

Report subject	<b>MTFP Update Report</b>
Meeting date	27 October 2021
Status	Public Report
Executive summary	<p>This report:</p> <ul style="list-style-type: none"> <li>• Presents a refresh of the medium-term financial plan (MTFP) of the council to reflect the annual fundamental review and its extension to a 5-year time horizon.</li> <li>• Progress towards delivering a balanced budget for 2022/23 and highlights the key financial risks faced by the Council.</li> <li>• An update of the CIPFA Financial Management Code of Practice.</li> <li>• An update on the CIPFA Financial Resilience Index.</li> <li>• An update on the CIPFA Treasury Management and Prudential Code of Practice.</li> </ul>
Recommendations	<p>It is <b>RECOMMENDED</b> that <b>Cabinet note:</b></p> <p><b>a) The current budget position for 2022/23.</b></p> <p><b>b) The progress made in refreshing the MTFP and its extension to cover the five-year period to 31 March 2027.</b></p>
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 ensure Members develop a balanced budget for 2022/23.</p>
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. Cabinet at its meeting on the 23 June 2021 received an MTFP Update report. In receiving the report Cabinet agreed the budget planning process and financial strategy to support the development of the 2022/23 budget and the proposal to extend the MTFP to cover the 5-year period to 31 March 2027.
2. The 23 June 2021 Cabinet report also provided the detail of the latest MTFP position as summarised below.

**Figure 1: June 2021 Medium Term Financial Plan position**

	2022/23 £m	2023/24 £m
Annual Funding Gap	10.1	(3.0)
<b>Cumulative – Net Funding Gap</b>	<b>10.1</b>	<b>7.1</b>

It was also acknowledged that this position would materially alter if any of the **key financial planning assumptions**, currently being adopted to underpin the financial planning framework, were to change. These key assumptions were listed as:

- 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 was emphasised that the 2022/23 potential council tax increase includes the 3% Adult Social Care precept deferred from 2021/22 and that a decision on the use or not of the Adult Social Care precept will be made in the budget for 2022/23 in February 2021.
- b) A 1.5% increase in the councils taxbase (number of band D equivalent properties) for 2022/23 and a 1% increase for 2023/24. The standard assumption has historically been 0.5% per annum.
- 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 was 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.
- h) The council will not be required to take any action on the 1 April 2023 to mitigate the predicted £27.4m accumulated deficit on its Dedicated Schools Grant Budget (High Needs). This is when the current legislation, which avoids the council having to act, is lifted.

3. In addition, the position was underpinned by the basic assumption that no adjustments will be needed because of 2021/22 actual activity of the council as services are expected to be delivered within the parameters of the February 2021 approved budgets for the current financial year.
4. In approving the 2022/23 financial strategy the focus was on the underlying activity to deliver a number of these key assumptions, to drive down the requested service pressures, and to improve the efficiency of operation. The final potential action was to note that to enable the Council to focus on delivering the £42.4m of annual ongoing transformation savings hardcoded into this MTFP from 2023/24, consideration would be given to drawing down further resources from the £20.9m of Financial Resilience Earmarked Reserves to provide an extended timeframe for any additional savings to be delivered.

