CABINET

Report subject	**Medium Term Financial Plan (MTFP) Update**
Meeting date	22 June 2022
Status	Public Report
Executive summary	This report: • Presents the latest medium-term financial plan (MTFP) of the council to reflect government announcements since the February 2022 budget report and updated assumptions. • Proposes a financial strategy to support the delivery of a legally balanced budget for 2023/24. • Proposes a budget planning process and timeline for key financial reports. • Recognises the positive outturn from the 21/22 financial year end, the impact of the cost-of-living crisis, and the improvement in some of the key risk areas as identified in the setting of the 22/23 budget.
Recommendations	**It is RECOMMENDED that Cabinet:** **1) Endorse the updated MTFP position as set out in paragraph 15** **2) Approve the financial strategy as referenced in paragraph 21.** **3) Acknowledge the cost of living and other operating pressures likely to impact in 2022/23 and future years.** **4) Acknowledge the potential mitigation strategy in respect of cost of living and 2022/23 financial pressures.** **5) Approves the timeline for key financial reports during 2022/23 as set out in appendix A.** **6) Recommend to Council that the second homes premium and revisions to empty homes premium be approved subject to their confirmation via the Levelling Up and Regeneration Bill.**
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 present a proposed financial strategy to support the delivery of a balanced budget for 2022/23.
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. The 2022/23 budget as presented to Council in February 2022 was a bold, confident, and dynamic, budget with the following key features.

    a) Delivered a freeze to the core element of the council tax, accompanied by a 4% increase due to the adult social care precept.

    b) Invested £12.3m extra in the council's highest priority area, children's services (excluding council pay base changes). This takes the gross annual increase in revenue spending on children's services to £20.8m over the last two years.

    c) Invested £12.1m extra in adult services and therefore to the most vulnerable members of our community (excluding council pay base changes). This takes the gross annual increase in revenue spending on adult services to £25.1m over the last two years.

    d) Continued to support £5.271m per annum of gross on-going investments in corporate priorities approved as part of the 2021/22 budget of the council. This includes investment in regeneration, highway maintenance, street cleansing, arts and culture, and community safety.

    e) Invested £101k per annum to cover the annual operating costs of a health hub for homeless people.

    f) As a one-off for 2022/23 invested £8.2m in new additional council priorities. This included £3.1m in the Cleaner, Greener, Safer programme, £1.7m in Summer Response Initiatives, and a £0.6m increased investment in road maintenance including pothole works.

    g) As a one-off for 2022/23 invested £1.5m to improve the council's customer services prior to their transformation.

h) Doubled the annual investment in the response to the Climate Change and Ecological Emergency to £480k per annum.

i) Created a £20m Green Futures Fund to enable the council to continue to support the community response to the impact of the pandemic alongside its commitment to becoming carbon neutral by 2030. This is in addition to the £50m Futures Fund and £10m Special Educational Needs and Disability (SEND) capital allocation included in the 2021/22 budget proposal. These commitments are being funded through additional council borrowing financed through the revenue budget of the council.

2. Within such context it is important to recognise the 2022/23 budget included numerous risks each of significant value. These risks can be summarised as follows.

a) To enable the council to transition to a more streamlined authority post transformation, the utilisation of £66.2m of council reserves, including the quarter three £3.3m projected surplus for 2021/22, to support the 2021/22 and 2022/23 approved budgets of the Council.

b) A projected funding gap for 2023/24 of £28.2m (excluding the impact of a 2.99% restriction in the proposed growth for both Adults and Children's services). The Council's plan to address this adjusted net funding gap, being to generate significant additional revenue receipts from new commercial models.

c) The growing deficit on the Dedicated Schools Grant (DSG) with specific reference to the High Needs Budget which was projected to be £37.4m on 31/3/23 which would be higher than the £31.3m projected total general fund reserves (earmarked and unearmarked). Currently there is a statutory instrument in place which allows councils to ignore the deficit on the DSG, but this expires on the 31 March 2023. Councils are not permitted to operate with negative reserves.

d) An assumption that £61m of capital receipts will be generated to fund the councils £67.9m transformation programme. The budget assumed that a significant capital receipt will be delivered in 2022/23 from the securitisation of the beach hut income stream.

e) Councils are not normally allowed to fund revenue expenditure from capital receipts. However specific Flexible Use of Capital Receipts legislation allows the council to do so where it specifically relates to the government's definition of transformation and where a saving is clearly defined. The budget assumed this legislation would be extended to the 31 March 2025 as previously indicated by government despite the regulations having not been formally enacted beyond 31/3/22. The assumption was that the regulations when approved would be materially unaltered.

f) That Council will subsequently agree to the refinancing of its Urban Regeneration Company (BCP FuturePlaces Ltd) and issue them with a working capital loan facility of circa £8m within the context of a revised Business Plan.

g) Council will deliver £4m in unitemised transformation savings and £5.4m in service-based savings in 2022/23.

Cost of Living Crisis

3. An additional risk since the 2022/23 budget was approved in February 2022, is the fact that inflation has continued to increase rapidly driven by the post pandemic

economic environment and the war in Ukraine. The Spring Statement in late March indicated that inflation this year would increase to 8% CPI and 10.3% RPI. This compares to the 3.7% CPI forecast assumed in the 2021 Autumn Budget and the 3.1% CPI for September 2021 used to underpin numerous budget assumptions for 2022/23 such as the pay award and the increase on housing rents. The Council will be particularly exposed in respect of rising energy costs, especially electricity (street lighting / leisure centres / owned building) and gas, and contracts which include inflationary causes such as waste disposal. To emphasise the volatility, the price of electricity and gas increased by 80% within a single 24-hour period after February. The resultant financial challenge will be felt by both our community, be those residents or businesses, and directly by the Council with costs significantly above those assumed in the budget.

4. In March 2022 the Chancellor of the Exchequer announced certain measures designed to help communities respond to these unexpected pressures. Included were two notable arrangements to be delivered by local authorities namely.

