CABINET

Report subject	**Finance Update** **Includes Quarter One 2022/23 Budget Monitoring Report**
Meeting date	7 September 2022
Status	Public Report
Executive summary	This report provides an update on the council's financial position further to the financial forecasts set out in the end of June 2022 budget monitoring information. The position includes an acknowledgment of the a) recent update to the Government's Flexible Use of Capital Receipts statutory guidance. b) latest forecast of the impact of the cost-of-living crisis on the council including the impact of the pay award offer made by the National Employers for local government service. The report also recommends how the Council can ensure that it maintains a balanced budget for the current 2022/23 financial year and prudently positions itself ahead of the requirement to deliver a balanced budget for 2023/24.
Recommendations	**It is RECOMMENDED that Cabinet:** **1) Notes that an application has been submitted under the Exceptional Financial Support process for a capitalisation direction of £76m (£20m in 2022/23) to principally fund this Councils Transformation programme as set out in this report:** **2) Brings forward to the 28 September Cabinet meeting proposals to prudently position the council to deliver a balanced budget for 2023/24 from traditional local government financial management processes and revenue sources.** **3) Agrees to bring forward a capital receipts schedule for additional, non-strategic, asset sales that could be used as an alternative method of financing the Council's Transformation Investment Programme via the Flexible Use of Capital Receipts (FUCR).**

	4) Agrees to explore options across the council to deliver revenue through further commercialisation and a review of fees and charges as a response to the cost-of-living crisis. **5) Approves the capital virements as set in Appendix D paragraph 76 to this report.** **6) Requests the Corporate Directors and Portfolio Holders for Children's Services, Transformation, and Operations to bring forward papers outlining** **a) in-year service pressures and the mitigation strategy that will be put in place to manage them.** **b) the timeline for the increase in costs for the transformation programme and provide an update on the delivery of 2022/23 budgeted and future years savings.** **7) Agrees to place an update on the Financial Strategy as a standing Cabinet agenda item until such time as there is a balanced budget delivered for 2023/24.** **8) Agrees that no new financial commitments will be made until such time as there is a balanced budget for 2023/24 other than with the specific agreement of the Chief Finance Officer in consultation with the Portfolio Holder for Finance.**
Reason for recommendations	To comply with accounting codes of practice and best practice which requires councils to regularly monitor the annual budget position. To provide a financial update to Cabinet further to the update to the Governments Flexible Use of Capital Receipts guidance and the realisation of the risk outlined in the 2022/23 Budget report. To comply with the council's financial regulations regarding budget virements.
Portfolio Holder(s):	Councillor Drew Mellor, Leader and Portfolio Holder for Finance & Transformation
Corporate Director	Graham Farrant, Chief Executive
Report Author	Adam Richens, Chief Finance Officer and S.151 Officer adam.richens@bcpcouncil.gov.uk
Wards	Council-wide
Classification	For Decision

Background

1. BCP Council, having been formed in 2019 as the most complex piece of Local Government Reorganisation in a generation, has an ambitious transformation plan that has delivered £48m a year of recurring savings and efficiencies since 2019 and has identified a target of a further £51m a year of recurring efficiencies to be delivered in the next 3 years. This is with the aim of delivering the most efficient and digitally enabled form of local government in the country to allow excellence in service and improved financial sustainability.
2. The 2022/23 budget as presented to Council in February 2022 was described as a bold, confident, and dynamic budget, which included several risks that were set out and assessed in detail in the budget report.
3. These included a commitment to bring forward a proposal to create a Special Purpose Vehicle (SPV) that would enable the commercialisation of the council's beach hut assets and incidentally generate a capital receipt which could be used to fund the council's transformation programme using the Flexible Use of Capital Receipts (FUCR).