### **2021/22 In-year position**

5. Cabinet at its meeting on the 29 September 2021 received the first quarters budget monitoring report which set out the details of a £12.6m forecast overspend within services. This forecast reflects one-off and ongoing Covid19 related pressures alongside non-Covid ongoing service pressures. The ongoing pressures will have significant implications for the councils MTFP with the most notably amongst these being the pressures within Children's Services.
6. It is important to recognise that this £12.6m pressure is reduced to a net £7.6m forecast overspend following the application of several one-off surpluses that fall within the 2021/22 accounts. This includes £2.9m released from reserves in respect of resources previously used to finance the capital programme following the decision of Council on the 14 September 2021 to agree the capital virements set out in the 2020/21 Financial Outturn report. The 2021/22 quarter one budget monitoring report set out a potential mitigation strategy should this forecast overspend materialise.
7. It is critical to acknowledge that the quarter one forecast assumes that the council delivers the £7.5m of transformation programme savings included in the budget for 2021/22. A full update on progress against this target will be included in the quarter two budget monitoring report being presented to Cabinet in December 2021. Savings from the smarter staff structures project and quick wins from a review of third party spend are the main workstreams being undertaken in this area.
8. As stated, the corporate smarter structures project will deliver some savings towards the residual target, but it will take time to establish these as the outcome of the project is currently undergoing final review across services.
9. Consideration also needs to be given to the consequences of the National Local Government Employers organisation making the offer of a 1.75% local government pay award for 2021/22. As part of the base budget revenue contingency provision was made for the equivalent of a 1% pay award which by implications requires a further provision of 0.75% to be recognised. In 2021/22 this will be managed by the application of one-off contingency resources, however in respect of 2022/23 onwards this 0.75% shortfall will present as an additional revenue pressure. The trade unions are recommending that their members reject the tabled pay offer and the possibility of a 2-year pay deal has been mooted.
10. The 2021/22 in-year monitoring is also important as a yard stick to measure the validity of some of the key MTFP financial planning assumptions which were previously being used to underpin the 2022/23 budget. Key amongst these are:

- a) The prediction that the sales, fees, and charge income will almost completely recover to pre-covid levels from the 1 April 2023 onwards enabling an extra £12.3m to be generated in support of the 2022/23 budget (compared to 2021/22).
- b) The ability of the council to deliver savings through its investment in the transformation programme. The current MTFP for 2022/23 assumes that total cumulative annual transformation savings of £25m will be delivered.

### **Government announcements since June 2021 Cabinet report**

11. On the 7 September 2021 the government announced that the 2021 Spending Review (SR21) will be concluded alongside the Autumn 2021 Budget on the 27 October 2021. Confirmation was provided of a multi-year spending review covering the three-year period 2022/23 to 2024/25. This will be the first multi-year funding settlement in three years after Brexit and Covid19 resulted in single year departmental allocations. At this stage there appears to be a robust narrative around ensuring that the economy recovers as quickly and strongly as possible and that there will be “absolutely no return to austerity”.
12. The spending review will provide a broad outline for how much government spending will rise by in future years. The details of the package for local government are not likely to be known before the provisional 2022/23 local government finance settlement is issued in December 2021.
13. Additionally, on the 7 September 2021 the Prime Minister announced significant plans for the future of adult social care in the form of the [Build back better: our plan for health and social care](#) publication. The centrepiece of the plan is a new UK-wide 1.25 per cent Health and Social Care Levy that will be ringfenced to fund the plan’s range of proposals.

