CABINET

Report subject	**Medium Term Financial Plan (MTFP) Update**
Meeting date	15 December 2021
Status	Public Report
Executive summary	This report details the progress made in the development of a robust balanced budget for 2022/23. The report also sets out. • The latest Medium Term Financial Plan (MTFP) position. • An update on the key assumptions being applied to the 2022/23 budget and MTFP process. • An update of the key financial risks faced by the Council. • Details of the Government's Spending Review (SR21). In addition, the report proposes not to change the Local Council Tax Support Scheme (LCTSS) for 2022/23 and therefore the council will continue to operate the same scheme that it has operated since April 2019.
Recommendations	**It is RECOMMENDED that Cabinet:** **a) Agree the current budget position for 2022/23 and the further improved MTFP position.** **b) Approve the continuation of the current Local Council Tax Support Scheme (LCTSS) into 2022/23.** **c) Acknowledge the update on the key financial risks.**
Reason for recommendations	To comply with accounting codes of practice and best practice which require councils to have a rolling multi-year medium term financial plan. To provide Cabinet with the latest high-level overview of the medium-term financial plan. To ensure Members develop a balanced budget for 2022/23. To ask Cabinet to approve the continuation of the current LCTSS.
Portfolio Holder(s):	Councillor Drew Mellor, Leader and Portfolio Holder for Finance & Transformation
Corporate Director	Graham Farrant, Chief Executive

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Wards	Council-wide
Classification	For Decision

Background

1. Cabinet at its meeting on the 27 October 2021 received its latest MTFP Update report. In receiving the report, the councils MTFP was extended to cover the 5-year period to 31 March 2027. This report provided the detail of the latest position as summarised below.

Figure 1: October 2021 Medium Term Financial Plan position

Net additional investment into services	22/23 £m	23/24 £m	24/25 £m	25/26 £m	26/27 £m	Total £m
Annual – Net Funding Gap	25.1	6.0	15.1	18.9	21.5	86.6
Cumulative MTFP – Net Funding Gap	25.1	31.1	46.2	65.1	86.6	

2. 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, where 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 but where the tax base decreased during the Covid-19 pandemic it is felt correct to build in some recovery by moving to 1.5% and then 1%.

c) Pay awards based on the inflation rate estimate for the September preceding the year in question. At that stage the Consumer Price Index forecast for September 2021 was 3.4% with the 2% target set for the Monetary Policy Committee (MPC) used for future years.

d) The 1.25% increase in employers' national insurance which from 2023/24 will become the Health and Social Care Levy.

e) The harmonisation of BCP Council's pay and grading structures within a cost neutral framework.

f) Fundamental rebase of resource requirements for children's services recognising the in-year 2021/22 pressures and the 10% year-on-year growth in education, health, and care plans (EHCPs).

g) An additional £0.22m investment in 2022/23 in SEND as agreed by Council on 14 September 2021.

h) Impact of the increasing cost of energy (electricity and gas), and fuel which will impact on the operational costs of numerous services. In addition, cost increases associated with certain raw materials will put pressure on the finances of certain capital schemes particularly those housing related.

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 2021 MTFP update report to Cabinet

j) 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 streams would recover for 2022/23. Indications are that all such income streams will not be back to pre-covid levels until the end of 2023/24.

k) Inclusion of £2.8m of non-transformation, service-based savings, and efficiencies.

l) Total cumulative transformation savings of £25m per annum underpinning the 2022/23 budget and £42.4m per annum underpinning the 2023/24 budget.

m) Redistribution, as a one-off in 2022/23, of 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.

n) The drawdown of £2.1 million from the MTFP Mitigation Earmarked Reserve in 2022/23.

3. 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.

Financial Strategy

4. The Councils financial strategy in support of the 2022/23 budget was approved by Cabinet at its meeting on the 23 June 2021. This document set out the material workstreams and considerations that the council would further explore to enable it to set a balanced budget for 2022/23 and to reduce the medium-term funding gap. As a strategy it outlined the following two key elements.

a) Consideration of opportunities afforded to the Council by having relatively low levels of borrowing compared to similar size authorities. The exploration of the opportunity will enable the council to consider how best to support its housing and regeneration ambitions as expressed through its Big Plan. It should always be emphasised that local authorities can only borrow to support capital expenditure. During 2020/21 and 2021/22 the council has also materially refinanced its capital programme from borrowing and in doing so released any revenue resources previously used as the source of financing.

b) A shift away from a service-based savings approach and towards delivering savings at an enterprise level, as scheduled as part of the council's transformation programme.

