

Report subject	<b>Medium Term Financial Plan (MTFP) Update</b>
Meeting date	23 June 2021
Status	Public Report
Executive summary	<p>This report:</p> <ul style="list-style-type: none"> <li>• Presents the latest medium-term financial plan (MTFP) of the council to reflect government announcements since the February 2021 budget report and updated assumptions.</li> <li>• Proposes a financial strategy to support the delivery of a balanced budget for 2022/23.</li> <li>• Proposes a budget planning process and timeline for key financial reports.</li> </ul>
Recommendations	<p>It is <b>RECOMMENDED</b> that Cabinet:</p> <p><b>Approve:</b></p> <ol style="list-style-type: none"> <li>1) the budget planning process as referenced in paragraph 26.</li> <li>2) the timeline for key financial reports during 2021/22 as set out in appendix A.</li> <li>3) the financial strategy as referenced in paragraphs 18 to 23 and as set out in appendix B.</li> <li>4) the allocation of a further £240k to support the Councils response to the climate change and ecological emergency as referenced in paragraph 25.</li> </ol> <p><b>Note</b></p> <ol style="list-style-type: none"> <li>5) the updated MTFP position and the key financial planning assumptions as set out in appendix C.</li> </ol>
Reason for recommendations	<p>To comply with accounting codes of practice and best practice which require councils to have a rolling multi-year medium term financial plan.</p> <p>To provide Cabinet with the latest high-level overview of the medium term financial plan.</p> <p>To present a proposed financial strategy to support the delivery of a</p>

	balanced budget for 2021/22.
Portfolio Holder(s):	Councillor Drew Mellor, Leader and Portfolio Holder for Finance & Transformation
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Wards	Council-wide
Classification	For Decision

## Background

1. The 2021/22 budget as presented to Council in February 2021 was a bold, creative, dynamic, responsible and robust budget with the following key features;
  - a) The harmonisation of council tax across the BCP area from April 2021 onwards.
  - b) A £7.5 million investment in children's services as its highest priority area, alongside an additional £1 million for an innovative Children's Covid Recovery Fund.
  - c) A £13 million investment in Adult Social Care in support of services to the most vulnerable members of our community.
  - d) Invested over £7m gross in new council priorities in 2021/22 including regeneration, highway maintenance, arts and culture, a cultural bounce back festival, street cleansing, the planning service, the climate change and ecological emergency, and community safety.
  - e) £50 million Futures Fund, financed by prudential borrowing, designed to support our community recover from Covid-19 with an emphasis on creating a world class city region, stepping up regeneration with a renewed focus on place-based leadership and restoring a sense of pride.
  - f) £10m million Special Educational Needs and Disability (SEND) capital allocation, financed by prudential borrowing, to support the councils Dedicated Schools Grant (High Needs Block) deficit recovery plan.
2. The creation of two new unitary authorities, covering the geographical area of Dorset, was a strategic response to the financial challenges faced by all local authorities since 2010 following the application of the government's austerity programme, particularly those upper tier authorities facing significant demand and cost increases in adults and children social care services. Cutting out duplication and lowering administration costs delivered by the reduction from nine local authorities to two in Dorset was designed to ensure improved value for money (VfM) for local council taxpayers and to better enable the protection of quality front line services to our community and residents

3. In considering the development of the 2022/23 budget for BCP Council it will be important that it is within the context of a unitary authority which is currently only in its third year of operation with turnover of around £0.8 billion per annum and an annual net budget which for 2021/22 is £241 million per annum. It is also critical that consideration is given to the ambition and purpose of the council as expressed through what is referred to as the Councils Big Plan and the approved Corporate Strategy as well as the ongoing impact on the organisation's financial and non-financial resources of the global Covid-19 public health emergency.
4. Our Big Plan is our vision that the BCP city region will be world class and one of the best coastal places in the world in which to live, work, invest and play. This vision picks up many of the aspirational themes for the place from the original Local Government Reorganisation planning papers.
5. Our Big Plan is supported by five major projects which have been developed to deliver big changes across our whole area over the next five to ten years. It is expected that these will support the creation of 13,000 jobs across all sectors of our economy, creating wealth for our businesses and livelihoods for our families. The five projects can be listed as;
  - Investing in an iconic cityscape
  - Investing in our seafront
  - Rejuvenating Poole
  - Investing in the physical and digital infrastructure
  - Aim to deliver more than 15,000 new homes.

These projects reflect the scale of the council's ambition for the area and enable the articulation of our vision with key regional and sub-regional partners and with government. These projects are underpinned by the work we will do to develop vibrant communities, to promote our culture and our leisure and entertainment offer, and to ensure the BCP city region becomes one of the best places in which children can live, learn, grow up and succeed.