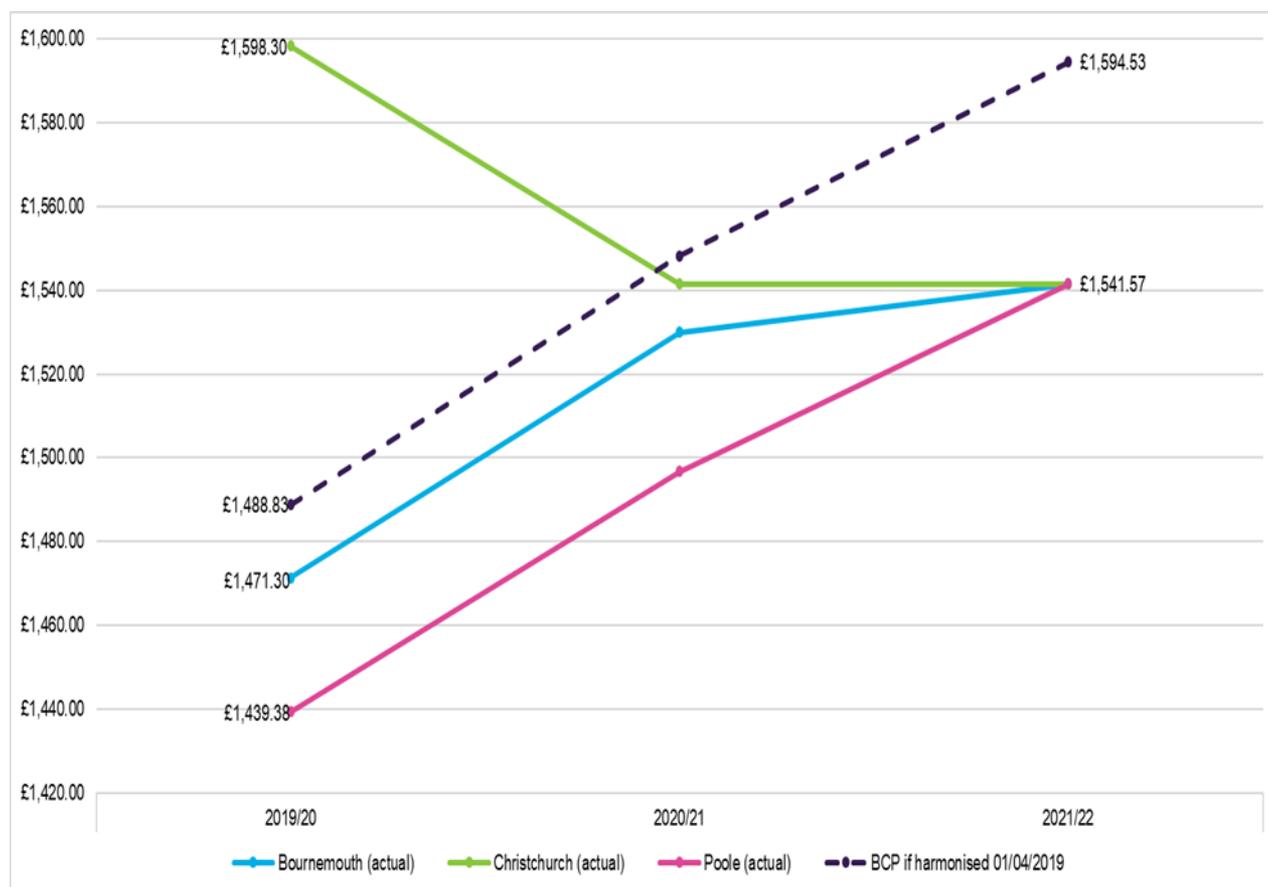
The key elements of the new plan are.

- People will no longer pay more than £86,000 in care costs over their lifetime, from October 2023. This will be implemented via a cap on personal care costs which does not include food and accommodation costs.
- Once people have reached this cap, ongoing personal care costs will be paid by local authorities.
- Those with less than £20,000 in assets (up from the current threshold of £14,250) will not have to pay towards personal care costs from their assets at all. They might have to contribute from their income.
- Those with between £20,000 and £100,000 in assets will get means-tested help towards personal care costs from the council.
- People will only be required to pay for the full cost of their own personal care if their assets are more than £100,000 (up from the current threshold of £23,250) up to the £86,000 cap.
- Self-funders will be able to request that their council arranges their care so they can access it at council-funded rates. The government intention being to end the cross subsidisation where care providers charge higher rates to self-funders compared to local authorities.
- An expectation that councils will use some of the additional funding to pay providers a 'fair price for care'.

- Investment of £500 million for new measures to support the care workforce.
  - More support for unpaid carers.
  - Investment in Disabled Facilities Grant and supported housing.
  - The tax will be raised through a 1.25% increase in both employers and employee's national insurance from April 2022 onwards. A 1.25% increase in employers' national insurance will cost BCP council approximately £1m per annum. There is also likely to be an impact on any contract or commissioned costs provided to the council were the contractor directly employes individuals.
  - From 2023, the National Insurance increase will become a separate Health and Social Care Levy with National Insurance rates returning to previous levels.
  - In addition, there will be a 1.25% tax rate increase in income from share dividends. This may have an impact on the valuation of the Dorset County Local Government Pension Fund.
14. The Levy is expected to raise an additional £12 billion a year on average, hypothecated for health and care, across the UK. It is estimated that £36 billion will be raised from the levy over the next three-years. It is proposed that the majority of the funds raised over the next three years will be spent on catching up on the backlog in the NHS. A smaller proportion, £5.4billion, will go towards implementing and funding the financial consequences to local authorities from having lower levels of client contributions towards care (due to the changes to the thresholds at which people contribute towards their personal social care costs). Implementing and administering the proposed new cap on care costs will be a significant undertaking for councils. Government have announced that it will consult on its proposals for the distribution of the funding and to keep the formula under review.
15. In addition, the government's plan commits to working with councils, the social care sector, people with lived experience and the NHS to develop a new white paper for wider social care reforms. It also states that the government will ensure councils have access to sustainable funding for core budgets at the Spending Review. However, the plan also states that the government's expectation is for demographic and unit cost pressures in social care to be funded through council tax, the council tax social care precept, and long-term efficiencies.
16. This statement reminds us that the strategic approach taken by government since its 2015 spending review is that local councils should be increasing council tax as the mechanism for funding cost and demand pressures in local services. Therefore, for the last 6 years in a row (since 2016/17), this has included the use of the Adult Social Care council tax precept as a means of asserting national direction on how such resources should be applied. The response to any lobbying for higher BCP Council funding allocations of government resources are always responded to by references to the amount the government have made provision for the councils "spending power" to be increased annually. The most significant element of this annual spending power increase is the amount the government have made legislative provision for the council to increase its council tax by.
17. As a reminder the below graph sets out the levels that government legislated for BCP Council to increase its council tax by compared to the actual levels of council tax set. This demonstrates that if the council had followed government guidelines then our council tax would have been £1,594.53 in 2021/22 which is 3.4% higher