   - Expansion of the Household Support Fund. BCP has been allocated £2.653m to cover the period 1 April 2022 to 30 September 2022. The grant must be split 1/3rd to support households that include a person who has reached state pension age, 1/3rd to support households that include a person under 19 years of age, and 1/3rd to assist other households. The primary purpose of the grant is to support with the costs of food, energy, water, and other essential living needs.

   - Energy price support in the form of a £150 Council Tax Rebate for households in council tax bands A to D with an additional discretionary scheme to support vulnerable people and individuals on low incomes that do not pay council tax or pay council tax for properties in bands E to H. BCP has been given an initial allocation of £21.2m to cover the standard A to D scheme and a fixed sum of £816,000 for the discretionary scheme.

     Payment of the £150 to 100,000 council taxpayers who pay by direct debit commenced in early May 2022. At the same time a postal invite was sent to 50,000 council taxpayers in bands A to D, who do not pay by direct debit, to apply on-line with support via libraries for those who are unable to apply on-line. In addition, an invite was sent to Local Council Tax Support Scheme (LCTSS) and Disablement reduction payers in council tax bands E to H to apply under the discretionary scheme. Consideration will be given to further phases of the discretionary scheme to ensure the fixed sum is fully allocated.

   In addition, the Bank of England raised interest rates firstly to 0.75% and then to 1% on 5 May 2022 with further increases in the coming months widely anticipated. There was also a warning that the war in the Ukraine could push inflation even higher than the 8% CPI and 10.3% RPI previously quoted. This was proven when the April rates of inflation were published in May 2022 with CPI at 9% and RPI at 11.1%.

5. Regarding the cost-of-living crisis and its direct impact on the expenditure base of the council. Simon Clarke, Chief Secretary to the Treasury, made a clear statement at the end of March that there will be no cash to bail out public sector budgets hit by soaring inflation. The Chancellor of the Exchequer did though revise and extended the support to individuals and households on the 26 May 2022.

6. Appendix B to this report sets out the potential £13.3m impact of both the cost-of-living crisis and other service pressures are expected to have on the council’s

budget for 2022/23. Besides the increase in energy costs, provision is also being made for the possibility that the pay award will be 4% for 2022/23 which is the minimum Local Government Employers advised councils to expect in a statement in earlier May 2022. On the 6 June the unions submitted their pay claim for 2022 for a minimum increase of £2,000 or the current rate of RPI, which ever is greater, on all spinal column points.

Recognising the severity of the impact early action has been taken to manage its impact. This included a series of Budget Challenge meetings in April and May between the councillors who form the Cabinet and senior officers. Appendix B also sets out the details of the potential mitigations that will enable the Council to address the financial challenge in 2022/23. These have been established based on the expectation that Portfolio Holders and Service Managers take all reasonable steps to manage within their delegated budgets with an overall expectation of collective responsibility across the council. All mitigations will be processed in accordance with the council's constitution with specific reference to services schemes of delegation. These costings will be kept under constant review due to their volatility and the likiehood they could further vary in either direction as the year unfolds.

Councillors should also acknowledge the ongoing impact the cost-of-living crisis will have on the budget proposals for future years. As an example, the potential impact is an additional £18.7m cost pressure in 2023/24. It should be emphasised that these are subjective projections at this stage and detailed analysis of the forecast cost pressures in relation to the inflationary environment will be conducted as we look to firm up the estimates for next financial year over the period to February 2023. The impact will be especially acute as several of the potential mitigations are time limited in nature.

Update on the risks associated with the 2022/23 Budget

7. It should be noted that these risks are being reviewed almost weekly by a group including the Leader, Deputy Leader, and a number of Senior Officers of the Council.

8. **Financial Outturn for 2021/22**

The budget for 2022/23 assumed that a surplus of at least £3.3m would be generated in 2021/22 which would be placed in a specific earmarked reserve at year-end (31 March 2022) and used to finance the 2022/23 Budget.

The final outturn for the year was a surplus of £6.8m which was an improvement compared to that assumed as part of the quarter three monitoring report. This outturn should be seen in the context of the influence and uncertainty caused by the global pandemic, the fact that the 2021/22 budget approved the drawdown of £30m in reserves, as well as considering the size of an authority with gross general fund revenue expenditure of approximately £800m per annum. This outturn was also achieved without drawing down certain earmarked reserves, additional those agreed as part of the approved budget, identified during the course of the financial year which had specifically been made available to support both the councils transition through the pandemic and the refinancing of the capital programme, as previously intended.

As set out in the 2021/22 Financial Outturn report presented elsewhere on the 22 June 2022 Cabinet agenda the additional resources will be used in support of the anticipated impact that the cost-of-living crisis is expected to have on the council in the period to 31 March 2024.

The additional surplus established in quarter four includes.

a) significant progress in the Adult Social Care continuing healthcare workstream which government suspended during the global pandemic.

b) earlier recovery in the key income streams of the council which had been suppressed by the council as part of the 2021/22 budget due to the pandemic.

c) additional efficiencies recognised as part of the transformation programme.

d) Further capitalisation of costs which are then financed by borrowing.

9. **Reserves**

Unearmarked Reserves

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 risk associated with the operation of the council and the management of service expenditure, income, and the council's funding.

In approving the budget for 2022/23 the council, as a matter of prudence, made the decision to improve the absolute level of its unearmarked reserves. Provision was made for £0.7m to be added to these reserves in each of the 5 years of the medium-term financial plan to 31 March 2027. Consequentially the intention is to increase the £15.3m 31 March 2022 balance to £16m as of 31 March 2023.