6. The Big Plan is further supported by the BCP Corporate Strategy which was adopted by the council on 5 November 2020. The vision is to create vibrant communities with outstanding quality of life where everyone plays an active role. The high-level strategy set out five council priorities (Sustainable Environment, Dynamic Places, Connected Communities, Brighter Futures, Fulfilled Lives) and a commitment to becoming a modern, accessible and accountable council committed to providing effective community leadership. The Corporate Strategy is promoted by an agreed set of core values and delivery plans which set out how the council will achieve its priorities.
7. As with the 2021/22 budget any update of the MTFP needs to be cognisant of the impact of the world's biggest public health emergency for a generation. Since March 2020 the Covid-19 global pandemic has required ongoing urgent and decisive action to support our community and maintain the integrity of the council's financial position and future sustainability.

## Government announcements since February 2021

8. There have been several policy announcements and updates made by the Government since February 2021 which will either directly or indirectly impact on the Councils financial sustainability and its future financial strategy.
9. Key amongst these was the announcement that following direct representation by BCP Council and others that the government would extend the deadline for the Flexible Use of Capital Receipts policy by 3 years from 31 March 2022 to the 31 March 2025. This policy enables capital receipts to be used to fund transformation revenue expenditure incurred which produces long term savings or reduced service delivery costs. The standard statutory controls framework specifies that capital receipts can normally only be used to fund capital expenditure.
10. This announcement will fundamentally change the presentation of the councils MTFP as the previous assumption was that any revenue transformation programme expenditure incurred from the 1 April 2022 onwards would need to be funded from the base revenue budget of the council. This clearly no longer needs to be the case assuming sufficient capital receipts can be generated.
11. In addition, ministers have announced that they are still keen to implement the Fair Funding Review (FFR) but are reluctant to make commitments about the timescale. The FFR is about a wholesale reform of how Councils are funded. It will essentially propose a new “needs” assessment for each local authority, then make a deduction based on the amount of council tax that each authority could collect (“resources”). It is anticipated that there would be a transitional period with “dampening” arrangements applied. Certain existing specific grants are expected to be transferred into the need’s assessment such as the Improved Better Care Fund, Social Care Support grant and the Public Health grant. To accommodate the funding of these changes the governments intent make changes to business rates and other funding streams which includes the possibility of moving to a 75% business rates retention model.
12. The risk of a changing funding model will need to be reflected upon in a national government funding backdrop which quite understandably saw the budget deficit for 2020/21 come in at £303 billion with UK government debt now standing at £2.14 trillion or 97.7 per cent of the national gross domestic product (GDP).
13. In addition, the period since February saw further additional pandemic related grants and support measures put in place including;
  - Extension of the Contain Outbreak Management Fund beyond April 2021.
  - £341 million of funding to support the next phase of the Covid19 responses for infection control and rapid testing in adult social care services.
  - Allocation of £0.7 billion to support children catch up.
  - New Restart Grant to businesses required to be paid in April 2021.
  - Additional, conditional, discretionary business grant funding.
  - A new £1.5 billion business rates relief funded with the detail to be announced once they have passed legislation relating to Material Change of Circumstance provisions.

- Extension of the 100% business rates holiday to retail, hospitality and leisure to June 2021 with two thirds discount up to certain thresholds for the remaining 9 months of the 2021/22 financial year.
  - Extension to 30 September 2021 of the temporary hospitality and tourism 5% reduced VAT rate with a 12.5% rate apply for the following 6 months.
14. Separate to the Covid-19 related grants, one specific issue of significance that it would be worth highlighting, is that the council has been awarded a £2.474 million as part of the Salix Public Sector Decarbonisation Scheme to reduce public sector carbon emissions and cut energy use in local authority buildings.