Department of Levelling Up, Housing and Communities (DLUHC)

4. In April, following unseen representations made directly to DLUHC, civil servants arranged a conversation with the Council's Chief Executive and Director of Finance to understand the Beach Huts proposals in detail and subsequently met with the Council's External Auditor. Following their deliberations Kemi Badenoch MP, then Minister for Equalities, Local Government, Faith, and Communities, wrote directly to the Leader of the Council on 16 June 2022. A copy of the letter is attached as Appendix A.
5. The essence of the letter is that the Minister expressed concerns about whether the proposal aligned with how the government expected the FUCR statutory guidance to be used. Her conclusion was that the Council's proposal was not explicitly disallowed by the direction. However, the Minister had concerns that the flexibility was not being used appropriately, as the assets ultimately remain within the Council's group structure and, were the direction to be used, the liabilities incurred by the subsidiary with respect to the purchase ultimately funded the revenue costs of the Council.
6. The Minister also highlighted that DLUHC officials had been asked to review the FUCR statutory guidance and to consider necessary amendments to ensure that it can only be used in a manner consistent with the government's original intent.
7. Subsequently on 30 June 2022, DLUHC commenced an informal sounding process with the wider sector on those potential amendments to the statutory guidance. The amendments would not prevent the sale of the beach huts, as initially proposed, but would prevent the application of the capital receipt to pay for the Councils transformation programme under FUCR.
8. On the 2 August 2022 DLUHC confirmed the FUCR statutory guidance had been changed. As part of the announcement the Rt Hon Greg Clark, Secretary of State for Levelling Up Housing & Communities, wrote to all Council Leaders. A copy of the letter is attached as Appendix B. This correspondence emphasised that Government is carefully monitoring the sector and will strengthen the Prudential Capital Framework where they believe local taxpayers are being put at unacceptable risk. It also emphasised that Councils should not be expending valuable time and

resources on exploring novel practices and ways to circumvent the rules set by government and advised commercial firms and companies who design and encourage these schemes to pay close attention to the amended direction.

9. In addition, and as set out at Appendix B1, the Secretary of State wrote to firms offering council commercial advice to seek their help in not supporting councils to pursue strategies that engage in risky financial practices.

10. Post the change in guidance to the FUCR the Council needs to consider other methods for funding the transformation programme. As such the proposal includes.

    - Exploring what traditional, non-strategic, asset sales are open to us.
    - Working with DHLUC to consider methods that are compliant with the letter and spirit of the FUCR statutory guidance.
    - Exploring the option to borrow directly from PWLB to fund the Transformation programme through a Capitalisation Direction.

Request for a Capitalisation Direction

11. In addition, the letter from Kemi Badenoch on the 16 June 2022 indicated that the Council could apply to DLUHC for Exceptional Finance Support. This is a specific reference to the ability to apply for a Capitalisation Direction which would give permission for the Council to borrow from the PWLB to fund revenue costs, including the costs of transformation. This is a freedom that the Council have been discussing with DLUHC since April 2019 but has not been encouraged previously. This could give the Council an alternative route to fund the transformation programme and other one-off costs of transformation, if successful, although it is an application process, not a right, and is likely to come with constraints which would need to be considered.

12. An application to DLUHC for a capitalisation direction was submitted on 15 July 2022 to fund the following potential costs of the Council.

Figure 1: Submitted Capitalisation Direction

	22/23 £m	23/24 £m	24/25 £m	Total £m
Transformation Investment Programme	25.3	21.6	10.0	**56.9**
Children's services transformation programme *(not budgeted)*	2.0	5.0	5.0	**12.0**
Adult Services transformation programme *(not budgeted)*	2.0	5.0	5.0	**12.0**
Capital Receipts - already delivered	(1.9)	0.0	0.0	**(1.9)**
Capital Receipts - scheduled and assumed deliverable	(7.4)	(3.7)	(1.1)	**(12.2)**
Net Position on the transformation programme	**20.0**	**27.9**	**18.9**	**66.8**
Pay and Reward project - Implementation cost			9.1	**9.1**
Capitalisation Direction	**20.0**	**27.9**	**28.0**	**75.9**

13. The Council Leader, Chief Executive, and Chief Finance Officer met with Paul Sculley MP, Minister of State at the Department for Levelling Up, Housing & Communities, and DLUHC officials on 29 July 2022. The outcome of the meeting was formalised in a letter from the Minister attached as Appendix C. This letter set

out that the government has made no formal commitment to give BCP Council a capitalisation direction and that they would be processing our application through the existing exceptional financial support process so it can be assessed against agreed principles, including value for money and consistency with other applications made by councils. It also indicated that any capitalisation direction for future years (2023/24 onwards) is unlikely to be considered until after the Local Government Finance Settlement which is normally issued in late December each year.