than the £1,541.57 actual rate set. The government are therefore clear the council has locally decided not to generate the £7.6m per annum extra that we could have been generating and we have accepted this lower tax revenue.

**Figure 1: BCP actual council tax levels compared to permitted levels.**



18. In addition, it would be worth reflecting on the government's latest data estimates that highlight that economic activity nationally will not now return to pre-Covid levels until 2023. Covid led to a 10% fall in economic output over 2020 which is now only partial expected to recover in 2021 and 2022. Data from local authorities has shown that income-generating activity has been slow to improve with the Society of Local Authority Treasurers formally requesting an extension to the governments Sales, Fees, and Charge's compensation scheme to at least 31 March 2022. This request is unlikely to be supported by government as HM Treasury are of the view that they overfunded covid pressures on local councils during 2020/21.
19. Finally, it remains to be seen whether the recommendation of the Hudson Review, that provisional Local Government Finance Settlements should be announced no later than around 5 December, will be met this year.

### Latest Medium-Term Financial Plan

20. 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.

21. 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 Cabinet agreed the following high-level budget cycle as part of the 23 June 2021 Cabinet report.

**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) was 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 on the 26 November 2021.
- 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.

22. Stage one and two are substantially complete. Figure 2 below sets out the current MTFP updated to reflect the extended five-year timeline to 31 March 2027. It should be emphasised that the table shows the incremental changes, positive and negative, from the preceding year. It does not show the absolute amounts. These are included as Appendix A to the report.

**Figure 2: 5-year Medium Term Financial Plan 2022 to 2027**

<b>Additional Investment into Services</b>	<b>22/23</b>	<b>23/24</b>	<b>24/25</b>	<b>25/26</b>	<b>26/27</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Adult social care inc public health	10.2	11.9	12.5	9.0	9.5	<b>53.2</b>
Children's services	13.6	5.4	9.6	11.0	12.7	<b>52.3</b>
Environment and communities	2.1	2.3	2.3	0.9	1.0	<b>8.5</b>
Regeneration and economy	1.4	0.5	0.5	0.3	0.3	<b>2.9</b>
Resource services	(0.1)	0.6	0.7	0.7	0.7	<b>2.6</b>
Income impacted by COVID-19	(7.3)	(2.1)	(1.7)	0.0	0.0	<b>(11.1)</b>
Contingency - pay award	5.7	3.3	3.4	3.4	3.4	<b>19.0</b>
Pay Award additional 0.75% 21/22	1.3	0.0	0.0	0.0	0.0	<b>1.3</b>
Contingency	(1.9)	0.2	0.1	0.0	0.0	<b>(1.6)</b>
Core government funding changes	2.3	1.0	0.0	0.0	0.0	<b>3.3</b>
Transformation - ongoing revenue costs	0.5	0.5	0.0	0.0	0.0	<b>1.0</b>
Minimum revenue provision & interest payable	1.8	1.8	0.2	0.3	0.3	<b>4.4</b>
Corporate priorities (original 2021/22)	(1.4)	0.0	0.0	0.0	0.0	<b>(1.4)</b>
Carters Quay Regeneration Scheme	0.1	0.1	(0.1)	(0.3)	(0.1)	<b>(0.3)</b>
Increase in employers NICs to fund cap on social care	1.0	0.0	0.0	0.0	0.0	<b>1.0</b>
Contribution to unearmarked reserves	0.7	0.0	0.0	0.0	0.0	<b>0.7</b>
Pension fund – tri-annual revaluation impact	(0.1)	0.2	0.2	0.2	0.2	<b>0.8</b>
<b>Total Additional Investment into Services</b>	<b>29.8</b>	<b>25.8</b>	<b>27.7</b>	<b>25.4</b>	<b>27.9</b>	<b>136.7</b>
<b>Cumulative Investment into Services</b>	<b>29.8</b>	<b>55.6</b>	<b>83.3</b>	<b>108.8</b>	<b>136.7</b>	