### **Overview of the 2020/21 Financial Outturn**

15. A key starting point will therefore be the success or otherwise of the culture of diligent and careful financial management on the actual outturn for 2020/21. A year which can only be described as extraordinary and tumultuous by anyone's standards. The position which is presented as a separate report on the Cabinet agenda for 23 June 2021 demonstrates that the Government honoured its commitment to provide the council with all the resources it needed to cope with the pandemic.
16. A summary, presented in the format as set out in the 2021/22 Budget report, is set out as Figure 1 below.
17. In reviewing the financial outturn position, it is important to understand the context of quarter three financial monitoring report. At the time there was a significant and unprecedented amount of uncertainty. Although the government had announced the framework for its comprehensive package of support the detail would not follow until later in the financial year. In addition, national restrictions were reintroduced from the 6 January 2021 with a managed exit from this phase commencing from the 8 March 2021. It is also worth remembering that at the start of the pandemic the council took decisive action to identify resources which could be used if the government did not provide the council with financial support. As this support has been announced and clarified the council has been able to redirect the locally identified resources to support council priorities including the 2021/22 budget and underpinning council tax.
18. In considering the £5.1m underspend it should be borne in mind that this does not take account of the assumed £10.6 m shortfall in council tax and business rates collection during 2020/21. This deficit is being carried forward and spread over the next three years with Government providing grant support of approximately 75% of eligible losses. Any difference between the actual 2020/21 grant support and the position estimated as part of the February 2021 budget report has been set aside as part of the financial outturn to ensure resources are available to support future years to the extent estimated as part of the 2021/22 budget process.
19. In respect to the significant level of ongoing uncertainty it is worth emphasising that professional judgements have been made in respect of the amount the Council will receive associated with several of the Covid19 specific government grants and elements of the financial support package. Risks with these estimates will remain until the council has completed any assurance processes established by the government and the final claim agreed and audited (if appropriate).
20. In considering the financial outturn it may be worth reflecting on the following key performance data;

- Council Tax collection rate - budgeted 97.16% - actual outturn 95.12%
- Business Rates collection rate - budgeted 98.07% - actual outturn 90.67%

## 21. Figure 1: 2020/21 Financial Outturn

	Quarter 3 Position £ millions	Financial Outturn £millions
<b>Total estimated pressure (83%, now 77%) of net £283.1m net budget</b>	<b>236.3</b>	<b>219.3</b>
<b>Analysis of total unbudgeted expenditure</b>		
Funding for grant payments to businesses etc.	(145.1)	(139.2)
Ringfenced, specific government grants	(22.9)	(25.1)
Clinical Commission Group (CCG) funded expenditure	(19.2)	(19.8)
Adult Social Care and Public Health services	5.2	(0.7)
Children's services	7.1	7.1
Environment and Community services	5.4	2.0
Regeneration and Economy services	24.4	20.4
Resource services	3.9	4.1
Estate management strategy and smarter structures	0.7	0.7
100-day plan expenditure	0.4	0.4
Investments / central items	2.0	1.2
<b>Total Gross Pressures</b>	<b>49.1</b>	<b>35.2</b>
Unringfenced, government covid19 specific emergency funding	(29.0)	(29.0)
Unringfenced, government compensation sales, fees & charges (estimate)	(13.3)	(12.6)
Furlough claim	(0.8)	(1.0)
Council Tax & Business Rates future year income compensation	0.0	1.9
<b>Net in-year pressures</b>	<b>6.0</b>	<b>(5.6)</b>
<b>Directorate savings</b>		
Employee cost base	(3.3)	(3.3)
Expenditure cost base	(9.5)	(9.5)
Contribution to the Covid-19, MTFP and Transformation mitigation reserves	13.3	13.3
<b>Net in-year budget gap</b>	<b>6.5</b>	<b>(5.1)</b>
<b>Earmarking of central resources:</b>		
Base revenue budget contingency	(1.2)	(1.2)
Refinancing of the capital programme, review of projects	(2.8)	(2.8)
Refinancing of the capital programme, revenue contribution to capital	(2.5)	(2.5)
Contribution to the MTFP Mitigation Reserve	0.0	6.5
<b>Total residual funding gap</b>	<b>0</b>	<b>(5.1)</b>

22. Specific government grants that have been made available in 2020/21 to support expenditure and income include the £11.5 million Department of Health (DoH) Infection Control Grant, £9.1 million Contain Outbreak Management Fund, £1.8 million Public Health Test and Trace grant, £1.5 million Adult Social Care Rapid Test Fund, £1.1 million Covid19 Winter Grant Scheme, and the £1.9 million housing related Next Steps Accommodation programme grant amongst many others. The amount quoted reflect the amounts received in 2020/21 and does not take account of the balances that may have been carried forward via reserves into 2021/22.
23. The £139.2 million business grants references both the mandatory and discretionary grants available in support both the original (£83.9 million) and November to financial year end national lockdowns (£52.0 million), the test and trace support payments (£0.7 million) and the £2.5 million hardship fund designed to support local council tax support claimants.
24. The outturn position demonstrates an overall improvement from the quarter three position due to a variety of reasons including;
  - a) Confirmation of the Government's comprehensive package of financial support.
  - b) Clarification of the extent to which expenditure incurred by the council can be funded from the various specific grants made available by the Government to meet Covid-19 related expenditure.
  - c) The extent to which certain items of expenditure were funded by third parties such as the National Health Service.
  - d) An improvement compared to the forecasts in income recovery.