Appendix C sets out how these reserves levels compare to other upper tier local authorities. This comparison has been undertaken based on both an absolute level and as a percentage compared to net revenue expenditure (NRE). In absolute terms it indicates that BCP are consistently just above the average. On a percentage compared to NRE it shows that despite the investment the percentage has dropped from 5% to 4.7% which puts us on the lower side of the median. Caution does though need to be taken as all things being equal the council would expect its NRE to be reduced once the full extent of the £44m of transformation savings has been delivered. It will also be influenced by the inclusion of a significant amount of one-off expenditure in the 2022/23 budget. Although there is no set formula for deciding what levels of unearmarked reserves are adequate the Chartered Institute of Public Finance and Accountancy (CIPFA) previous indicated 5% of NRE as a recommended minimum level. Unearmarked reserves would need to be increased by £1.184m to increase them from 4.7% to the 5% level.

The strategy continues to be to increase the councils unearmarked reserves by £0.7m per annum subject to an annual review as part of the budget process.

Earmarked Reserves

Set aside for specific purposes including those held in support of various partnerships where the council is the accountable body, reserves committed to supporting the 2022/23 budget of the Council, reserves which represent government grants received in advance of the associated expenditure, 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.

As set out in Figure 2 below the Council had earmarked reserves of £114m as at the 31 March 2022. Off this the majority (£40m) relates to government grants received in advance of the actual expenditure including £18m specifically to mitigate the impact that various Covid business rates reliefs will have of the council's business rates collection fund. It should also be borne in mind that the 2022/23 budget assumed that £36m would be drawn down from the Financial Resilience and Transition/Transformation earmarked reserves to finance the approved level of expenditure.

The financial strategy supporting the development of the 2022/23 budget, as proposed later in this document, sets out the intention to fundamentally review each of the earmarked reserves to ensure that funds are not being tied up unnecessarily. The intention from the review is where appropriate to release these resources to support the proposed budgets of the council. This approach will though need to acknowledge the relationship between the total reserves (unearmarked and earmarked) and the deficit on the Dedicated Schools Grant which when combined is not permitted to be negative.

10. **Flexible Use of Capital Receipts legislation**.

The Department for Levelling Up, Housing and Communities (DLUHC) announced on the 4 April 2022 updated direction and statutory guidance to extend the freedom to use eligible capital receipts to fund transformation revenue project costs that deliver ongoing savings, to 31 March 2025.

The guidance remains broadly in line with those that operated previously although the government have set out that only statutory redundancy costs of posts given up to release a saving can now be funded under this mechanism. They have though helpfully confirmed that this restriction does not apply to other severance costs, including pension strain costs.

Although there is a detailed formula, statutory redundancy pay is restricted to a maximum of £17,130 with this amount underpinned by the payment of £571 (assumed weekly pay) times 1.5 for each full year the individual was 41 or older capped at 20 years.

Regarding the £562k redundancy costs charged to transformation, in 2021/22 approximately £111k (20%) would have been ineligible if the new rules had applied. In future the council will need to cover this ineligible element as part of its based revenue budget. The average redundancy cost since BCP Council was formed in April 2019 amount to £51,165 per FTE excluding tiers 1/2/3

By way of process, in future, we will be required to submit any plans, approved by council, to use capital receipts to fund transformation revenue projects to the DLUHC in advance for each financial year. Updated documentation must also be sent if the council changes its plans during the year.

A risk remains in that in drafting this legislation DLUHC intended to encourage local authorities to dispose of surplus assets not to be inventive in the generation of capital receipts. They are in the process of reflecting on the councils' proposals to generate capital receipts from the disposal of beach huts.

11. Generation of capital receipts to fund the Transformation programme

The latest profile of the transformation programme and the associated funding strategy is set out in figure 1 below. This statement does not include the £3.4m in additional annual revenue operating costs, which increases to £4.5m in 2023/24, associated with this investment (operating systems and their licensing costs etc.) or the borrowing costs associated with the financing of the capital elements of the programme.

Figure 1: Transformation spend profile and funding strategy

	Transformation Programme	2020/21 Actual £m	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	£m
Capital Spend	Expenditure						
	Capital expenditure	1.19	0.05	0.92	1.16	1.43	4.75
		1.19	0.05	0.92	1.16	1.43	**4.75**
	Funding						
	Prudential Borrowing (funded from General Fund MRP)	0.00	0.00	(0.72)	(1.16)	(1.43)	(3.31)
	Prudential Borrowing (funded from HRA land tfr)	(1.19)	(0.05)	(0.20)	0.00	0.00	(1.44)
		(1.19)	(0.05)	(0.92)	(1.16)	(1.43)	**(4.75)**
Revenue Spend	Expenditure						
	One-off costs	0.31	5.32	15.57	3.70	1.93	26.83
	Redundancy costs	0.00	0.56	1.25	10.35	0.74	12.90
	Contingency	0.00	0.00	0.41	0.45	0.68	1.54
	Staff costs apportioned to Transformation	0.00	0.00	6.70	6.70	6.69	20.09
	Data & insight Capability	0.00	0.00	1.40	0.35	0.00	1.75
		0.310	5.880	25.330	21.550	10.040	**63.11**
	Funding						
	Assumed fundable by Capital Receipts	(0.31)	(3.88)	(25.33)	(21.55)	(10.04)	(61.11)
	Contributions from outside of the General Fund	0.00	(2.00)	0.00	0.00	0.00	(2.00)
		(0.31)	(5.88)	(25.33)	(21.55)	(10.04)	**(63.11)**
Total	**Total expenditure**	**1.50**	**5.93**	**26.25**	**22.71**	**11.47**	67.86
	Total funding	**(1.50)**	**(5.93)**	**(26.25)**	**(22.71)**	**(11.47)**	(67.86)

The investment programme remains at the £67.86m approved as part of the 2022/23 Budget as does the requirement to finance £61.1m from the application of the flexible use of capital receipts. As of 31 March 2022, this assumed capital receipts breaks down into three component parts.

a) £5.9m of capital receipts already achieved.

b) £12.4m of estimated but not yet delivered capital receipts realisable before 31 March 2025 from long-standing and incidental schemes.

c) £42.8m minimum deliverable from the securitisation of a future income stream assumed to be realisable in 2022/23.

Looking at 2022/23 in isolation the council is anticipating spending £16m which will need to be financed from the capital receipt associated with the securitisation of the beach hut income stream. A separate report on this subject will be presented to July Cabinet supported by a specific scrutiny event.