<b>Additional Resources</b>	<b>22/23</b>	<b>23/24</b>	<b>24/25</b>	<b>25/26</b>	<b>26/27</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Council tax – income	(10.7)	(4.5)	(4.7)	(4.8)	(4.9)	<b>(29.7)</b>
Council Tax Base	(3.4)	(2.3)	(1.2)	(1.2)	(1.3)	<b>(9.4)</b>
Collection fund – (surplus) / deficit distribution net of S31 grant	(4.1)	4.8	(3.5)	0.0	0.0	<b>(2.8)</b>
Use of reserves - inc 75% loss drawdown	(2.1)	2.1	1.0	0.0	0.0	<b>1.0</b>
Local council tax support scheme grant 2021/22	3.8	0.0	0.0	0.0	0.0	<b>3.8</b>
Sales, fees and charges compensation 2021/22	1.6	0.0	0.0	0.0	0.0	<b>1.6</b>
Top slice covid pressures grant 2021/22	1.0	0.0	0.0	0.0	0.0	<b>1.0</b>
Investment income	(0.5)	(0.1)	(0.1)	(0.1)	0.0	<b>(0.7)</b>
Refinancing of capital programme	25.1	0.0	0.0	0.0	0.0	<b>25.1</b>
Review of inherited resources	4.7	0.0	0.0	0.0	0.0	<b>4.7</b>
Transformation savings	(17.5)	(17.5)	0.0	0.0	0.0	<b>(34.9)</b>
Service based savings	(2.8)	(2.3)	(4.2)	(0.5)	(0.2)	<b>(10.0)</b>
<b>Total annual extra resource &amp; savings</b>	<b>(4.7)</b>	<b>(19.8)</b>	<b>(12.6)</b>	<b>(6.6)</b>	<b>(6.4)</b>	<b>(50.1)</b>
<b>Cumulative extra resources &amp; savings</b>	<b>(4.7)</b>	<b>(24.5)</b>	<b>(37.1)</b>	<b>(43.7)</b>	<b>(50.1)</b>	

<b>Annual – Net Funding Gap</b>	<b>25.1</b>	<b>6.0</b>	<b>15.1</b>	<b>18.9</b>	<b>21.5</b>	<b>86.6</b>
<b>Cumulative MTFP – Net Funding Gap</b>	<b>25.1</b>	<b>31.1</b>	<b>46.2</b>	<b>65.1</b>	<b>86.6</b>	