There has also been slippage within the capital programme including the rephasing of work due to the timing as to when works can be safely undertaken.
25. The strategy has been to apply the improvement into as the MTFP Mitigation Earmarked Reserve which is a specific financial resilience earmarked reserve designed to enable the council managing emerging issues as part of the development of its financial strategy.
26. That said, and in support of our core value and the associated delivery plan, the Council proposes to double, for 2021/22, the £240k allocation it made as part of the 2021/22 original budget towards the Climate Change and Ecological Emergency. This will bring the total allocation for 2021/22 to approximately £0.5 million with the extra £240k drawn down from the MTFP Mitigation Earmarked Reserve. There was £13.228m in this reserve as at the 31 March 2021. £2.1m has previously been allocated to support the 2022/23 budget with the residual balance potentially providing a funding source for the residual funding gap as set out later in this paper and the associated financial strategy.

### **Budget cycle**

27. The development of a medium-term financial planning process is designed to provide sound financial management and control arrangements which are integral to the delivery of good governance for the council. Such arrangements will help in supporting service delivery, accountable decision making and safeguarding stewardship whilst optimising the use of available resources.
28. The MTFP and budget for 2022/23 should be seen in the context of a rolling, evolving process structured to enable the proactive management and prioritisation of

the council's resources. To support its development the high-level budget cycle for BCP is proposed as follows;

**Stage One:** April to June

- Closure of the accounts for the 2020/21
- High level budget planning process as set out in this June 2021 MTFP Update report to Cabinet.
- Approval of a financial strategy to support the delivery of a balanced budget for 2022/23.

**Stage Two:** June to September

- Initial detailed bottom up refreshed of the baseline financial resource requirements for each service. This should include a reflection on previous year's actual performance and forecast in-year performance to evaluate the realism of future year plans. The intent being to move the MTFP to a five-year time horizon (31 March 2027) should be noted.
- Portfolio Holders consideration of the updated position with Cabinet and Corporate Management Board colleagues.
- Quarter One 2021/22 Budget Monitoring report.

**Stage Three:** October to December

- Refinement stage including councillor consideration of the implications of any proposed transformation and service-based savings proposals.
- MTFP Update reports to Cabinet in both October and December.
- Budget Café (all councillor) presentations.
- Quarter Two 2021/22 Budget Monitoring report.

**Stage Four:** January to February

- Taxbase report.
- Statutory consultation with representatives of Commerce and Industry.
- Quarter Three 2021/22 Budget Monitoring report
- Finalise the 2022/23 Budget.

29. The ongoing financial strategy has been to shift away from a service-based savings approach and towards delivering savings at an enterprise level as delivered via the council's transformation programme. As part of the budget cycle the detail and implications of any transformation and residual service-based savings will need to be agreed and endorsed by the Cabinet. In doing so consideration will need to be given to the extent it is appropriate to include unitemised savings in the base budget for 2022/23.
30. Appendix A to this report presents a detailed timeline for the presentation of key financial reports alongside the events it is proposed to deliver throughout 2021/22 in support of the 2022/23 Budget.



## Latest MTFP

31. The intent with a medium-term financial plan is to set out the financial implications of the Councils Corporate Strategy, objectives, and policies and then to consider these against the resources projected to be available. This then provides a basis for service decision making. Although the statutory local authority budget process is an annual one a longer-term perspective is essential if the council is going to be able to demonstrate financial sustainability.
32. Historically progress had been made with promoting effective medium-term financial planning through multi-year local government financial settlements from central government. Uncertainty due firstly to the national political landscape and then the impact of the public health pandemic has meant that a series of one-year local government financial settlements have been issued over the last few years.
33. As a relatively new council, setting the budgets in the first three years has been a challenge due to the lack of complete historical data and trend analysis information for the council as a single entity. What comparative information is available, comparing 2020/21 with 2019/20, will be distorted by the impact covid-19 had from March 2020 onwards. Looking forward to 2022/23 there will be even further uncertainty associated with the legacy impact of the public health emergency, its ongoing cost legacy, and the extent to which the council's income streams will return to pre-covid levels.
34. The current approved MTFP was as agreed by Council in February 2021 and can be summarised as follows;

**Figure 2:** February 2021 Approved MTFP

	2022/23 £m	2023/24 £m
Annual Funding Gap	17.0	(9.5)
<b>Cumulative – Net Funding Gap</b>	<b>17.0</b>	<b>7.5</b>

35. It is important that it is understood that this position is produced based on the following key assumptions;
  - a) A 4.99% increase in council tax for 2022/23 (equivalent to £10.9m in extra revenue) and a 1.99% increase in 2023/24 (£4.3m in extra revenue). It should be emphasised that the 2022/23 potential council tax increase includes the 3% Adult Social Care precept deferred from 2021/22.
  - b) A 1.5% increase in the councils taxbase (number of band D equivalent properties) for 2022/23 and a 0.5% increase for 2023/24.
  - c) Total annual cumulative transformation savings of £25m underpinning the 2022/23 budget and £42.4m underpinning the 2023/24 budget.
  - d) Income levels generally returning to pre-covid levels from 2022/23 onwards. The MTFP is therefore premised on £12.3m of additional income generation in 2022/23 compared to 2021/22.
  - e) The harmonisation of BCP Council's pay and grading structures within a cost neutral framework.