As set out later in this report annual savings of £6.3m (£8.7m less £2.4m) have, as at the date of this report, been identified from the £7.43m investment in the transformation programme across 2020/21 and 2021/22.

12. Accumulating deficit on the Dedicated Schools Grant (DSG)

In April 2022 nine authorities, on top of a previous five, were told to make structural reforms to their special educational needs and disabilities (SEND) services in exchange for a government contribution towards their accumulated and projected deficits on their DSG. For example, Dorset Council (DC) will be given £42m over the period 2021/22 to 2025/26 as a contribution towards its projected DSG deficit which is expected to peak at £77.5m in 2026/27. The agreement requires DC to contribute £20m from reserves already earmarked for this purpose with the remaining £15.5m being funded from a combination of future council revenue budgets and through a school's block transfer of approximately £2.2m.

BCP Council has not been invited to be part of this "Safety Valve" arrangement instead we have been invited to take part in the governments "Delivering Better Value (DBV) in SEND" programme. This DBV is a 3-year voluntary transformation programme for authorities with growing deficits and is linked to Ofsted for those authorities with Written Statements of Action. Councils invited to be part of this programme will get access to resources to support the delivery of the reforms. DfE will not though provide any contributions towards their deficits.

As it stands the Council is having to cover the financial consequences of cash flowing the deficit. Additionally, there remains no indication that the government intend to extend beyond the 31 March 2023 the regulations which prohibit councils from recognising any financial consequence of the deficit. This means that the council could become liable for the accumulated deficit in the near future and need to tackle it from its own resources. The government are though aware that failure to extend the regulations could trigger widespread financial issues across the majority of local government and as such a national solution is needed.

A summary of the DSG deficit and its relationship to the Councils reserves is shown in Figure 2 below. The outturn of a cumulative DSG deficit of £20.3m as of 31 March 2022 was £0.4m lower than the £20.7m assumed as part of the 2022/23 budget report. Despite this and the more positive outturn for 2022/23 unless the regulations that allow the council to ignore the deficit on its DSG are extended the Section 151 Officer, and probably may others nationally, is likely to have to issue a section 114 notice for 2023/24 which would result in an immediate and sever curtailing of activity to the provision of non-statutory services.

Figure 2: Latest profile of estimated movements in reserves

	Balance Actual 31/3/21 £m	Balance Actual 31/3/22 £m	Balance Estimate 31/3/23 £m	Balance Estimate 31/3/24 £m	Balance Estimate 31/3/25 £m	Balance Estimate 31/3/26 £m	Balance Estimate 31/3/27 £m
Un-earmarked Reserves	15.3	15.3	16.0	16.7	17.4	18.1	18.8
Earmarked Reserves	153.8	114.4	55.7	19.7	17.7	17.9	17.9
Total General Fund Reserves	**169.1**	**129.7**	**71.7**	**36.4**	**35.1**	**36.0**	**36.7**
Dedicated Schools Grant (1)	(7.8)	(20.3)	(37.0)	(62.2)	(99.5)	(149.9)	(215.7)
Dedicated Schools Grant (2)	**(7.8)**	**(20.3)**	**(37.0)**	**(57.6)**	**(80.2)**	**(102.3)**	**(121.7)**
Net Position DSG1 – (Deficit)	**161.3**	**109.4**	**34.7**	**(25.8)**	**(64.4)**	**(113.9)**	**(179.0)**
Net Position DSG2 – (Deficit)	**161.3**	**109.4**	**34.7**	**(21.2)**	**(45.1)**	**(66.43**	**(85.0)**

Total General Fund Reserves excludes the accumulating deficit (negative reserve) on the dedicated school's grant.

Line (1) represents how the DSG deficit would grow based on the current pattern of provision and growth, with no new state funded places being created beyond the 17 planned for September 2022 and further 60 from September 2023, and no actions to educate a greater proportion of pupils in mainstream schools.

Line (2) assumes that an additional 56 special school and resource-based places will be created in each of the 3 years following, starting from September 2024, that the growth in EHCPs will reduce from 10% per annum in 2021/22 to 5% from 2026/27, and the proportion of the growth in pupils educated in mainstream schools will increase from the current 10% to 50% in 5 years.

In both lines the same predictions for DSG funding growth have been used with the DfE providing the assumptions of 5% in 2023/24 and 3% for each year thereafter.

13. Refinance of BCP FuturePlaces Limited

A separate report which presents a revised business plan for BCP FuturePlaces Ltd is included elsewhere on this Cabinet agenda. In summary BCP FuturePlaces will no longer receive a guaranteed annual payment included in the revenue budget of the council. Instead, payments to the urban regeneration company will be by way of a professional fee on projects approved by the Council. This fee will then be capitalised as part of the costs of creating an asset and financed as per the specific project.

As part of the arrangement the Council will be asked to issue them with a working capital loan facility of circa £8m to cashflow the differential between costs being incurred and payment for successful project completion.

The approach increases the operational risk to the URC which will need to ensure that both the cost of their day business activity and costs incurred in bringing projects forward are covered by the professional fee on these projects and any other income they are able to achieve. Ultimately this risk is retained by the council to the extent to which it is providing the working capital loan facility to the company.

It should also be highlighted that the Leader of the Council made a Portfolio Holder Decision in May to enable them to transition between the different methods of financing.

14. Assumed savings included in the base revenue budget for 2022/23

As part of the February 2022 budgeting setting report Council updated the profile of the savings to be delivered from the transformation investment programme by increasing the £7.5m assumed for 2021/22 by £1.2m to a target of £8.7m for 2022/23. These savings being broken down into 10 separate workstreams with the total estimate being in the range £26.7m to £43.8m with the higher end of the range continuing to be adopted in the overall financial planning of the authority.

At the time of setting the budget, of the £8.7m accumulated annual saving for 2022/23, £2.1m had already been delivered with the necessary adjustments to the budget made. A further £2.6m had been itemised which left £4m still to be itemised on a line-by-line basis.