5. Associated with these two key elements the financial strategy went on to set out the following programme of activity.

a) 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.

b) Driving out value from land and building assets, including work led by the council's new Urban Regeneration Company (Future-Places).

c) Considering 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.

d) Delivering the £25 million annual transformation programme savings target for 2022/23. 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 onwards.

e) As part of the transformation programme there is a requirement to deliver the separate £6.6 million transformation estates and accommodation project on time, on budget and contributing the assumed level of savings (which form part of the itemised transformation savings towards the £42.4m target).

f) Considering the £44.53m previously approved expenditure programme associated with the transformation programme and the ability to reprofile, redirect or extend this programme to increase the level of assurance around the currently assumed savings. A view will also need be given to the extent to which the pace and value of these assumed savings can be increased.

g) Establish if the £4m currently budgeted to cover the additional revenue costs associated with the transformation programme is sufficient and if it accords with the latest implementation profile for the programme.

h) 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.

i) Delivering further non transformation service-based savings and efficiencies and driving down the cost of services and pressures included in the MTFP.

j) 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.

k) Delivering the councils pay and grading harmonisation project within a cost neutral framework.

l) 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.

m) Consider the extent to which assistive technology can improve service delivery and reduce the ongoing associated costs for example in adult social care.

n) Develop a deficit recovery plan for the Dedicated Schools Grant (DSG) with specific reference to the high needs budget.

o) 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.

2021/22 In-year position

6. A separate item on this Cabinet's agenda is the council's second quarter budget monitoring report for the financial year 2021/22. This forecast for the entire year is based on the activity between 1 April 2021 and 30 September 2021. The estimate is that services are now predicted to overspend by £4.2m. This forecast reflects one-off and ongoing Covid19 related pressures, alongside non-Covid ongoing service pressures and the position in respect of assumed transformation savings. The ongoing pressures are most notably those within children's services which remains a significant priority area for the council.

7. Overall, there has been a significant improvement from the quarter one position which has been delivered through strong financial management and higher forecast levels of income compared to the prudent position adopted in the 2021/22 budget in relation to the impact of Covid19. Additionally, improving prices for recyclate materials and a reprofiling of annual transformation revenue costs have also made significant contributions to the variation between quarters.

8. The 2021/22 quarter two budget monitoring report also proposes the formal mitigation of this net pressure by the application of the council's residual £8.2m Covid19 Tranche 5 2021/22 government grant. Once applied the application of these resources will create a forecast underspend for the year of £4m. It would be worth emphasising that this forecast does not release the £2m 2021/22 base budget revenue budget contingency which remains as available to cover any further adverse variations in the financial year.

Government announcements since the October MTFP Update report to Cabinet

9. On the 27 October 2021 the Chancellor of the Exchequer Rt Hon Rishi Sunak MP, presented the 2021 Autumn Budget. In addition, as part of the announcement, he also confirmed the government's intention to complete a multi-year Spending Review (SR21) setting revenue and capital budgets for the period for 2022/23 to 2024/25.

10. After one-year spending plans were issued in support of the 2020/21 and 2021/22 local government finance settlements confirmation of a multi-year settlement would be helpful in reducing future uncertainty. In turn this would enable the council to undertake more effective medium-term planning associated with the delivery of the local services upon which our local community relies.

11. As part of the announcement the government made several key announcements which are relevant to local government and the council's budget for 2022/23 onward. Principal amongst these was confirmation that they intend to continue with the strategic approach they have taken since their 2015 spending review being that local councils should be increasing council tax as the principal mechanism for funding cost and demand pressures in local services. Government will therefore be assuming that Unitary Authorities who did not take the social care precept in 2021/22 will be increasing their council tax in 2022/23 by the combination of the 3% deferred precept, plus a basic annual referendum threshold of 1.99% plus an annual 1% social care precept. The annual framework post 2022/23 is anticipated to be the 1.99% basic referendum limit with an additional 1% per annum flexibility by way of a social care precept

12. This approach underpinned the government's intention to make available to local government an extra £1.6bn per annum for three years amounting to a £4.8bn increase in total, the largest increase in core funding for more than a decade. The details of how

this funding will be distributed and how it is expected to be applied were not disclosed. Confirmation is expected in the local government finance settlement due in December 2021. This increase in funding is on top of the extra funding that will need to be allocated to local government to meet the additional commitments announced in September by the Prime Minister in respect of the government's plan for health and social care.