- f) A 2% pay award from 2022/23 onwards.
  - g) The drawdown of £2.1 million from the MTFP Mitigation Earmarked Reserve in 2022/23.
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- 36. It is also important to recognise that no provision has currently been made as part of the MTFP to provide ongoing resources to adjust the level of the Councils resort management activities in line with those put in place for the 2021 season. This adjustment, which was funded from specific Covid19 resources, was principally focused on necessary public health measures.
  - 37. Figure 3 below sets out the latest MTFP position to 31 March 2024. It should be highlighted that the table shows the incremental changes, positive and negative, from the preceding year. It does not show absolute amounts although these are shown in the financial strategy attached as Appendix B.
  - 38. Appendix B sets out the key financial planning assumptions being used to underpin the MTFP. As part of the proposed financial strategy it will be important for the council to influence those which will be determined by government or third parties.

**Figure 3: Latest MTFP Position**

21/22 £m	Additional Investment into Services	22/23 £m	23/24 £m	Total £m
13.0	Adult social care inc public health	10.9	10.6	<b>21.5</b>
7.2	Children's services	2.1	2.2	<b>4.3</b>
2.9	Environment and communities	0.8	1.8	<b>2.6</b>
1.4	Regeneration and economy	1.5	0.0	<b>1.5</b>
1	Resource services	0.2	0.2	<b>0.4</b>
13.7	Income impacted by COVID-19	(12.6)	(0.5)	<b>(13.1)</b>
1.8	Contingency - pay award	3.1	3.2	<b>6.3</b>
0.0	Pay Award additional 0.5% 21/22	0.9	0.0	<b>0.9</b>
2.4	Contingency	(1.6)	0.0	<b>(1.6)</b>
0.0	Core government funding changes	2.1	0.8	<b>2.9</b>
23.9	Transformation programme costs including borrowing	(23.6)	0.0	<b>(23.6)</b>
3.5	Transformation - ongoing revenue costs	0.5	0.5	<b>1.0</b>
1.7	Minimum revenue provision & interest payable	0.7	0.3	<b>1.3</b>
4.8	Corporate priorities	(1.6)	0.0	<b>(1.6)</b>
(1.2)	Investment related to the high needs deficit	0.0	0.0	<b>0.0</b>
(2.8)	Revenue contribution to capital	0.0	0.0	<b>0.0</b>
0.0	Contribution to unearmarked reserves	0.7	0.0	<b>0.7</b>
0.0	Corporate pressures	0.1	0.0	<b>0.1</b>
0.0	Pension fund – tri-annual revaluation impact	(0.1)	0.2	<b>0.1</b>
<b>73.3</b>	<b>Total Additional Investment into Services</b>	<b>(15.9)</b>	<b>19.3</b>	<b>3.7</b>
	<b>Cumulative Investment into Services</b>	<b>(15.9)</b>	<b>3.4</b>	

21/22 £m	Additional Resources	22/23 £m	23/24 £m	Total £m
(3.4)	Council tax – income	(10.9)	(4.3)	<b>(15.2)</b>
5.9	Council Tax Base	(3.4)	(2.3)	<b>(5.7)</b>
1.7	Business rates income	0.0	0.0	<b>0.0</b>
4.2	Collection fund – (surplus) / deficit distribution net of S31 grant	0.7	0.0	<b>0.7</b>
0.0	Use of reserves	(2.1)	2.1	<b>0.0</b>
(0.6)	NNDR 75% loss grant through reserves	0.0	0.0	<b>0.0</b>
(0.4)	Council tax 75% loss grant through reserves	0.0	0.0	<b>0.0</b>
(3.8)	Local council tax support scheme grant 2021/22	3.8	0.0	<b>3.8</b>
(1.7)	Sales, fees and charges compensation 2021/22	1.7	0.0	<b>1.7</b>
(1.1)	Top slice covid pressures grant 2021/22	1.0	0.0	<b>1.0</b>
0.0	Social care funding	0.0	0.0	<b>0.0</b>
0.1	Investment income	(0.5)	0.0	<b>(0.5)</b>
(25.2)	Refinancing of capital programme	25.2	0.0	<b>25.2</b>
(4.7)	Review of inherited resources	4.7	0.0	<b>4.7</b>
(23.6)	Transformation programme funding - capital receipts / reserves	23.6	0.0	<b>23.6</b>
(7.5)	Transformation savings	(17.5)	(17.4)	<b>(34.9)</b>
(13.2)	Service based savings	(0.3)	(0.4)	<b>(0.7)</b>
<b>(73.3)</b>	<b>Total annual extra resource &amp; savings</b>	<b>26.0</b>	<b>(22.3)</b>	<b>3.7</b>
	<b>Cumulative extra resources &amp; savings</b>	<b>26.0</b>	<b>3.7</b>	