As of 6 May 2022, a further £1.6m has been itemised which leaves £2.4m outstanding. Savings from the council's smarter structure process accounts for much of the additional itemised amount. In respect of the residual amount a significant proportion of this will be delivered by adopting a different operating model for the provision and management of business support services throughout the council.

In addition to the savings from the transformation investment programme the Council also budgeted for the delivery of £5.4m in service-based savings for 2022/23. A full listing was provided as Appendix 2b to the budget report and principally related to savings in Adults and Children's Services. Currently £2.7m of those savings are being flagged as at risk of delivery with this being the amount included in the cost of living and other service pressures work outlined earlier in this report. The £2.7m can be broken down as follows.

- £1.483m Children's Services Continuing Health Care contributions from health
- £0.750m Children's Services SEND Transport
- £0.469m Housing Services Council New Build Housing & Acquisitions Strategy

Ongoing management actions continues to be made in respect of these yet to be delivered savings.

15. **Funding Gap for 2023/24** (**Updated Medium Term Financial Plan Position)**

Previous adjustments in respect of cost of services	**23/24 £m**	**24/25 £m**	**25/26 £m**	**26/27 £m**	**Total £m**
Adult social care inc public health	11.4	10.8	8.1	8.5	**38.8**
Children's services	5.9	8.4	9.0	9.6	**32.8**
Pay Award - 2% per annum	3.5	3.6	3.6	3.6	**14.4**
Proposed transfer of revenue costs to transformation	0.0	0.0	6.7	0.0	**6.7**
Operations and Development Services	(2.0)	3.4	2.4	1.9	**5.7**
Pay and Grading Project - net revenue impact	0.0	9.1	(4.5)	0.0	**4.6**
Debt - Additional Capital (MRP & interest repayments)	1.0	1.5	0.8	0.4	**3.7**
Transformation - ongoing revenue costs	1.1	0.0	0.0	0.0	**1.1**
Pension fund – tri-annual revaluation impact	0.2	0.2	0.2	0.2	**0.9**
Contingency	0.2	0.1	0.0	0.0	**0.3**
Carters Quay Housing and Regeneration Scheme	0.1	(0.1)	(0.3)	(0.1)	**(0.4)**
Resource services	(1.7)	(0.0)	0.1	0.0	**(1.6)**
Income impacted by COVID-19	(1.9)	(1.4)	0.0	0.0	**(3.3)**
Total previous adjustments in respect of cost of services	**18.0**	**35.6**	**26.0**	**24.2**	**103.8**
Previously assumed adjustments in respect of resource levels					
Council tax – revenue - 2.99% per annum (1.99% basic + 1% SC precept)	(6.8)	(7.1)	(7.4)	(7.7)	**(29.1)**
Council tax - taxbase	(3.0)	(2.6)	(1.3)	(1.3)	**(8.2)**
Specific / ringfenced government funding changes	(0.4)	(0.4)	(0.4)	(0.4)	**(1.5)**
Investment income	(0.6)	(0.1)	(0.1)	0.0	**(0.7)**
Collection fund – (surplus) / deficit distribution net of S31 grant	4.8	(3.5)	0.0	0.0	**1.3**
Core government funding changes	3.3	0.0	0.0	0.0	**3.3**
Use of reserves one-off - only possible for 2022/23	36.1	1.0	0.0	0.0	**37.2**
Total previously assumed adjustments in resource levels	**33.5**	**(12.7)**	**(9.2)**	**(9.4)**	**2.2**
Previously assumed additional savings, and efficiencies					
Transformation savings	(10.0)	(25.2)	0.0	0.0	**(35.2)**
Following transformation, further net FTE reductions	0.0	0.0	(7.2)	0.0	**(7.2)**
Scheduled service based savings (includes Adults and Childrens services)	(5.5)	(6.2)	(2.8)	(2.6)	**(17.0)**
Unidentified Adult Social Care savings (2.99% growth restriction)	(5.0)	(4.9)	(3.1)	(3.7)	**(16.6)**
Unidentified Children's savings (2.99% growth restriction)	(2.8)	(6.0)	(6.5)	(7.0)	**(22.2)**
Total assumed annual extra savings and efficiencies	**(23.3)**	**(42.2)**	**(19.6)**	**(13.2)**	**(98.3)**
Annual – Net Funding Gap (based February 2022 budget report)	**28.2**	**(19.4)**	**(2.7)**	**1.6**	**7.7**
Cumulative MTFP – Net Funding Gap (as at February 2022)	**28.2**	**8.8**	**6.1**	**7.7**	
Changes since the 2022/23 Budget was set					
Cost of Living Impact - Additional service costs	18.7	0.0	0.0	0.0	**18.7**
Cost of Living Impact - Additional mitigation measurers	(20.6)	16.3	0.9	0.0	**(3.4)**
Amicable dissolution of the SVPP revenue & Benefits partnership	(0.6)	1.1	0.0	0.0	**0.5**
Loan to CCG for the One Dorset Pathology Unit cancelled	0.5	0.0	0.0	0.0	**0.5**
Reform of LG Finance delayed - LG Service Grant	(2.3)	2.3	0.0	0.0	**0.0**
Reform of LG Finance delayed - New Homes Bonus	(0.2)	0.2	0.0	0.0	**0.0**
100% premium on second homes	0.0	(5.3)	0.0	0.0	**(5.3)**
Empty homes premium commence after 1 as opposed to 2-years	0.0	(0.9)	0.0	0.0	**(0.9)**
Total changes since the 2022/23 Budget was set	**(4.5)**	**13.7**	**0.9**	**0.0**	**10.1**
Annual – Net Funding Gap (latest June 2022)	**23.6**	**(5.7)**	**(1.8)**	**1.6**	**17.8**
Cumulative MTFP – Net Funding Gap (latest June 2022)	**23.6**	**18.0**	**16.2**	**17.8**	

16. For scaling purposes, the 2023/24 funding gap which is after the 2.99% restrictions to the growth in Adults and Children's Services, amounts to 9% of the Councils £272m Net Revenue Expenditure.