14. The letter also emphasised that very positive work is underway to ensure that DLUHC understand the Council's financial position and transformation ambitions fully, and to progress our request quickly.

15. Research on previous capitalisation directions indicate that they are typically issued alongside a range of conditions such as.

    - An external assurance review of the Councils finances.
    - A review of the Councils governance arrangements.
    - Borrowing must be from the Public Works Loan Board (pwlb)
    - Borrowing is repayable over a 20-year period.
    - All borrowing, regardless of purpose, would be at a premium of 1% over normal pwlb rates. An exclusion from this maybe any borrowing in respect of the Housing Revenue Account.
    - A requirement to provide a schedule of assets that could be sold to generate capital receipts, either as an alternative FUCR strategy, or to reduce debt.

    Civil servants from DLUHC have also indicated that HM Treasury will be considering whether the council has taken all opportunities to better position its financial sustainability.

Financial Update

16. This report should be read in conjunction with the 22 June 2022 MTFP Update report to Cabinet which highlighted the latest financial position of the Council. It included reference to several key elements of context in respect to the current financial position of the council.

17. Of particular significance is the accumulated and growing deficit on the Dedicated School's Grant (DSG) which on 31 March 2024 will be greater than the total general fund reserves of the council. Unless the current "disregard regulations" that allow the council to ignore the DSG deficit are extended from their current 31 March 2023 deadline then the council will be in an untenable position on 31 March 2024. The Councils Chief Financial Officer recently reached out to other CFOs nationally to encourage them to provide evidence to DLUHC of the necessity to extend these regulations. This has now led to a formal data collection exercise by DLUHC. It is hoped that the government will extend these regulations, but that is by no means certain and could not be guaranteed.

18. A key purpose of the June report was a reflection of the cost-of-living crisis which has seen inflation continue to increase rapidly driven by the post pandemic economic environment and the war in Ukraine. The June report made provision for significant cost pressures regarding this issue both in 2022/23 and from 2023/24 onwards. Via a series of budget challenge meetings in April and May between the councillors who form the Cabinet and senior officers, a mitigation strategy was put in

place in so far as possible at that time. This included a reflection on the ongoing impact of the better than anticipated financial outturn for 2021/22 and the use of resources released by the outturn in support of the 2023/24 budget.

Budget Monitoring 2022/23

19. Appendix D to this report contains the standard level of information included in the regular budget monitoring report to Cabinet. This forecast position includes a reflection of the following.

    a) Ongoing pressures in Children's Services principally from having higher-than-expected levels of agency staff to cover permanent roles as recruitment continues to prove difficult. A key risk in this area is that it continues to be assumed that budget to cover care costs for children will be sufficient to cover any costs incurred. Additionally, it is currently being forecast that there will be a £700k pressure as a direct consequence of the grant for Unaccompanied Asylum-Seeking Children being insufficient to cover the costs forecast to be incurred.

    b) Budgeted savings which it is now assumed will not be delivered in full or part. This includes the following.

        1) £1.483m Children's Services, Contributions from health to placements costs for children.

        2) £750k Children's Services, SEND Transport savings.

        3) £219k Housing Related Services, Council New Build Housing Acquisition Strategy (CNHAS)

    c) Additional cost-of-living inflationary. For example, provision was previously made for increasing the 3.1% budgeted pay award to 4%. This extra provision will now be insufficient to cover the "final" offer made by the National Employers for local government services who have proposed a flat rate increase of £1,925 on every spinal column point plus an additional day's annual leave, which calculates out as an average 5.4% for our staffing mix. The baseline forecast takes account of the fact that the pay award is likely to add an extra £4.1m to the cost base of the council over and above the £5.5m allowed for as part of the original 2022/23 budget. Work on the impact of the extra days leave is ongoing and will need to be factored into future budget monitoring updates.

    d) Provision was made as part of the 2022/23 revenue budget for the annual savings from the Transformation Investment Programme to increase to £8.7m. As of the 1 August 2022 ongoing savings of £7.1m have been processed which leaves £1.6m outstanding and remaining to be captured in 2022/23. There is the potential for further savings from reconfiguring the council's business support arrangements, and from reductions in third party spend..