<b>Annual – Net Funding Gap</b>	<b>10.1</b>	<b>(3.0)</b>	<b>7.4</b>
<b>Cumulative MTFP – Net Funding Gap</b>	<b>10.1</b>	<b>7.1</b>	

11. The key difference between the MTFP as set out above and the position approved as part of the 2021/22 Budget report is the approach to the funding of the transformation programme. As part of the 2021/22 Budget the council endorsed the following financial commitment and profile of the transformation programme budget;

**Figure 4: Approved Transformation Programme expenditure profile**

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
<b>Total Expenditure</b>	<b>5.18</b>	<b>26.33</b>	<b>8.77</b>	<b>2.45</b>	<b>1.79</b>	<b>44.52</b>

12. This overall commitment was scheduled to be funded as follows;

£5.80m Capital via prudential borrowing

£13.81m Estimated capital receipts generated before 31 March 2022.

£12.90m Transformation Mitigation Reserve Resources (\*)

£12.01m Base Revenue funding for the transformation agenda

**£44.52m Total Transformation Programme approved investment**

*(\*) noting that the preference would be for his drawdown to be avoided by the use of additional capital receipts.*

13. The announcement by government of the extension to Flexible Use of Capital Receipts (as set out in sections 9 and 10 of the report) and the financial outturn for 2020/21 combine to provide the option to refinance the programme as follows;

£5.80m Capital via prudential borrowing

£5.11m Actual capital receipts generated in 2020/21

£17.46m Estimated capital receipts generated before 31 March 2025.

£14.15m Transformation Mitigation Reserve (\*)

£2.00m Non-General Fund contributions

**£44.52m Potential revised Transformation Programme approved investment**

*(\*) noting that the preference would be for this drawdown to be avoided by the use of additional capital receipts.*

In essence it is now proposed to finance the £12.01m due to be financed from the revenue budget of the council (£7.77m 2022/23, £2.45m 2023/24, £1.79m 2024/25) from capital receipts. This reduces the net MTFP funding gap in those years by these amounts.

14. In respect of the robustness of this £17.46m requirement for capital receipts, £11.02m is scheduled for delivery from 2021/22 onwards. This leaves £6.44m to be identified in line with the Net Asset Generation element of the financial strategy as set out later in this report. It should also be highlighted that the capital receipt can be generated at any time in the period to 31 March 2025 provided a temporary funding source exists to provide an interim funding solution. Based on the following updated profile of spend, as well as the potential to utilise the Transformation Mitigation Reserve, it is not then envisaged that the council will have to deliver the residual capital receipt value before 2023/24.

**Figure 5: Updated Transformation Programme expenditure profile**

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
<b>Total Expenditure</b>	<b>1.50</b>	<b>22.61</b>	<b>12.00</b>	<b>6.37</b>	<b>2.05</b>	<b>44.52</b>

15. Additional differences within the latest MTFP position include;
- The improvement in the 2020/21 financial outturn and the resources transferred to the MTFP Mitigation Reserve mean there are additional resources available to support the 2022/23 budget.
  - The additional annual contribution to unearmarked reserves as set out in section 22 of this document.
  - The extra cost pressure of up to £101k per annum for establishing a multi-disciplinary team and homeless health centre, as per the 26 May 2021 Cabinet report. This pressure is subject to ongoing work to refine the amount by consideration of the commissioning model and third-party contributions.
  - The financial implications of the Council Sustainable Fleet Management Strategy and Fleet Replacement Programme set out as a separate report on the June 2021 Cabinet agenda.
  - Potential for a 1.5% local government pay award for 2021/22 as per the offer made on the 17 May 2021 by the National Local Government Employers organisation to the trade unions. As part of the base budget revenue contingency provision was made for the equivalent of a 1% award which by implications requires a further provision of 0.5% to be recognised moving forward.
16. Good practice would advise local authorities to critically evaluate their financial resilience by testing its sensitivity to plausible alternative scenarios for key drivers of costs, service demands and resources. To that effect the MTFP has been drawn up using what, based on professional judgement and avoiding optimism bias, is the most likely scenario that the council will find itself in. Alternative best case and worse case planning indicates that the £10.1m funding gap for 2022/23 could reduce to £7.5m in a best-case scenario or increase to £25.1m in an absolute worst-case scenario.
17. The proposal is that the next report in the budget cycle which is the October report to Cabinet reflects a “bottom up” approach to understanding the current operating costs of services to inform a fundamental refresh of the MTFP for a five year period to 2026/27.