17. Adjustments to the MTFP between February 2022 and June 2022

    a) Stour Valley & Poole Revenue & Benefits Partnership

       In line with the 12 January 2022 Cabinet report Dorset Council gave formal notice on the 30 March 2022 that they wish to dissolve the Stour Valley & Poole Revenue and Benefits Partnership on the 31 March 2023. The negotiated amicable agreement with DC includes a requirement for them to pay BCP an upfront cash contribution of £1.1m in recognition of the sunk costs, estimated at £465k per annum, that BCP will be liable for after the date of termination. The MTFP has been updated for these transactions. BCP Council will also retain the SVPP reserve which will be included once further due diligence has been undertaken further to the 2021/22 financial outturn and any associated exit costs

    b) Loan One Dorset Pathology Unit

       In November 2019 Council agreed to lend The Royal Bournemouth and Christchurch NHS Foundation Trust £14.9m to finance the One Dorset Pathology Unit. This arrangement was put in place to support the self-financing business case in an NHS operating framework where access to capital resources was severely restricted. During March 2022 the NHS regulatory bodies stepped in and provided the loan to ensure resources were kept within the NHS.

       Consequentially the loan which the council were going to provide them at a 3.5% interest rate will not now progress with a revenue impact of up to a £500k pressure in 2023/24.

    c) Fundamental reform of Local Government Finance

       The major local government funding reforms are likely to be delayed from 2023/24 into a future year, possibly 2024/25 or even later. A roll-over settlement is therefore now more than likely for 2023/24 with any unringfenced government funding, such as the revenue support grant, allocated on the same basis as 2022/23. Consequently, the MTFP has been updated to include the assumption of certain, what were considered one-off unringfenced grants for 2022/23, now also being received in 2023/24. Most notably

       - New Homes Bonus – previously assumed zero for 23/24 - latest assumption another one-off additional year payment of £191k.
       - Local Government Service Grant – previously assumed a £2.3m reduction - latest assumption that the funding will be rolled over into 23/24 for an additional year only.

    d) Impact of the Levelling Up and Regeneration Bill

       As part of the draft Levelling Up and Regeneration Bill announced by Government as part of the May 2022 Queens Speech the Government set out two significant changes in respect of council tax.

       1) To reinforce the incentive for owners to bring empty properties back into use, to reduce the qualifying period for the empty homes' premium from two-years to one-year from 1 April 2024 onwards.

2) To support councils in addressing the impact of second homes, to provide authorities the power to levy a council tax premium of up to 100%. Dwelling occupied periodically (there is no resident of the dwelling, and the dwelling is substantially furnished). To levy the premium an authority will need first to make a determination at least one-year before the beginning of the financial year to which it relates. Therefore, the financial year 2024/25 is the first year it could be applied from provided the determination is made by 31 March 2023 and to enact the determination the authority must publish a notice in at least one local newspaper 21 days before the determination date.

The MTFP assumes that these flexibilities will be endorsed by the Council acknowledging that the Levelling Up and Regeneration Bill is yet to be passed by Government. The current estimate is that the council will generate an extra £0.9m from the empty home's premium and £5.3m from the second homes premium. The estimate has been arrived at by taking 75% of the current assumed position and allowing for extra administration costs. This estimate will be subject to significant further due diligence especially in respect of the interpretation of what will be classified as a second home and how the categorisation is determined. The forecast has been constructed based on local knowledge around homes that used to get the 50% second homes council tax discount updated for any subsequent information gathered. There is currently no incentive for homeowners to make the council aware that a property is a second homes as they pay the same council tax rate as if it was their main residence.

Financial Strategy to support delivery of the 2022/23 Budget

18. The budget for 2023/24 and the MTFP should be seen in the context of a rolling, evolving process structured to enable the ongoing proactive management and prioritisation of the council's resources.

19. As a relatively new council, setting the budgets in the first four years has been a challenge due to the lack of complete historic data and trend information for the council as a single entity. There has been and will be ongoing uncertainty around any information that is available due to the impact and long-term consequences of the Covid-19 global pandemic and now the cost-of-living crisis.

20. The key dates in the 2023/24 budget setting process can be set out as follows.

22 June 2022	Cabinet – Quarter 4 / Financial Outturn 2021/22
22 June 2022	Cabinet - MTFP update report (including financial strategy)
28 September 2022	Cabinet - Quarter 1 2022/23 budget monitoring report
26 October 2022	Cabinet - MTFP update report
November 2022	Budget Café 1 (all councillor presentations)
14 December 2022	Cabinet - MTFP update report (including annual review of earmarked reserves)
14 December 2022	Cabinet - Quarter 2 2022/23 budget monitoring report
11 January 2023	Cabinet - Council tax 2023/24 tax-base report
12 January 2023	Audit & Governance Committee (Treasury Management Strategy 2023/24)

2 February 2023	Presentation to representatives from Commerce and Industry
8 February 2023	Cabinet - 2023/24 proposed budget and council tax setting
8 February 2023	Cabinet – Quarter 3 2022/23 budget monitoring
21 February 2023	Councill – 2023/24 proposed budget and council tax setting

21. The council's financial strategy in support of the 2023/24 budget was set out as part of the 2022/23 budget report. This strategy focuses on generating significant additional revenue receipts from new commercial models to avoid the service cuts that would otherwise be needed.

By way of an update although the Council has not yet been presented with any proposal seeking authorisation for any new commercial models, professional advice has been engaged by BCP FuturePlaces and is due to report back in the summer of 2022.

As highlighted in the 2022/23 budget report any proposals to use complex capital transaction as a mechanism for balancing the 2023/24 budget needs to be treated with a high degree of caution. This is on the basis that the Prudential Code for Capital Finance in Local Authorities as enshrined in law via the Local Government Act 2003 clearly prohibits local government investing for commercial gain (yield).