    e) Release of £1m of the provision previously set aside by the Council to cover its share of potential losses in Bournemouth Development Company (BDC) schemes. This reduction reflects the profit on the West Cliff Mansions (Durley Road) scheme.

    f) Net pressures in the Operations Directorate which includes those associated with energy costs particularly street lighting, fuel costs, and card charges and income collection costs in car parks.

g) Release of the £2.3m base budget revenue contingency for 2022/23. This approach will mean there are no resources set aside for any variations that might occur in the remaining nine months of the financial year.

h) Release of the £3.7m assumed revenue budget impact of the proposal to securitise the beach hut income stream included as part of the 2022/23 original budget. This net reduction considered foregone income, loan repayments and guarantee fees.

20. A summary of the baseline position can be set out as below.

Figure 2: Quarter One baseline financial forecast for 2022/23

	June Cabinet Variance £000s	Quarter One Variance £000s	Movement £000s
Children's Services	2,915	6,974	4,059
Central Items (principally the pay award)	1,811	4,355	2,544
Transformation savings shortfall	0	1,595	1,595
Resources	814	1,062	248
Adult Social care & Public Health	457	457	0
Operations	54	717	663
Reduced provision for BDC losses	0	(1,000)	(1,000)
Additional Treasury Management Income	(800)	(1,320)	(520)
Release Revenue Base Budget Contingency	0	(2,256)	(2,256)
Release earmarked reserves	(2,412)	(2,384)	28
Application additional one-off grant income	(2,839)	(2,839)	0
Beach Hut Securitisation budget provision	0	(3,700)	(3,700)
Net current forecast (Surplus) or Deficit	**0**	**1,661**	**1,661**

21. This forecast position should be considered as the baseline position which will then be changed based on **two** potential scenarios.

Scenario 1: Capitalisation Direction is successful for 2022/23.

Council is given a capitalisation direction to fund the transformation expenditure for 2022/23 as set out in figure 1 above.

Loss of forecast capital receipts from sale of beach huts through the SPV model of £54m with £16m required as a minimum for 2022/23.

Capitalisation direction of £20m allowed – costs funded from borrowing to balance the loss of capital receipts from the sale of the beach huts. Any interest on borrowing will need to be covered by bringing forward regeneration reserves which are intended to otherwise be used in 2023/24.

Assessment: Possible: Although, as set out in section 13, the government have given BCP Council no commitment that they will issue a capitalisation direction. From discussions with DLUHC it should be emphasised that it will take them and HM Treasury time to consider the application.

2022/23: Balanced:
Update to 2022/23 Baseline financial position as set out in figure 3 below. Balanced using an earmarked reserve for regeneration which has not previously been committed and a small element of the financial resilience earmarked reserves previously being used to support the extra cost of living crisis pressures in 2023/24. These financial resilience earmarked reserves were principally created by the better than anticipated financial outturn for 2021/22.

Figure 3: Financial forecast if a 2022/23 capitalisation direction was received.

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

22. Scenario 2: No capitalisation direction issued.

Government do not approve a capitalisation direction and the Council is required to fund the budgeted transformation investment programme expenditure in 2022/23 as set out in figure 1. A key assumption is that the transformation programme is limited to that formally approved by Council as part of the 2022/23 budget, therefore excludes the extra investment in Adults and Children's services transformation projects. The amount required is therefore £16m, made up of the £25.3m approved expenditure less £9.3m of already delivered and assumed capital receipts from traditional asset disposals.

Assessment: Suggested planning assumption. Approach endorsed by LGA Peers in their 2022 follow up, focused on financial sustainability, to their October 2021 review. Copy of their report is presented as Appendix C1.

2022/23: Balanced:
Update to 2022/23 Baseline financial position as set out in figure 4 below. Balanced using.

a) the total of the earmarked reserve for regeneration which has not previously been committed.
b) the total financial resilience earmarked reserves previously being used to support the extra cost of living crisis pressures in 2023/24.
c) application of 8.6% of the councils unearmarked reserves.

Figure 4: 2022/23 financial forecast if capitalisation direction is not received.