23. 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 to which it is appropriate to include transformation savings that have not been itemised in the base budget for 2022/23. The annual value of the transformation savings being assumed for 2022/23 is £25m, of which £4.7m has currently been itemised. It will therefore be a requirement on the council's Chief Finance Officer (CFO) to reflect, as part of the 2022/23 budget report, on the adequacy of the council's reserves should these savings fail to materialise.
24. At this stage members are reminded that they have a legal responsibility to balance the 2022/23 budget in a manner which reflects the needs of both current and future taxpayers.
25. The key matters for consideration in the refreshed MTFP pertinent to the position as set out, can be listed as.
  - a) Fundamental rebase of resource requirements for Children's services recognising the emerging in-year 2021/22 pressures and the 10% year-on-year growth in education, health, and care plans (EHCPs).
  - b) The 1.25% increase in employers' national insurance which from 2023/24 will become the Health and Social Care Levy.
  - c) A revision to the September 2021 inflationary forecast which is used as the predictor for the following year (2022/23) pay award (3.4% from 2%)
  - d) Redistribution, as a one-off in 2022/23, a £4.8m surplus in the collection fund associated with the government arrangements for spreading 2020/21 collection fund deficits over a 3-year period and the relationship between the December 2020 estimate for 2020/21 used in the 3-year phasing and the actual outturn for the year.
  - e) A reduction in the assumed level of recovery of the council's sales, fees, and charges income base from the impact of the global pandemic. Although there are some pockets of very good performance, originally it had been assumed that the majority of income stream would recover for 2022/23. Indications are that all such income streams will not be back to pre-covid levels until April 2024.
  - f) A financial planning assumption of a basic 1.99% increase in council tax in each of the three additional years 2024/25, 2025/26, 2026/27. The current national expectation is that a 2% social care precept will be offered in each of these years, but this has not currently been assumed in the updated MTFP.
  - g) Impact of the increasing cost of energy prices such as electricity and gas to the cost base of numerous operational services.
  - h) Inclusion of £2.8m of non-transformation, service-based savings, and efficiencies.
  - i) The doubling of the support of the Climate Change and Ecological Emergency from £0.24m per annum to £0.48m per annum as per the 23 June MTFP Update report to Cabinet.

- j) An additional £0.22m investment in 2022/23 in SEND as agreed by Council on 14 September 2021.
  - k) To date, Government have not given any indication that they are formally considering extending the legislation that prevents the council having to mitigate, as part of its financial strategy the accumulated deficit on the Dedicated Schools Grant High Needs Budget. This temporary 3-year piece of legislation is due to be lifted on the 1 April 2023 which if it were would present a challenge to the financial viability of the council from that point on.
26. Financial strategy workstreams will now focus on delivering the £25 million annual transformation programme savings target for 2022/23 as the key driver of the financial strategy for the council. This is a £17.5m increase from the £7.5m budgeted for 2021/22. The MTFP assumes a further £17.4m annual increase in 2023/24 bringing the cumulative annual savings target to £42.4m from 2023/24.
27. This workstream will also consider the £44.53m previously approved expenditure programme associated with the transformation programme and the ability to redirect or extend this programme to increase the level of assurance around the currently assumed savings. Consideration will also be given to the extent to which the pace and value of these assumed savings can be increased. This programme includes:
- a) Delivering the £6.6 million transformation estates and accommodation project on time, on budget and contributing the assumed level of savings.
  - b) Driving out value from land and building assets led by the councils new Urban Regeneration Company.
  - c) Considering the extent to which, within the local government capital accounting framework, it is feasible to capitalise any of the costs the council will need to incur in support of its regeneration ambitions.
  - d) In addition, it is proposed to consider the extent to which additional capital receipts can be generated which under the flexible use of capital receipts can be used to fund transformation. Currently the council is having to use its £14.1m Transformation Mitigation earmarked reserve to provide the necessary funding over the assumed and delivered levels of capital receipts to fund its transformation programme commitments.
  - e) Further review, test and challenge by Cabinet, Corporate Management Board, service directors, and budget holders of the amounts included in the refreshed MTFP and the ability to drive down the assumed cost increases.
  - f) Delivering further non transformation service-based savings and efficiencies and driving down the cost of services and pressures included in the MTFP.
  - g) 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.
  - h) Delivering the councils pay and grading harmonisation project within a cost neutral framework.
  - i) 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.

- j) Consider the extent to which assistive technology can improve service delivery and reduce the ongoing associated costs for example in adult social care.
- 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 and appropriate 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. Any such allocation will need to reflect on the risks and uncertainty in the MTFP over its entire 5-year period.