Additional complementary elements of the financial strategy include.

Increase the Councils Debt Threshold (CFR)

As part of the financial strategy supporting the development of the 2022/23 budget the council in September 2021 approved a revision to its self-imposed debt threshold. This change recognised that our borrowing of £457m as of 31 March 2021, represented 160% of our Net Revenue Expenditure (NRE), and was towards the lower end of the third quarter when compared to upper tier authorities including metropolitan boroughs. The decision was to move our debt threshold to 257% of our NRE which would move the council to the mid-point average and support a debt level of £855m. There were two main drivers for extending the Council's debt threshold.

1) To enable service-based capital expenditure to be financed from debt with the cost spread over the time period that will benefit from the expenditure.

2) To support the big plan objective including the delivery of regeneration and housing business cases which will provide an ongoing resource base for the authority, as a minimum, once the borrowing is repaid.

As at the 31 March 2022 the Council has increased its current actual borrowing position to £487m and has now committed over the five-year period to 31 March 2027 to using all the current £855m threshold including those decisions outlined in May 2022 Cabinet and Council reports. This includes decisions in respect of the Futures Fund £50m, Carters Quay £46m, Green Futures Fund £20m, SEND Capital £10m, the multi-year investments in the Council New Build and Housing Acquisition Strategy, and the capitalisation of neighbourhood highway maintenance up to and including 2025/26.

The proposal now is to increase the Council debt threshold to £1.334bn which will represent 387% of our NRE and position us at the top of the 3rd quarter when compared to upper tier authorities including metropolitan boroughs. This headroom will provide the Council with a further £479m to support delivery of its Big Plan. It will be allocated based on prudent business cases that take account of risk, support the levelling up agenda, and will be particularly focused on the delivery of housing or extra care housing related schemes, be that via the councils housing revenue account, or any BCP FuturePlaces Ltd or Bournemouth Development Company LLP led projects. It will not be invested in any commercial for yield activity.

Self-imposed debt levels are set against the Councils Capital Financing Requirement (CFR). Such levels are a requirement of the CIPFA Prudential Code and link into the prudential indicators agreed by Council based on recommendations of the Audit and Governance Committee who are responsible for the Treasury Management Strategy.

Following recommendations from the Public Accounts Committee CIPFA updated the Prudential Code in August 2021. One of the notable changes was that borrowing to fund solely for yield generating investments, from whatever funding source, is not permissible under the code as they represent an unnecessary risk to public expenditure. Borrowing to support service-based proposals, regeneration and housing 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. It should be noted that whilst some parts of a regeneration project may generate net income this income should be recycled within the project or applied to related regeneration projects, rather than applied to wider services.

DLUHC have made it clear that local authorities taking on excessive risk and any non-compliance with the framework will see increased interventions from government potentially leading to caps on borrowing. DLUHC also made it clear that they planned to better constrain the risks associated with complex capital transactions. This included 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.

As part of this tightening DLUHC on the 12 May 2022 announced as part of its Levelling Up and Regeneration Bill, the proposal to address excessive risk arising from local authority investment and borrowing, while supporting local freedoms for investment. They propose a set metrics for local authorities including the following:

- proportionality of debt compared to the financial resources at the disposal of the authority.
- proportion of capital assets which are investments taken out to generate net financial return or profit.
- Whether the authority is meeting its statutory duty to make sufficient provision for debt repayment.
- proportion of debt held where the counterparty is not local or central government including credit arrangements and loans.
- Any other metric specified by regulations made by the secretary of state.

The proposals set out above also coincide with a further update to Public Works Loan Board (PWLB) guidance to address lending to authorities where there is a more than negligible risk of non-repayment. HM Treasury will be reviewing authorities that raise concerns and could mean limiting the loan term length generally offered or restricting lending altogether.

The Levelling Up and Regeneration Bill published on the 11 May 2022 proposes to amend the LG Act 2002 to give the Secretary of State powers to issue a "risk mitigation direction". This could be issued if a council receives a section 114 notice, receives a capitalisation direction, or breaches one of the five capital risk thresholds set out above. Such directions could direct asset sales and limit council borrowing levels.

Audit and Governance Committee will be requested to endorse the further extension of the council's debt threshold as part of the Treasury Management Outturn report for 2021/22 at its July meeting. Assuming their endorsement the request will be presented to the 13 September Council meeting.

Recognising the acute financial challenges in the Councils current and future year budgets and demonstrating fiscal discipline it is recommend that no further borrowing is undertaken which is not supported by a self-funding business case. Therefore, it is recommended that no further commitments to debt be taken on which would require the general fund budget of the council to finance the revenue implications of taking on that additional debt.

Review of the Councils Collection Funds

The proposal is to undertake a fundamental and detailed review of the collection funds, both Council Tax and Business Rates, as the position starts to stabilise in a post pandemic environment.

Review of Earmarked Reserves

Annual review of earmarked reserves to ensure funds are not being tied up unnecessarily and were appropriate being released to support the proposed budgets of the council. The mitigation in support of the 2022/23 cost of living crisis already make provision for the significant release of earmarked reserves.

Levelling Up Implications

22. The government's ambition to level up the United Kingdom is about levelling up opportunity and prosperity and overcoming deep-seated geographical inequalities. It is also about levelling up people's pride in the places they love and seeing that reflected in empowered local leaders and communities.
23. On the 13 April 2022 BCP Council received notification of a three-year allocation (2022/23 to 2024/25) of £4.196m from the UK Shared Prosperity Fund (UKSPF) and for £1.723m for the adult numeracy programme (Multiply). An overall total of £5.919m.
24. The funding is designed to support three local priorities: communities and place, support for local businesses, and people and skills.
25. The council is now required to develop and submit to Government an investment plan with partners to set out how the funding will be targeted on local priorities and against measurable goals. This investment plan, once approved by Government, will allow the council to drawdown, and use the funding.