### **Proposed Financial Strategy**

18. A financial strategy is integral to the council achieving its objectives and its overall organisational health. Its aim is to detail how the council plans to finance its operations and meet its strategic priorities. The intent of the strategy is to set out the themes and categories the council will look to further develop as a means of delivering a balanced budget for 2022/23 and any underlying actions that need to be taken. The document will also support the approval of the Medium-Term Financial Plan (MTFP) and the latest value for money judgement for the authority.
19. The strategy will help BCP continue to build a culture of strong and effective financial management, a culture which has enabled balanced budgets to be set for

the first 3 years of its operation and well managed financial outturn's to be delivered. Traditionally numerous officers, and councillors, have made a personal contribution in enabling the council to deliver these outcomes. BCP will need to continue to harness this positive focus and goodwill.

20. Good practice suggests that in considering its budget strategy local authorities should ask itself the following question “can the council balance its books without taking significant risks with taxpayers’ money”. If the answer is no, then the council should rethink its budget strategy and what is affordable and sustainable service levels. This good practice was referenced in the Grant Thornton lessons learnt from public interest reports 2021 which will be considered by the Audit and Governance Committee in July.
21. Appendix B presents the proposed 2022/23 financial strategy for member consideration.
22. In developing the budget strategy for 2022/23 the Council has been reflective of the outcomes of the CIPFA Financial Resilience index and other financial benchmarking. In that respect four areas are particularly pertinent and have been used to shape the budget strategy and MTFP as set out as follows;
  - 1) **Level of unearmarked reserves.** As a matter of prudence, the proposal is to improve the level of unearmarked reserves held so the Council can position itself in the middle compared to all upper tier authorities including unitary, county, and metropolitan authorities. Undertaking this analysis as a percentage of net revenue expenditure ensures the relative size of the council is considered. The approach as set out in Appendix D is to move to this position over the five years of the MTFP which is the period it is proposed to extend the plan to when it is refreshed during the summer. The appendix shows that the council currently has unearmarked reserve of 5.4% with 6.1% representing the mid-point. Increasing our unearmarked reserves to this level will require an extra £3.56m to be set aside which over a five-year period equates to £0.71m per annum. Appendix E provides the relevant benchmarking analysis.
  - 2) **Self-imposed levels of debt as set out by the Councils Capital Financing Requirement (CFR).** Such levels are a requirement of the CIPFA Prudential Code and link into the prudential indicators agreed by Council as part of its annual Treasury Management Strategy. Again, the intention is to move to the mid-point of all upper tier authorities as a percentage of net revenue expenditure. Such an approach has enabled the Council to determine that it has debt headroom of £212 million compared to its 31 March 2024 forecast position. This provides the parameters for the additional amount available to the Council to support its regeneration and big plan ambitions. This amount is additional to the £184 million already set aside via prudential borrowing in the capital programme to support service delivery, housing and regeneration schemes over the next three years such as those the being delivered to increase its housing stock and the schemes being delivered by the Bournemouth Development Company (BDC). The Audit and Governance Committee will be requested to endorse the approach as part of the development of the 2022/23 Treasury Management Strategy. Appendix F provides the relevant benchmarking analysis.
  - 3) **Net Asset Generation.** Under this approach it is clear that the Councils intention is to buy, build or create assets with an overall value of £396 million more than those held as at the 31 March 2021. An approach which presents a compelling business case to support the release of assets no longer needed for service

delivery, regeneration or housing. This approach will support the delivery of the capital receipts required to fund the transformation programme.

- 4) **Adult Social Care Use of Resources Assessment.** The Council has used John Jackson the National Care and Health Improvement Adviser, Finance and Risks to undertake a use of resources assessment by the council's adult social care services. In benchmarking our spend in areas such as younger adults, older people and proportion of spending funded by the NHS it is proposed to identify the potential for reductions in third party spend or the amount directly spent on care and support costs.