13. Other announcements pertinent to local government included in the Autumn Budget.

a) The Office Budget Responsibility (OBR) are forecasting continued high inflation, with CPI expected to average 4% over the coming year before falling back to 2.6% in the 2023. The government consider that this high inflation relates to demand exceeding supply (as demand has recovered from Covid19 quicker than suppliers can re-mobilise, as the economy reopens). There has also been a surge in demand for energy, despite continuing disruptions to supply.

b) Economic recovery from Covid19 is now expected to be quicker than previously anticipated, with a return to pre-Covid levels expected at the turn of the current year (earlier than was expected in March). The estimates of the impact from Covid have been reduced from 3% to 2%, and the peak unemployment is now expected to be 5.2% (down from the 12% predicted in March).

c) The Business Rates multiplier will, again, be frozen, rather than rising by inflation, as in 2021/22. The impact of this freeze would ordinarily lead to lower levels of resources to local government however it is anticipated that government will continue to offer compensation via a grant arrangement.

d) Publication of the review of business. This includes provision for 3-yearly revaluations from 2023, and a new business rates improvement relief, which, from 2023, will allow businesses to make improvements and pay no extra business rates for 12 months. It is currently anticipated that local government will not be compensated for this relief so in effect it will take longer for any growth in business rates to be recognised.

e) The Retail, Hospitality and Leisure relief first introduced in 2020/21 and previously extended into 2021/22 will be further extended at 50% for 2022/23, subject to a £110,000 cash cap. It is expected that this will continue to be fully funded for the implications for local government.

f) A reduction in the Universal Credit (UC) taper. Currently that taper starts at 63 pence, so for every £1, after tax, a person earns their UC payment is reduced by 63 pence. This taper has been reduced to 55 pence.

14. One item not included in the announcement was reference to local government funding reforms and the wholesale reform of how councils are funded. It was therefore deduced that the Fair Funding Review (FRR) and the associated business rates changes had been pushed back to at least 2023/24.

Latest Medium Term Financial Plan

15. 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.

16. 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 refresh of the baseline financial resource requirements for each service. This included 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

- Fundamental budget test and challenge session. Included a review of the evidence base for service pressures including the underlying activity, trend analysis and costing estimates. Consideration of associated income strategies and any proposed mitigation strategies.
- 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.

17. Stages one to three are now substantially complete. Figure 1 below sets out the current MTFP updated in the context of its five-year timeline to 31 March 2027 and a materially improved position from the last iteration of this report both in terms of year 1 and year 5 positions. 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

Additional Investment into Services	22/23 £m	23/24 £m	24/25 £m	25/26 £m	26/27 £m	Total £m
Adult social care inc public health	12.7	11.0	10.8	8.1	8.5	**51.1**
Children's services	10.4	5.9	8.4	9.0	9.6	**43.3**
Environment and communities	1.7	3.2	2.6	1.2	1.3	**9.9**
Regeneration and economy	0.1	0.9	0.6	0.8	0.5	**2.9**
Resource services	0.2	0.2	(0.1)	0.0	(0.0)	**0.2**
Transformation - ongoing revenue costs	0.5	0.5	0.0	0.0	0.0	**1.0**
Income impacted by COVID-19	(7.2)	(2.1)	(1.7)	0.0	0.0	**(11.1)**
Pay Award 2022/23 onwards	5.5	3.5	3.6	3.6	3.6	**19.8**
Pay Award additonal 0.75% 21/22	1.3	0.0	0.0	0.0	0.0	**1.3**
Pension fund – tri-annual revaluation impact	(0.1)	0.2	0.2	0.2	0.2	**0.8**
Increase in employers NICs to fund cap on social care	1.4	0.0	0.0	0.0	0.0	**1.4**
Contingency - reduced to reflect lower Covid related uncertainty	(1.9)	0.2	0.1	0.0	0.0	**(1.6)**
Debt - Additional Capital (MRP & interest repayments)	1.3	0.9	1.4	0.7	0.3	**4.5**
Carters Quay Regeneration Scheme	0.1	0.1	(0.1)	(0.3)	(0.1)	**(0.2)**
Corporate priorities (one-off items in original 2021/22 allocation)	(1.4)	0.0	0.0	0.0	0.0	**(1.4)**
Total Additional Investment into Services	24.6	24.5	25.8	23.2	23.9	121.9
Cumulative Investment into Services	24.6	49.1	74.9	98.1	121.9	