	June Cabinet Variance £000s	Quarter One Variance £000s	Movement £000s
Baseline forecast as set out in figure 2	**0**	**1,661**	**1,661**
Budgeted Transformation Programme Expenditure	0	25,300	25,300
Flexible Use of Capital Receipts - already delivered	0	(1,900)	(1,900)
Flexible Use of Capital Receipts - assumed	0	(7,400)	(7,400)
Drawdown on Earmarked Reserves *(Total reserve previous allocated to regeneration and not currently committed)*	0	(1,459)	(1,459)
Drawdown on Earmarked Reserves *(Total reserves in the June MTFP Update report allocated to supporting the extra cost of living pressures in 2023/24)*	0	(14,828)	(14,828)
Drawdown on Unearmarked Reserves (Reduce unearmarked £16m forecast 31 March 2023 position to £14.626m)	0	(1,374)	(1,374)
Net currently forecast (Surplus) or Deficit	0	0	0

23. **As a permutation to this scenario the Council could bring forward a capital receipts schedule for additional, non-strategic, asset sales as a mechanism for funding the Transformation Programme instead off the application of the earmarked and unearmarked reserves.**

24. Both scenarios demonstrate that the Council can balance the financial position for 2022/23, although at significant cost to the reserves going forward into 2023/24 in Scenario 2.

25. MTFP Forecast – looking forward into 2023/24

26. Under each of the potential scenarios listed there is a significant funding gap to fill in 2023/24 which requires the Council to work at pace to deliver mitigation strategies that will include reviewing possible expenditure reductions as well as bringing forward ongoing work in relation to new commercial models for review by DLUHC. In addition, the dialogue with DLUHC should help clarify the extent to which the Councils estates and regeneration strategies could deliver material ongoing revenue to the Council and support the budget forecast for 2023/24. Additionally, the leader of the Council has requested that an update on the Council's financial strategy be included as a recurring Cabinet item until such time as a balanced budget for 2023/24 has been delivered. The forecasts currently assume the full Council Tax increase and continued increases in fees and charges for all services. Achieving service reductions may require consultation with service users and staff, which will need to be built into the timetable for savings to be delivered.

25 As a reminder to councillors, the following MTFP variance charts show changes in the revenue budgets, on an annual basis, either positive numbers which represent additional costs to be met, or negative which represent forecast cost reductions or additional income. The variances are shown in the year in which they are expected to be first seen and are then assumed to recur on an ongoing basis in each of the following years. One-off changes will be seen as an entry in one year and will then being reversed out in a following year. For example, in Figure 5 the additional income from the harmonisation of beach huts fees and charges are expected to be £700k in 24/25 and then an additional £300k taking the annual increase to £1m in 25/26 then to £1.3m in 26/27. The net funding gap of £33.9m is an ongoing revenue gap, not a one-off pressure, although there is a positive movement in the two subsequent years, but not enough to negate the ongoing pressure which is currently forecast to settle at £26.7m over the MTFP.

Figure 5: Updated MTFP Position

	23/24 £m	24/25 £m	25/26 £m	26/27 £m	Total £m
September Report - Changes since June Cabinet Report					
Cost of Living Impact - Ongoing impications 2022/23 pay award	2.5	0.0	0.0	0.0	**2.5**
Cost of Living Impact - ASC further inflation on care fees	5.3	0.0	0.0	0.0	**5.3**
Children's services - Additional service pressures	5.7	0.0	0.0	0.0	**5.7**
Other additional service pressures	0.5	(0.1)	(0.1)	0.1	**0.4**
Ongoing reversal of the 2022/23 net budget adjutsment for Beach Huts	(3.7)	0.0	0.0	0.0	**(3.7)**
Harmonisation of Beach Huts Fees and Charges	0.0	(0.7)	(0.3)	(0.3)	**(1.3)**
Total changes since June Cabinet report	**10.3**	**(0.8)**	**(0.4)**	**(0.2)**	**8.9**
Annual – Net Funding Gap (latest Sept 2022)	**33.9**	**(6.5)**	**(2.2)**	**1.4**	**26.7**
Cumulative MTFP – Net Funding Gap (latest Sept 2022)	**33.9**	**27.5**	**25.3**	**26.7**	