23. Financial strategy workstreams will now focus on;

- a) Delivering the £25 million transformation programme savings target for 2022/23 as the key driver of financial sustainability for the council.
- b) As part of (a) delivering the £6.6 million transformation estates and accommodation project on time, on budget and contributing the assumed level of savings.
- c) Driving out value from land and building assets led by the councils new Urban Regeneration Company.
- d) Delivering non transformation service-based savings and efficiencies and driving down the cost of services and pressures included in the MTFP.
- e) Financial monitoring of the 2021/22 approved budget with emphasise on the extent to which sales, fees and charges income streams are recovering as assumed.
- f) Annual fundamental refresh of the MTFP for each service with an intention to extend the plan to cover a five-year time horizon (to the 31 March 2027). This will include a review of the 2020/21 financial outturn to determine the extent that future base revenue budgets should be adjusted recognising the uncertainty caused by covid-19.
- g) Delivering the councils pay and grading harmonisation project within a cost neutral framework.
- h) Monitoring of national and sector specific announcements including those associated with the Fair Funding Review, 75% business rates retention, future funding of social care and the pay award.
- i) Consider the extent to which assistive technology can improve service delivery and reduce the ongoing associated costs for example in adult social care.
- j) Ongoing review of the capital programme financing and provisions. This includes part 2 of the workstream around the application of community infrastructure levy resources which is detailed as part of the 2020/21 Financial Outturn report presented elsewhere on this Cabinet agenda.
- k) The deficit recovery plan for the Dedicated Schools Grant (DSG) with specific reference to the High Needs Budget.
- l) Consider the extent to which it is possible to further support the 2022/23 Budget by the application of financial resilience reserves. By doing so this will enable a further period of recovery to prevent unnecessary adjustments to service delivery standards being made.

### **Options appraisal**

24. This report considers current and future financial sustainability. Any consequential savings and efficiency plans that are developed will each need to be tested to determine the extent to which alternative options exist.

### **Summary of financial implications**

25. The financial implications of the MTFP and budget work now in hand are as outlined within the report. The work is progressed within base budget resources.

### **Summary of legal implications**

26. It is the responsibility of members to ensure the Council sets a balanced budget for the forthcoming year. In setting such a budget members and officers of the council have a legal requirement to ensure it is balanced in a manner which reflects the needs of both *current* and *future* taxpayers in discharging these responsibilities. In essence this is a direct reference to ensure that council sets a financially sustainable budget which is mindful of the long-term consequences of any short-term decisions.

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

27. There are no direct human resource implications of this report. However, the MTFP and budget will have a direct impact on the level of services delivered by the council, the mechanisms by which those services are delivered and the associated staffing establishment.

### **Summary of sustainability impact**

28. The accommodation and business transformation programmes underlying the MTFP will make the council more environmentally friendly through a reduced estate and different ways of working, including the continued ability for staff to work effectively from home. This will reduce energy consumption and pollution levels as well as produce savings to protect services.
29. Consideration of further sustainability measures will be undertaken as individual proposals come forward as part of the budget setting process for 2022/23.

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

30. The council will seek to maintain appropriate services for the vulnerable as well as improve the sustainability of services important for the wellbeing of all residents.
31. The rationalisation of the estate will continue to take account of the measures necessary to manage the pandemic for as long as considered necessary.
32. The budget will continue to include an allowance for PPE to protect staff and residents to ensure compliance with all guidance to be issued by Public Health England over time.
33. The Department of Health and Social Care have announced the public health grant allocations for 2021/22. Nationally the grant will be £3.324 billion a rise of 1% in cash terms. Locally public health is delivered via a pan Dorset service arrangement in partnership with Dorset Council. The local increases were as follows;
  - BCP Council £20.1m (£19.8m 2020/21) 1.5% increase
  - Dorset Council £14.2m (£14.1m 2020/21) 1.0% increase



### **Summary of equality implications**

34. A full equalities impact assessment will be undertaken as part of the final February 2022 report to members as part of the annual budget process.

### **Summary of risk assessment**

35. A significant level of uncertainty is associated with the government's financial planning framework, which delivered an annual settlement only for 2021/22 rather than the intended three-year timeframe.
36. Significant new models of funding local government are expected to impact over the MTFP period. This includes implementing changes signalled well before the start of the pandemic for business rates and adult social care, with it not yet possible to estimate the financial outcome for the council.
37. Significant assumptions have been made regarding the level of demand for council services, the associated costs, and the timing and level of savings to be delivered by the transformation programme which began in April this year.
38. It has also been assumed that the council will continue not to supplement the dedicated schools grant from its own resources, as prohibited by current legislation without specific government approval. The accumulated deficit is currently escalating in the order of £10 million per annum with a successful recovery plan not yet in evidence.

### **Background papers**

39. February 2021 Budget report to Council

[http://ced-pri-cms-02.ced.local/mgAi.aspx?ID=3925&LO\\$=1#mgDocuments](http://ced-pri-cms-02.ced.local/mgAi.aspx?ID=3925&LO$=1#mgDocuments)

### **Appendices**

- A MTFP Timeline
- B Financial Strategy
- C Key Assumptions
- D Benchmarking – Unearmarked Reserves
- E Benchmarking – Capital Financing Requirement (Debt)