### **CIPFA FM Code of Practice**

- 28. The Financial Management Code of Practice (FM Code) provides guidance for good sustainable financial management in local authorities to provide assurance that authorities are managing resources effectively. Although 2021/22 is the first full year of compliance, councils were expected to use 2020/21 to demonstrate how they are working towards compliance and report progress as part of their Annual Governance Statement (AGS).
- 29. The AGS, which was first reported as part of the June 2021 public inspection of the draft 2020/21 accounts, included a self-assessment of progress towards compliance. This self-assessment will be independently reviewed by Internal Audit during 2021/22 and reported to the Audit & Governance Committee in the autumn.
- 30. The self-assessment concluded that BCP Council was largely compliant across all areas of the code. That said, the following preliminary findings and actions were identified.
  - a) The children's service capital strategy is under-developed. Cabinet in October 2021 is due to receive a report which presents the capital strategy and detailed plan.
  - b) The capital strategy / estate management strategy needs to include an analysis of the overall capital requirements of the council's estate. The estate management workstream which is part of the transformation programme will consider such information in determining the appropriate corporate landlord model for the council.
  - c) Consideration of the extent to which the budget process would be enhanced by any additional consultation.
  - d) Consideration of the extent to which balance sheet items should be regularly reported.
  - e) Utilisation of the new main accounting system, which will be implemented as part of the new Enterprise Resource Planning (ERP) system and is underpinning the new operating model of the council, to record details of fixed assets rather than the use of spreadsheets.

### **CIPFA Financial Resilience Index**

- 31. In 2019 the Chartered Institute of Public Finance and Accountancy (CIPFA) first published what they refer to as the CIPFA Financial Resilience Index. Its aim is to promote good standards of governance and financial management across the sector. The index shows the council's position on a range of measures associated with

financial risk. It is a comparative analytical tool which builds a picture of the council's financial resilience by comparing one financial year with another and by comparing BCP Council with similar and other unitary councils.

32. The index uses a combination of financial outturn data and budget data for the specific financial years in question. As year-on-year data is only now beginning to emerge for BCP Council the index usefulness is only now beginning to emerge.
33. That said, the approach of using benchmarking information to influence and shape the financial strategy and medium-term financial plan is fundamental to the council's budget process. This was demonstrated by the approach set out in the June 2021 MTFP Update report to Cabinet which proposed adjustments to the Councils self-imposed levels of debt as set out by the Capital Financing Requirement (CFR) and the year on year increases to the level of unearmarked reserves to recognise the higher level of risk associated with a higher debt position. The Council has also undertaken two separate pieces of work with the Local Government Association around Adult Social Care and Children's Services which included a review of the robustness of the council financial planning and monitoring processes and benchmarking to confirm if the base budget levels are appropriate to the size of the authority and suggest ways of reducing the councils cost base.
34. For information and transparency Appendix B provides a summary of the latest published CIPFA Financial Resilience Index.
35. The key matters highlighted by this document include.
  - a) Comparative information is currently only available for 2019/20.
  - b) BCP Council has submitted its data for 2020/21 which is still subject to MHCLG data validation processes.
  - c) Comparative benchmarking information with other unitary councils will not be available to later in the year. Nevertheless our 2020/21 data has been shown on the appendix along with a direction of travel.
  - d) Benchmarking information for 2020/21 is likely to be significantly caveated due to the impact of covid19 and the government's response. A good example will be the level of reserves with BCP having, as just one example, to hold £40.4m of Government compensation for the reliefs given to business in 2020/21, in it reserves on 31 March 2021 on the basis that the cash transaction is processed within 2021/22.
36. The intention will be to provide a further update once the comparative information for 2020/21 is available.

### **CIPFA Treasury Management Prudential Code of Practice and Local Authority Capital Financing Framework**

37. CIPFA will also be issuing its revisions to the Treasury Management and Prudential Code of Practice in December 2021. The amendments follow the recommendations from the Public Accounts Committee.
38. One of the notable revisions is that borrowing to fund solely for yield generating investments, from whatever funding sources, is not permissible under the code as they represent an unnecessary risk to public expenditure. Borrowing to support service-based proposals, regeneration and housing will continue to be permitted under the code. In these instances, authorities are advised to consider carefully

whether they can demonstrate value for money and whether they can ensure the security of such funds.