The baseline Medium Term Financial Plan position, as set out in the June Cabinet report, has firstly been updated for several key changes. Significant amongst these include.

a) The impact of the National Employers proposed pay award for 2022/23 which will permanently adjust the cost base of the Council going forward.

b) Additional cost of living inflationary pressures within Adult Social Care pushing up the price of residential and home care fees.

c) Additional service pressures in Children Services associated with the cost of the workforce and SEND Transport costs.

d) Additional cost of living pressures including those associated with higher insurance premiums.

e) Ongoing budget adjustment from not proceeding with the securitisation of Beach Hut proposal.

f) Harmonisation of the Beach hut fees and charges.

Full details of the latest MTFP position are set out in Appendix E attached. This includes the amounts currently provided for future years inflationary pressures subject to the normal annual fundamental review at the end of August. For scaling purposes, the Councils net budget for 2022/23 is £272m.

27. **Scenario A** – Capitalisation Direction for 3 years is successful

This position assumes that the previously unidentified savings in Adults and Children's services, based on an initial restriction in their growth to 2.99%, will be deliverable in each year of the MTFP due to the £24m of additional transformation investment over the 3-year period as scheduled in Figure 1. In addition, the cost of pay protection previously assumed as a one-off cost in 2024/25 is now capitalised as part of the capitalisation direction.

Figure 6: MTFP Position if a Capitalisation Direction for 3 years is issued

	23/24 £m	24/25 £m	25/26 £m	26/27 £m	Total £m
Baseline Medium Term Financial Plan position - figure 5	33.9	(6.5)	(2.2)	1.4	**26.7**
Tranformation investment programme	21.6	(11.6)	(10.0)	0.0	**0.0**
Children's services transformation programme	5.0	0.0	(5.0)	0.0	**0.0**
Adult Services transformation programme	5.0	0.0	(5.0)	0.0	**0.0**
Traditional Capital Receipts applied via the FUCR	(3.7)	2.6	1.1	0.0	**0.0**
Capitalisation Direction - Transformation expenditure net capital receipts	(27.9)	9.0	18.9	0.0	**0.0**
Pay and Grading Project - 2024/25 protection now capitalised	0.0	(9.1)	9.1	0.0	**0.0**
Cost of Living mitigation reserves brought forward to 2022/23	0.6	(0.6)	0.0	0.0	**0.0**
Recognise borrowing costs 2022/23 expenditure	3.1	0.0	0.0	0.0	**3.1**
Recognise borrowing costs 2023/24 expenditure	0.0	2.6	0.0	0.0	**2.6**
Recognise borrowing costs 2024/25 expenditure	0.0	0.0	1.4	0.0	**1.4**
Annual – Net Funding Gap	**37.6**	**(13.6)**	**8.3**	**1.4**	**33.8**
Cumulative MTFP – Net Funding Gap	**37.6**	**24.1**	**32.4**	**33.8**	

28. **Scenario B** – As a permutation of scenario A, a capitalisation direction is successful for 2022/23 only and the Council brings forward a capital receipts schedule for additional, non-strategic, asset sales as a mechanism for funding the Transformation Programme, including the additional Children's and Adult services transformations programmes, in 2023/24 and 2024/25.

Figure 7: MTFP Position if a Capitalisation Direction for 2022/23 was issued followed by additional asset sales to support the transformation programmes in 2023/24 and 2024/25.

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

At this stage the above scenario.

a) takes no account of the net operational impact of owning the assets that will be disposed of. For example, the lost income if they are revenue generating assets.

b) Assumes that the business case for the Children's and Adult Services transformation programmes would comply with the FUCR statutory guidance.

Financial Strategy

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

30. It is worth highlighting that such arrangements are governed by the Prudential Code and the Capital Financing Framework. DLUHC have recently made it clear that local authorities taking on excessive risk and demonstrating non-compliance with the framework will see increased interventions from government, potentially leading to caps on borrowing. DLUHC have also made it clear that they plan to more effectively constrain the risks associated with complex capital transactions. Examples of these might include credit arrangements, such as PFI deals or income strips, and financial derivatives. They consider that 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.