Additional Resources	22/23 £m	23/24 £m	24/25 £m	25/26 £m	26/27 £m	Total £m
Council tax – revenue	(10.7)	(6.9)	(7.2)	(7.5)	(7.7)	**(40.0)**
Council tax - taxbase	(5.2)	(3.1)	(2.6)	(1.3)	(1.3)	**(13.5)**
Collection fund – (surplus) / deficit distribution net of S31 grant	(4.1)	4.8	(3.5)	0.0	0.0	**(2.8)**
Use of reserves - inc 75% loss drawdown	(4.0)	4.0	1.0	0.0	0.0	**1.0**
Core government funding changes	(8.0)	3.5	2.2	0.0	0.0	**(2.3)**
Local council tax support scheme grant 2021/22	3.8	0.0	0.0	0.0	0.0	**3.8**
Sales, fees and charges compensation 2021/22	1.6	0.0	0.0	0.0	0.0	**1.6**
Top slice covid pressures grant 2021/22	1.0	0.0	0.0	0.0	0.0	**1.0**
Investment income	(0.5)	(0.1)	(0.1)	(0.1)	0.0	**(0.7)**
Refinancing of capital programme	25.1	0.0	0.0	0.0	0.0	**25.1**
Review of inherited resources	4.7	0.0	0.0	0.0	0.0	**4.7**
Transformation savings	(17.5)	(17.5)	0.0	0.0	0.0	**(34.9)**
Service based savings	(3.1)	(4.7)	(6.7)	(3.0)	(2.8)	**(20.4)**
Total annual extra resource & savings	(16.7)	(19.9)	(16.9)	(11.9)	(11.9)	(77.3)
Cumulative extra resources & savings	(16.7)	(36.6)	(53.5)	(65.4)	(77.3)	

Annual – Net Funding Gap	7.8	4.6	8.9	11.3	12.0	44.6
Cumulative MTFP – Net Funding Gap	7.8	12.4	21.3	32.7	44.6	

18. 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. In essence this is a direct reference to ensuring that Council sets a financially sustainable budget which is mindful of the long-term consequences of any short-term decisions. Care will need to be taken with any deployment of reserves in support of the budget to ensure any previous or new services can sustainably be funded into the future.

19. The key matters for consideration in the updated MTFP particularly pertinent to the 2022/23 position can be listed as.

    a) 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. The particular emphasis of these reviews being the justification and evidence supporting the proposed changes and any accompanying mitigation strategies.

    b) For financial planning purposes only, tying in assumed future council tax increases included within the MTFP, with those announced by the government as part the October 2021 Budget Statement. The only exception being the increase for 2022/23 which remains consistent with the previous assumption.

    c) Increases in the assumed future cost of care to reflect the increase to the National Minimum Wage announced alongside the October budget statement. The rate for those aged over 23 will increase to £9.50 per hour from April 2022. This is a 6.6% increase from the current £8.91 per hour and was higher than previously assumed.

    d) Alignment of the assumed 2022/23 pay award based on the published inflation rate for September 2021. On the 20 October the Office for National Statistics published the Consumer Price Index (CPI) for September as 3.1% which was a slight reduction on the 3.4% estimate used in the previous reiteration of the MTFP.

    e) Provision for the extra resources for local government announced by government as part of the October 2021 Autumn Budget. It is assumed the councils share of £1.6bn in 2022/23 will equate to an extra Revenue Support Grant (RSG) of £1.173m and an extra specific grant of £8.519m. The indications are that these extra resources will be reduced in 2023/24 and 2024/25 on account of the assumed social care council tax precept increases.

    f) Additional increases in the councils, council tax base in reflection of a reduced forecast around the impact of the Local Council Tax Support Scheme (LCTSS) alongside improvements in collection rates.

    g) As a consequence of the materially improved in-year position and the expectation of delivering a budget surplus for 2021/22, the council can deliver now on its ambition of moving its unearmarked reserves to the mid-point compared to other upper tier authorities rather than be phased over the five years of the MTFP. This removes the requirement to set-aside the previous £0.7m annual contribution from 2022/23 previously assumed.

    h) Inclusion as a one-off for 2022/23 £1.9m from the annual review of earmarked reserves and from reserves no longer needed for their original purpose.

20. In respect of financial years beyond 2022/23 it has been assumed that all fees and charges will be increased annually in line with the government's 2% inflation target. The council will also be lobbying government that any statutory set fees and charges should be periodically increased with inflation.

Ongoing Workstreams

21. Appendix B presents an update on some of the key financial planning assumptions being used to underpin the latest reiteration of the MTFP. At this stage ongoing workstreams are particularly focused on confirming the profile of the transformation programme savings and associated revenue expenditure, the ability to capitalise costs associated with regeneration, consideration of models through which it may be possible to deliver additional capital receipts, delivering the pay and grading harmonisation project, and determining the extent to which it is appropriate to further support the 2022/23 budget using the financial resilience reserve. Consideration will also need to be given to the extent to which it is possible to fund additional resource requests for 2022/23.

Strategy to close the residual MTFP funding gap

22. To close the residual funding gap of £53m across the five financial years to 31 March 2027 the following areas will be examined to further reduce the councils cost base or to generate further sources of revenue.

