Capital Receipts - scheduled and assumed deliverable	(7.4)
<b>Capitalisation Direction</b>	<b>20.0</b>

## 7. Impact on consideration of the substantive Finance Update report to Cabinet

The substantive 7 September Cabinet report set out, for both 2022/23 and the MTFP, the impact that different scenarios associated with the potential to receive a capitalisation direction would have on the council's financial position. Having now received this letter, and assuming councils' acceptance of a £20m capitalisation for 2022/23 only at this stage, the scenarios the Council are advised to plan for would be a financial forecast for 2022/23 as set out as figure 3 in the substantive report (reproduced as Figure B below).

**Figure B:** Financial forecast for 2022/23 assuming a £20m capitalisation direction.

	June Cabinet Variance £000s	Quarter One Variance £000s	Movement £000s
<b>Baseline forecast as set out in figure 2</b>	<b>0</b>	<b>1.661</b>	<b>1,661</b>
Assume half year's interest on £20m capitalisation direction borrowing <i>(Principal repayments start in 2023/24)</i>	0	436	436
Drawdown on earmarked reserves <i>(Reserves previous allocated to regeneration and not currently committed)</i>	0	(1,459)	(1,459)
Drawdown on Earmarked Reserves <i>(£14.828m total reserves in the June MTFP Update report allocated to supporting the extra cost of living pressures in 2023/24)</i>	0	(638)	(638)
<b>Net current forecast (Surplus) or Deficit</b>	<b>0</b>	<b>0</b>	<b>0</b>

8. Additionally, the council would now be recommended to consider an MTFP position as presented as figure 7 in the substantive report (reproduced as Figure C below). Just to emphasise this assumes a £20m capitalisation direction for 2022/23 and the council brings forward a capital receipts schedule for additional, non-strategic, asset sales as a mechanism for funding the Transformation Programme, including the additional Children's and Adult services transformations programmes, in 2023/24 and 2024/25.

**Figure C:** MTFP position assuming a £20m capitalisation direction for 2022/23 followed by additional asset sales to support the transformation programmes in 2023/24 and 2024/25.

	23/24 £m	24/25 £m	25/26 £m	26/27 £m	Total £m
Baseline Medium Term Financial Plan position - figure 5	33.9	(6.5)	(2.2)	1.4	<b>26.7</b>
Transformation investment programme	21.6	(11.6)	(10.0)	0.0	<b>0.0</b>
Children's services transformation programme	5.0	0.0	(5.0)	0.0	<b>0.0</b>
Adult Services transformation programme	5.0	0.0	(5.0)	0.0	<b>0.0</b>
Traditional Capital Receipts applied via the FUCR	(3.7)	2.6	1.1	0.0	<b>0.0</b>
Additional Capital Receipts from non-strategic asset sales	(27.9)	9.0	18.9	0.0	<b>0.0</b>
Cost of Living mitigation reserves brought forward to 2022/23	0.6	(0.6)	0.0	0.0	<b>0.0</b>
Recognise borrowing costs 2022/23 expenditure	1.9	0.0	0.0	0.0	<b>1.9</b>
<b>Annual – Net Funding Gap</b>	<b>36.4</b>	<b>(7.1)</b>	<b>(2.2)</b>	<b>1.4</b>	<b>28.6</b>
<b>Cumulative MTFP – Net Funding Gap</b>	<b>36.4</b>	<b>29.4</b>	<b>27.2</b>	<b>28.6</b>	

9. The position as presented.
  - a) takes no account of the net operational impact of owning the assets that will be disposed of. For example, the lost income if they are revenue generating assets.
  - b) Assumes that the business case for the Children's and Adult Services transformation programmes would comply with the FUCR statutory guidance.

#### **Options appraisal**

10. The council retains the option to turn down the offer of a £20m capitalisation for 2022/23. This is something it will wish to consider further once the final offer letter is received further to the finance and governance reviews. However, not accepting the capitalisation direction would require a significant recasting of the 2022/23 budget and there is very little room to manoeuvre already given the increasing pressures on the budget and the lack of alternative facilities to mitigate the pressures.

#### **Summary of legal implications**

11. As set out in the substantive report.

#### **Summary of human resources implications**

12. There are no direct human resource implications of this report.

#### **Summary of sustainability impact**

13. There are no direct sustainability implications of this report

#### **Summary of public health implications**

14. There are no direct public health implications of this report.

#### **Summary of equality implications**

15. There are no direct equality implications of this report

#### **Summary of risk assessment**

16. As set out in the substantive report.

#### **Background papers**

17. As set out in the substantive report.

#### **Appendices**

- A Letter from Paul Scully to Drew Mellor dated 2 September 2022



## Department for Levelling Up, Housing & Communities

Councillor Drew Mellor  
Leader, Bournemouth, Christchurch and Poole  
Council  
BCP Council Civic Centre  
Bourne Avenue  
Bournemouth  
BH2 6DY

**Paul Scully MP**

*Minister of State at the Department for Levelling  
Up, Housing and Communities Minister for  
London*

**Department for Levelling Up, Housing and  
Communities**

4th Floor, Fry Building  
2 Marsham Street  
London SW1P 4DF

2 September 2022

Dear Cllr Mellor,

### **2022/23 EXCEPTIONAL FINANCIAL SUPPORT APPLICATION**

I am writing in relation to Bournemouth, Christchurch and Poole Council's application for Exceptional Financial Support (EFS) on 15 July 2022. More broadly, and following my previous correspondence, I want to reiterate that I continue to have significant concerns about the present financial strategic direction of the Council and urge you to consider what action is needed to ensure the Council remains in a sustainable position.

In respect to your Council's request for EFS, after careful consideration, I am minded to offer the Council in-principle support of up to £20m in the form of a capitalisation direction for the financial year 2022/23. This letter does not constitute a capitalisation direction but outlines the Government's current position.

In line with the approach adopted for requests for Exceptional Financial Support, this in-principle support is subject to the Council agreeing to the following conditions:

- That the Council produces a full plan for addressing its budget gap in 2023/24 and beyond, and shares this with my department by the end of September 2022. This plan should seek to utilise all the resources available to the Council to close the budget gap, be fully within the spirit and intent of all local government guidance, and aim to eliminate any amount of exceptional financial support required going forwards;
- That the Council undergoes an external assurance review of its finances and governance arrangements. This review will advise on the amount of support required, help to ensure that the Council is on a sustainable footing going forwards, and ensure that policies and procedures are in place for robust decision making and accountability. This review will take place in Autumn 2022 and my officials will be in contact with your officers about this in due course.

Further conditions may apply to any capitalisation direction for 2022/23, including addressing recommendations made by the external assurance review and applying a 1% premium on any borrowing undertaken from the Public Works Loan Board associated with the

capitalisation direction. A final decision on any total amount of EFS support for 2022/23 will only be taken once an external assurance review has been completed.

The Council also applied for support in 2023/24 and 2024/25. As the Secretary of State made clear during his meeting with you on 11 August, Government will not consider requests for support in these years until after the Local Government Finance Settlement has allocated resources to all councils.

It is my view that the Council should now be making the necessary plans and arrangements to secure its short- and medium-term future. Going forward, it is essential that the Council is able to offer long term security and reassurance to local residents.

My officials and I look forward to continuing to work with you and your officers.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Paul Scully', with a stylized flourish at the end.

**PAUL SCULLY MP**