Options appraisal

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

Financial Implications

27. The financial implications of the MTFP and budget work now in hand are as outlined within the report.

28. The background documents section of this report provides a link to both the 2022/23 Budget Report and the associated statutory section 25 report from the Chief Financial Officer (CFO) which highlighted the numerous risks each of significant value taken in constructing the 2022/23 budget. Consequentially the CFO suggested an alternative budget configuration which he considered would better support the Council in 2022/23 and future years. Councillors duly considered and rejected the recommendations of the CFO.

Summary of legal implications

29. The 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.

30. It is the responsibility of councillors to ensure the council sets a balanced budget for the forthcoming year. In setting, such a budget councillors 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.

31. As a billing authority, failure to set a legal budget by 11 March each year may lead to intervention from the Secretary of State under section 15 of the Local Government Act 1999. It should however be noted that the deadline is, in reality, the 1 March each year to allow sufficient time for the council tax direct debit process to be adhered to.

Summary of human resources implications

32. 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.

33. This report acknowledges that the transformation programme and the actions necessary to manage future years funding gaps are likely to have an impact on future staffing levels.

Summary of sustainability impact

34. Consideration was given as part of the budget for 2022/23 of ways in which BCP Council could contribute to environmental improvements / targets and by example encourage this approach in those with whom it deals.

35. The 2022/23 budget included a £480,000 annual commitment in support of climate change and the climate and ecological emergency activity. In addition, it created a £20m Green Futures Fund to invest in local green infrastructure projects and support delivery against the commitment to be carbon neutral by 2030.

36. 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.

37. 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 previous forecasts from the London School of Economics the council would 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.

Summary of public health implications

38. The 2022/23 budget included the aim to assist the council and its community address the legacy consequences of the global Covid-19 public health emergency.
39. Council continues to seek to maintain appropriate services for vulnerable residents as well as improve the sustainability of services important for the wellbeing of all residents.
40. Allowance continues to be made in the budget for personal protective equipment to protect staff and residents to ensure compliance with all guidance to be issued by Public Health England over time.
41. The Department of Health and Social Care have announced the public health grant allocations for 2022/23. Nationally the grant will be £3.417 billion a rise of 2.8% in cash terms. Locally public health is delivered via a pan Dorset service arrangement in partnership with Dorset Council. The local increases were as follows.

BCP Council £20.6m (£20.1m 2021/22)	2.8% increase
Dorset Council £14.6m (£14.2m 2021/22)	2.5% increase

Summary of equality implications

42. A full equalities impact assessment will be undertaken as part of the final February 2023 report to members as part of the annual budget process.

Summary of risk assessment

43. A significant level of uncertainty is associated with the government's financial planning framework, which delivered annual settlements for both 2021/22 and 2022/23 rather than the intended three-year timeframe.
44. Significant new models of funding local government are expected to impact over the MTFP period. This includes implementing changes signalled well before the start of the pandemic for business rates and adult social care, with it not yet possible to estimate the financial outcome for the council. It appears these models are highly unlikely to be implemented in 2023/24.
45. Significant assumptions have been made regarding the level of demand for council services, the associated costs, and the timing and level of savings to be delivered by the transformation programme and the implications of the cost-of-living crisis.

46. Specific risks assumed in the 2022/23 budget which will need to be continually monitored to determine their likely impact on the overall and ongoing financial resilience of the council include.

- Accumulated and growing deficit on the dedicated school's grant which for 2023/24 will be greater than the total reserves available to the council. Unless the current regulation that allows the council to ignore this position is extended this will mean the councils 151 Officer, and probably may others nationally, will be required to issue a s114 notice.
- The underlying structural deficit with specific reference to the forecast £23.6m funding gap for 2023/24 which is 16% lower than the £28.2m assumed as part of the February 2022 budget report for 2022/23. It should be stressed that this assumes that the majority of the extra resources made available as part of the 2021/22 outturn is required to cover the currently assumed additional costs that will fall on the authority due to the cost-of-living crisis.
- Requirement to deliver the savings assumed in both the 2022/23 budget and those assumed in the MTFP. As at the date of this report £2.4m of annual transformation savings and £2.7m of annual service-based savings remain to be delivered in 2022/23. Looking forward to 2023/24 the MTFP assumes an additional £10m of annual transformation savings (£18.7m cumulative annual total), a further £5.5m in itemised service-based savings, and £7.8m savings specific to the 2.99% growth restriction in Adults and Children's services, will need to be delivered.
- The MTFP assumes that the council will generate £61.1m of capital receipts to fund the council's transformation programme via the flexible use of capital receipts regulations. Current profiling shows that £16m needs to be financed in 2022/23 from the securitisation of the beach hut income stream.
- As highlighted in section 10 of this report DLUHC are reflecting on the councils' proposals to generate capital receipts from the disposal of beach huts.
- At £16m the unearmarked reserves of the council are currently below the recommended 5% CIPFA minimum level.
- Commitments to debt are currently at the council's threshold level accepting that a significant number of the underlying schemes are yet to commence. No further schemes which it is proposed be financed by borrowing can be agreed until such time as the debt thresholds have been extended by Council.
- The delivery stage of a significant number of council capital projects are likely to commence or be built out in a period of high inflation and increasing interest rates. The viability of these schemes will need to be kept under constant review.
- Government continues to tighten the legislative framework governing local authorities' ability to borrow as evidenced by provisions in the draft Levelling Up and Regeneration Bill, and update to both the Public Works Loan Board (PWLB) guidance and Prudential Code.
- Social Care reforms will levy significant new responsibilities on local authorities as well as introducing a cap on care costs. There is a risk that the Government grant will be insufficient to cover the full cost associated with these reforms and the staffing needed to enable their delivery.

Background papers

47. February 2022 Budget report to Council

    Appendix 3 s25 Reserves Report CFO

    https://democracy.bcpcouncil.gov.uk/ieListDocuments.aspx?CId=284&MId=4812&Ver=4

Appendices

A MTFP timeline

B 2022/23 Variances from budget

C Benchmarking – Unearmarked Reserves

D Benchmarking – Capital Financing Requirement (Debt)