    - **Transformation programme**. Opportunities to outperform the current approved enterprise level transformation business case and the £42.4m savings already included in the MTFP. This workstream is clearly premised on savings in the number of staff employed, in expenditure spent on third party contractors, and on increasing cost recovery. This third workstream in essence is from the commercialisation of services or via such work as the ongoing benchmarking of our fees and charges levels with other local authorities.

    - **Non-transformation savings**. Ongoing commitment from services to challenge traditional service delivery methods and seek opportunities for service-based savings, and efficiencies outside of the transformation programme.

    - **Estates and accommodation strategy.** Reduce exposure to a large and inefficient office accommodation estate, whilst at the same time supporting the development of a single council identity where staff work in modern and flexible ways, delivering services that are transformed to be as customer focused and as financially efficient as possible. In addition, the council will consider options for taking a more commercial approach to its asset base.

    - **Growth in council tax and business rates revenue**. This workstream will relate to the ambition to rejuvenate and increase investment within the area. The approach will need to be cognisant that extra homes and businesses can lead to extra demand for council services (adult and children's social care, new waste collection rounds etc.) as well as requirements for additional infrastructure investments, such as schools. The approach will also need to be cognisant of the assumed increases in the council's taxbase already included in the MTFP.

    - **Commercial approach** with specific reference to the opportunities afforded by.

        - Increasing returns/dividends from council owned companies and other third-party arrangements. This includes the council further utilising its low levels of borrowing compared to similar size authorities (debt headroom) to support regeneration, the delivery of new homes, or service delivery-based assets.

- Investing in our award-winning seafront, parks, cultural and leisure offer.

- **Investment in infrastructure**. Taking opportunities which are available to the council through its upfront investment in key infrastructure projects via the £50m Futures Fund.
- **Investment in communities**. Asset Based Community Development. Connected communities and empowering a community led response to certain service requirements.
- **Investing in the physical and digital infrastructure**. Considering opportunities afforded by the council's investment in digital connectivity such as the Smart Places workstream.
- **Investment in technology**. An example being investment in assistive technology to improve service delivery and reduce the ongoing associated costs in adult social care.
- **Consideration of new government requirements**: A good example being the Government Resources and Waste Strategy and the associated resources generated from the extended producer responsibility scheme for packaging.
- **Investment in the climate change and ecological emergency**.
- **Government/contributions:** Continue to seek out opportunities for government and other third-party contributions to the delivery of local services. An example would be a bid to the government's Future Prosperity Fund.

Dedicated Schools Grant (High Need Block Funding)

23. A key consideration in assessing the council's overall financial health is the risk associated with the deficits on its Dedicated Schools Grant (DSG) with specific reference to the high needs budget. The table below sets out the current and forecast position.

24. **Figure 3:** Actual/Projected High Needs Budget deficits

DSG Funding	Balance 1 Apr 19 £m	Balance 1 Apr 20 £m	Balance 31 Mar 21 £m	Balance 31 Mar 22 £m	Balance 31 Mar 23 £m	Balance 31 Mar 24 £m	Balance 31 Mar 25 £m	Balance 31 Mar 26 £m	Balance 31 Mar 27 £m
Annual Shortfa		**1.0**	**3.3**	**10.8**	**18.1**	**27.5**	**38.7**	**52.2**	**68.5**
Deficit	**(3.6)**	**(4.6)**	**(7.8)**	**(18.6)**	**(36.7)**	**(64.2)**	**(102.9)**	**(155.1)**	**(223.6)**

25. This forecast is based on the current pattern of provision and growth, no new state funded places being created and actions to educate a greater proportion of pupils in mainstream schools being unsuccessful. The forecast could be reduced to the following if all these actions were successful.

26. **Figure 4:** Actual/Projected High Needs Budget deficits

DSG Funding	Balance 1 Apr 19 £m	Balance 1 Apr 20 £m	Balance 31 Mar 21 £m	Balance 31 Mar 22 £m	Balance 31 Mar 23 £m	Balance 31 Mar 24 £m	Balance 31 Mar 25 £m	Balance 31 Mar 26 £m	Balance 31 Mar 27 £m
Annual Shortfa		**1.0**	**3.3**	**10.8**	**15.0**	**16.6**	**16.1**	**12.1**	**6.5**
Deficit	**(3.6)**	**(4.6)**	**(7.8)**	**(18.6)**	**(33.6)**	**(50.2)**	**(66.3)**	**(78.4)**	**(84.9)**

27. The change is based on some significant assumptions. This includes the creation of 56 special school and resource-based places in each of the 5 years. The growth in Education, Health and Care plans (EHCPs) reducing from 10% per annum in 2021/22 to 5% by 2026/27 and the proportion of the growth in pupils educated in mainstream schools from 10% now to 50% in 5 years with the change profiled evenly over the 5 years. For 2022/23 there is a high probability that the figure quoted could be reduced by £1.1m to reflect the 0.5% transfer between the school's block and the high needs block of the DSG. This may also be possible in 2023/24, however, the expectation is that beyond that the DfE will fund all schools nationally without any local decision making.