39. In support, CIPFA are proposing to introduce new prudential indicators alongside an addition of a new liability benchmark.
40. MHCLG have made it clear that local authorities taking on excessive risk and any noncompliance with the framework will see increased interventions from government potentially leading to caps on borrowing. MHCLG also plan to better constrain the risks associated with complex capital transactions. This includes credit arrangements, such as PFI deals or income strips, and financial derivatives. These types of arrangement can carry more risk than traditional forms of financing and require the right expertise to support effective decisions and risk management.
41. The changes are likely to mean more data on local authority capital plans must be provided to government, with increased scrutiny from external audit and increased transparency in public reporting.

### Options Appraisal

42. 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.
43. Various alternatives of the 5-year MTFP have been modelled including one which assumes the continuation of the 2% annual Adult Social Care precept into future years. A model which assumes council tax increases of 3.99% per annum (1.99% basic plus 2% Adult Social Care precept) rather than just the basic 1.99% from 2023/24 onwards results in the following revised MTFP funding gaps.

**Figure 3:** 5-year Medium Term Financial Plan 2022 to 2027 assuming a 2% social care precept on top of the basic 1.99% from 2023/24

Additional Investment into Services	22/23	23/24	24/25	25/26	26/27	Total
	£m	£m	£m	£m	£m	£m
Annual – Net Funding Gap	25.1	1.4	10.1	13.6	15.9	66.1
Cumulative MTFP – Net Funding Gap	25.1	26.5	36.6	50.2	66.1	

### Summary of financial implications

44. 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

45. Council has a fiduciary duty to its taxpayers to be prudent in the administration of the funds it holds on their behalf and an equal duty to consider the interests of their community which benefit from the services it provides.
46. 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**

47. 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**

48. 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.
49. 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**

50. 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.
51. The rationalisation of the estate will continue to take account of the measures necessary to manage the pandemic for as long as considered necessary.
52. The budget will continue to include an allowance for personal protective equipment to protect staff and residents to ensure compliance with all guidance to be issued by Public Health England over time.

### **Summary of equality implications**

53. 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**

54. Periodic review has identified the following key elements to the risk associated with the council's financial sustainability.
  - a) 2021/22 in-year financial performance. The first quarters budget monitoring report for 2021/22 was presented to Cabinet on the 29<sup>th</sup> September 2021. This identified an in-year current predicated overspend of £12.6m and included the impact on Children's and Adult Social Care services due to the legacy impact of the pandemic as well as other services pressures. This forecast overspend is reduced to £7.6m by the application of one-off surpluses that naturally fall within the 2021/22 accounts.
  - b) Delivery of the currently assumed transformation programme savings which have been hardcoded into the council's budget and MTFP. The budget for 2021/22 included £7.5m of transformation related savings. The MTFP current assumes this will be increased to £25m in underpinning the 2022/23 budget and £42.4m in underpinning the 2023/24 budget.

- c) Pay and reward project. The council from its inception has assumed that the workstream to deliver harmonised terms and conditions of employment would be cost neutral.
- d) High needs deficit. As per the Medium-Term Financial Plan (MTFP) Update report to Cabinet on the 23 June 2021 the council forecast that the accumulated deficit on the Dedicated Schools Grant (DSG) due to the impact of the ongoing pressures in the high needs budget will increase from £7.8m as at the 31 March 2021, to £16.1m as at 31 March 2022, and £27.4m as at the 31 March 2023.
- e) Significant new models of funding for local government which are expected to be implemented over the MTFP period time horizon. This includes implementing changes signalled well before the start of the global public health emergency for business rates and adult social care. It is not yet possible to estimate the financial outcome of these on the council.
- f) Significant assumptions have also been made regarding the future level of demand for council services, the associated costs, the level of income attainable, and the timing and level of savings to be delivered by the transformation programme.
- g) The MTFP savings to be delivered of £42.4 million represents 17.5% when compared to the £241.1m 2021/22 net budget of the council including Adult and Children's social care.

### **Background papers**

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)

June 2021 Medium Term Financial Plan (MTFP) Update report to Cabinet

[http://ced-pri-cms-02.ced.local/ieListDocuments.aspx?CId=285&MId=4684&Ver=4&\\$LO\\$=1](http://ced-pri-cms-02.ced.local/ieListDocuments.aspx?CId=285&MId=4684&Ver=4&$LO$=1)

### **Appendices**

- A 5-year MTFP absolute basis
- B BCP Council - Financial Resilience Index data comparison.