28. These growing deficits are considered a direct consequence of the 2014 Children and Families Act, which increased the age range of children and young people with Special Educational Needs and Disabilities (SEND) that councils are required to support as well as significantly raising the expectations of parents across all age ranges without providing the necessary financial support. In summary since 2014 the council or its predecessors has experienced 10% year on year increases in EHCPs without consistent increases in funding. This growth is reflected nationally. The budget projection assumes this trend will continue each year and that no further places are created in state special schools. The creation of additional places would reduce the budget growth shown in the above table but not eliminate the annual deficit or stop the accumulated deficit from continuing to grow.

29. Currently the council is not required to set aside any of its own resources, for example as an earmarked reserve, to specifically offset this accumulating deficit This position is based on the CIPFA bulletin for the closure of the 2019/20 financial statements which stipulated that the reserve did not need to be in place from the 1 April 2020 onwards. This position was reinforced by a Department for Education statutory instrument which became law at the end of November 2020 which stated.

Where a local authority has a deficit in respect of its school's budget for a financial year beginning on 1st April 2020, 1st April 2021 or 1st April 2022, the authority—

(a) must not charge to a revenue account an amount in respect of that deficit; and

(b) must charge the amount of the deficit to an account established, charged and used solely for the purpose of recognising deficits in respect of its school's budget.

30. This means that the council cannot now contribute to the deficit, cannot hold a reserve to act as a counterweight and has been required to move the deficit to an unusable reserve where it will sit as though it did not exist. It does though mean that the council is required to cash flow the deficit and continue to prioritise the work needed to reduce the deficit as the statutory instrument was silent on what the position will be from 1 April 2023 onwards.

31. A High Needs Recovery Board chaired by the Chief Executive and attended by, amongst others, the Leader, the relevant Portfolio Holder, and the Chair of the Schools Forum has operated since April 2021. This Board has the specific aim of trying to better understand the position and develop options for its management.

32. Currently there is a key risk associated with the expectations of government once the period of the statutory instrument comes to an end, namely the position for the 2023/24 financial year. If the council is required to act as previously and set aside resources to act as a counterweight, then the financial sustainability of the council would be challenged at that point based on the availability of reserves as set out in the reserves section below.

33. This risk will however first crystalise as part of the formal assessment that the council's Chief Finance Officer (CFO) will need to provide as part of the 2022/23 budget report, on the adequacy of the council's reserves. The challenge will be the extent to which it is possible to provide such assurance knowing that the day after the financial year in question, 1 April 2023, that the Council should be setting aside £33.6m of its own resources to act as a counterweight to the accumulated DSG deficit.

34. The council continues to work with the Local Government Association and other local authorities to seek clarification on both the position once the statutory instrument expires and a sustainable funding strategy for the high needs budget.

Review of Reserves

35. Councils generally hold two main forms of reserves.

    Unearmarked Reserves are set aside to help manage the risk to the council's financial standing in the event of extraordinary or otherwise unforeseen events and to mitigate the underlying operational risk associated with the operation of the council and the management of service expenditure, income, and the council's funding.

    Earmarked Reserves are set aside for specific purposes including those held in support of various partnerships, reserves designed to help deliver the challenges in the Medium-Term Financial Plan, key major projects of the council, reserves held on behalf of third parties and several reserves the council is required to hold in line with statute or its own governance requirements

36. As part of the financial strategy supporting the development of the 2022/23 budget the council has agreed, as a matter of prudence, to improve the level of its unearmarked reserves. The agreed strategy is to increase these reserves from their current level of 5.4% of the council's net revenue expenditure to 6.1%. This will position these reserves at the mid-point when compared to all upper tier authorities including unitary, county, and metropolitan authorities at £18.9m. This approach was coterminous with the council taking the opportunity afforded by low levels of borrowing compared to similar size local authorities.

37. The forecast financial outturn as set out earlier in this report will enable the council to move to the mid-point as at the 31 March 2022 rather than phased over the five years of the medium-term financial plan

38. **Figure 5:** Profile of council unearmarked reserves

	Balance 1/4/19 £m	Balance 1/4/20 £m	Balance 31/3/21 £m	Balance 31/3/22 £m	Balance 31/3/23 £m	Balance 31/3/24 £m	Balance 31/3/25 £m	Balance 31/3/26 £m	Balance 31/3/27 £m
Un-earmarked Reserves	17.4	15.4	15.4	18.9	18.9	18.9	18.9	18.9	18.9
Total Unearmarked reserves	**17.4**	**15.4**	**15.4**	**18.9**	**18.9**	**18.9**	**18.9**	**18.9**	**18.9**

39. In addition, as part of the annual budget process the Chief Finance Officer undertakes an annual fundamental review of earmarked reserves to determine the extent to which further resources can be released to better support the council's priorities and key financial risks. As part of this process, and as previously referenced earlier within this report, £1.9m has been redirected in support of the 2022/23 Budget from earmarked reserves no longer required for their original purpose.

40. **Figure 6:** Profile of council earmarked reserves

	Balance 1/4/19 £m	Balance 1/4/20 £m	Balance 31/3/21 £m	Balance 31/3/22 £m	Balance 31/3/23 £m	Balance 31/3/24 £m	Balance 31/3/25 £m	Balance 31/3/26 £m	Balance 31/3/27 £m
Financial Resilience Reserves	11.0	13.1	53.1	20.7	16.7	16.7	16.7	16.7	16.7
Transition & Transformation Reserves	12.9	3.5	16.3	12.5	3.4	0.0	0.0	0.0	0.0
Held in Partnership for External Organisations	4.1	3.1	3.7	1.6	1.1	1.0	0.9	0.9	0.9
General Earmarked Reserves	17.1	15.9	11.8	10.3	9.7	9.3	8.5	8.7	8.9
Government Grants	7.6	7.0	8.7	5.9	3.8	2.7	1.7	1.7	1.7
Covid Government Grants	0.0	11.2	18.5	2.0	1.0	0.0	0.0	0.0	0.0
Covid recovery resources	0.0	0.0	1.3	0.6	0.3	0.0	0.0	0.0	0.0
NNDR Covid Grant	0.0	0.0	40.4	0.0	0.0	0.0	0.0	0.0	0.0
Total Earmarked Reserves	**52.7**	**53.8**	**153.8**	**53.6**	**36.0**	**29.7**	**27.8**	**28.0**	**28.2**

Please note: *The above table assumes that £2.1m of the Financial Resilience Reserves are used to support the 2022/23 budget as per the Budget and MTFP originally approved by council in February 2021 as well as the extra £1.9m from the review of earmarked reserves. It also assumes the Transformation Reserve is used to fund the current predicted shortfall in the value of capital receipts that will be generated to support the transformation programme.*

Local Council Tax Support Scheme (LCTSS)

41. No changes are proposed to the Local Council Tax Support Scheme for 2022/23 which will mean a consistent policy has been applied by the Council from 1 April 2019 onwards.

42. During 2022/23 a consultation will be undertaken to consider changing the existing LCTSS to a ‘banded scheme’ reflecting current best practice to reduce the burden of administration for both claimants and the council.

43. Any changes proposed would not be to reduce expenditure on LCTSS but to deliver operational and administration efficiencies and better meet the needs of residents.

Council Tax and Business Rates reviews

44. Once the council has aligned its administrative databases for Council Tax and Business Rates the revenues service will seek to engage an external partner to review discounts and to review where income may be being lost through premises not being rated or banded.

Options Appraisal

45. 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

46. 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

47. 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.

48. 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

49. 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

50. 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.

51. 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

52. 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.

53. The rationalisation of the estate will continue to take account of the measures necessary to manage the pandemic for as long as considered necessary.

54. 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

55. 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

56. Periodic review has identified the following key elements to the risk associated with the council's financial sustainability.

57. **2021/22 in-year financial performance**. A summary of the latest financial forecasts for 2021/22 is set out earlier within this document and as a separate report presented elsewhere on this agenda. These identified an in-year current predicated overspend of £4.2m including the impact on children's and adult social care services due to the legacy impact of the pandemic, other services pressures, and the current shortfall against the transformation programme savings target for the year. This forecast overspend then becomes a predicted saving of £4m once one-off savings and the applications of the tranche 5 government Covid19 grant funding for 2021/22 is factored into the equation.

58. **Hospital discharge programme:** In March 2020 the nationally mandated hospital Discharge to Assess (D2A) programme was rapidly implemented in BCP Council in response to the pandemic. The guidance required that all discharges, irrespective of whether they were self-funders, NHS funded, or local authority funded receive care planning and commissioning of care packages that are arranged by the local authority. The new process involves discharging patients with care and support needs earlier to free up much needed bed capacity in acute hospitals. The process assumes that little, if any, rehabilitation will take place in hospital and that patients will be supported to fully recover after discharge in either a care home or their own home settings. NHS funding is currently available to support a 4-week period of recovery for patients following discharge supported by a therapy and reablement programme. The funding available for this post-discharge recovery period will end on 31st March 2022. There are several risks associated with this arrangement. Firstly, the onus is on the council to recover any contributions from the NHS or self-funders where they are responsible for costs post the initial 4-week period. Secondly, that the local health and social care system may look for this arrangement to continue from April 2022 without making available the contribution to cover the cost of the first four weeks of care following hospital discharge.

59. **Balancing the Medium-Term Financial Plan.** The council has a five-year funding gap in its MTFP currently estimated at £45m which is down from the £87m identified in the last iteration of this report. Careful consideration will be needed in bringing forward proposals for the 2022/23 budget, especially those associated with the level of resources the council is able to generate, to ensure any current or new services can sustainably be funded into the future.

60. **Assumptions used for in-year and future year financial forecasts.** At this stage financial forecasts have been informed by numerous factors such as government announcements, economic forecasts, trend analysis, and professional judgement. Risks of variation are inherent in such a process with one good example being the potential for significant variation in the distribution of the additional funding for local government announced in the Autumn Budget. This includes any interplay with the extra resources that should be made available by government to support the costs the council will need to incur to implement the new social care reforms.

61. **High needs deficit**. Reflects a growing deficit as set out earlier within this report and the likelihood that the council will have insufficient unearmarked reserves to act as a counterweight should the current statutory instrument not be extended beyond 31 March 2023.

62. **Pay and reward project**. Council from its inception has assumed that the workstream to deliver harmonised terms and conditions of employment would be cost neutral. Consideration continues as to the deliverability of this assumption in the context of the impact on the workforce and the dialogue with trade unions.

63. **Flexible use of capital receipts.** The council's ambitious transformation programme is premised on the ability to fund transformation revenue expenditure which produces long term savings or reduced service costs via the application of capital receipts by the governments Flexible Use of Capital Receipts regulations. The standard statutory control framework specifies that capital receipts can normally only be used to fund capital expenditure. Earlier this year the government announced their intention to extend the deadline for this policy from 31 March 2022 to 31 March 2025. Currently the regulations to permit this extension have not been formally laid. There is also a risk that when these regulations are laid, they will alter the current framework.

64. **Cost pressures.** Be that demand pressure, particularly those associated with adults or children's services and those associated with the impact of inflation on the cost of services. At this moment in time there is a particular vulnerability around assumptions on utility, fuel and energy costs.

65. **Governments build back better:** our plan for health and social care reforms: On the 7 September the Prime Minister announced significant plans for the future of adult social care. This included a cap on personal care costs of £86,000 over an individual's lifetime with costs above this threshold borne by local authorities. It also set out proposals for self-funders to request their council arranges their care so they can access it at council-funded rates. This approach will clearly lead to significant additional costs to the council in administering and delivering these proposals. The 2021 Local Government finance settlement is anticipated to give an indication of the resources that the government intend to distribute to cover these additional costs with council's retaining a significant risk of any mismatch in this equation.

66. **Future local government funding models**. Significant new models of funding for local government are expected to be implemented over the MTFP time horizon. This includes implementing changes signalled well before the start of the global public health emergency, be that the Fair Funding Review or the move to a 75% Business Rates Retention (BRR) model. At this stage it is not yet possible to estimate the financial impact of these changes on the council. The risk however is that these changes will not be favourable to the council. In this regard it may be worth reflecting on a statement on the matter made by the Rt Hon Michael Gove MP, Secretary of State for Levelling Up, to the Housing, Communities and Local Government Select Committee on the 8 November 2021. In response to a question on the timeline, it was set out that the government intend to proceed with caution regarding the move to 75% BRR as they were concerned the proposals, as previously drawn up, could relatively speaking be more advantage to the South East and this was against the principle of levelling up.

67. **Financial consequences of not meeting our climate targets**. In addition to the environmental and social impacts of climate change, there is a risk to BCP Council of significant financial consequences if it fails to meet its declared climate targets. Council has pledged to become carbon neutral by 2030 as an organisation and lead the area to become net zero carbon ahead of the 2050 national target. Based on forecasts from the London School of Economics the council is likely to have to incur costs of over £3m per annum to purchase the necessary offsetting carbon credits to meet the carbon neutral pledge in 2030. Clearly this cost will act as an incentive to the council to prioritise the activity and investment necessary to meet this priority.

Background papers

February 2021 Budget report to Council

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://cedpricms02.ced.local/ieListDocuments.aspx?CId=285&MId=4684&Ver=4&LO=1

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

https://democracy.bcpcouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=4837&Ver=4

Appendices

A Updated 5-year MTFP absolute basis

B Updated Key Assumptions