31. The Council has not yet been presented with any proposal seeking authorisation for a deliverable new commercial model although professional advice has, however, been commissioned by BCP FuturePlaces Ltd in respect of opportunities to utilise

current assets and regeneration opportunities as a method for assisting in the Councils long term financial sustainability and is due to report back shortly.

32. The advice of the Chief Financial Officer is for the Council to plan for the possibility that proposals to generate significant additional revenue receipts from new commercial models will prove imprudent or non-compliant. The Council now has first-hand experience of Government's reaction where proposals are not consistent with the spirit and intent of the legislative framework. Additionally, the Secretary of State in his recent letter to all Council Leaders highlighted that he will not hesitate to strengthen the Prudential Capital Framework if he believes that local taxpayers are being put at unacceptable risk. He also emphasised that Councils should not be expending valuable time and resources on such schemes. The Secretary of State has also written in strong terms to companies who provide advice to councils as referenced above.

33. As part of the current discussions DLUHC have offered direct access to Civil Servants so that the Council can present any significant or innovative financial proposals directly and gain prompt feedback of their compliance.

Conclusion:

34. It is clear we are operating in a highly challenging environment for local government as the sector experiences increased service demand post the covid-19 pandemic and we need to plan for an exceptional inflationary environment through the cost-of-living crisis. Under any of the scenarios presented in this report there is a material funding gap in the revenue budget for 2023/24. The better than anticipated financial outturn for 2021/22 provides the council with the ability to mitigate some of the impact of the current forecast for 2022/23. However, if the Council did not receive a capitalisation direction for 2022/23 it would need to use all this flexibility and still access its unearmarked reserves or look to deliver traditional capital receipts that are compliant with the updated FUCR statutory guidance. As a Council we have little financial resilience as the reserves are low and there is little room to manoeuvre. Risk has now crystallised around the beach hut income securitisation, and we are now seeking a capitalisation direction as an option to fund the transformation programme, which in itself carries risk and may come with constraints.

35. It would therefore be prudent to consider, as a matter of urgency, what alternative measures can be introduced at pace to balance the budget for 2023/24. Updates will be provided to Cabinet monthly as per recommendation 7. Prior to the first of those updates to Cabinet on the 28 September this report recommends no new financial commitments are made in non-statutory services other than with the specific agreement of the Chief Finance Officer in consultation with the Portfolio Holder for Finance.

Recommendation:

36. On the basis that even in the most optimistic MTFP scenario shown above the Council still has a material 2023/24 funding gap, it is recommended that Cabinet should report monthly on progress towards delivery of a balanced budget for 2023/24 from traditional local government financial management processes and revenue sources. This recognises that any changes to service levels to reduce spend will need to be implemented before 1 April 2023 to get the full year effect for 2023/24 and that will require immediate prioritisation if consultation with staff, service users or both is required.

37. One alternative approach that it is recommended be put in place is to consider different options for funding the transformation programme such as exploring what further, traditional, non-strategic, asset sales are open to us. The Flexible Use of Capital Receipts (FUCR) mechanism is still available to the council as a means of funding its transformation programme. The condition is that it comes from traditional freehold or long leasehold disposals. Therefore, council is recommended to put together a schedule of non-core assets that could be disposed of over the 3-year period to 31 March 2025.

38. This report recommends no new financial commitments are made in non-statutory services, until such time as there is a balanced budget delivered for 2023/24 unless otherwise agreed by the Chief Finance Officer in consultation with the Portfolio Holder for Finance.

39. This recommendation reflects the risks inherent in the 2022/23 budget and MTFP moving forward, the high level of uncertainty created by the cost-of-living crisis and accords with the advice from the LGA Peer review and External Auditor.

Options appraisal

40. This paper recognises a material change to the risk profile contained within the current year's budget because of changes to the FUCR statutory guidance by DLUHC and presents recommendations for the Cabinet to consider.

41. Failure to take the necessary action to maintain a balanced budget and MTFP will inevitably lead to the requirement for the Council to make significant savings in a short timescale.

Summary of legal implications

42. 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.

43. 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.

Summary of human resources implications

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

Summary of sustainability impact

45. There are no direct sustainability implications of this report

Summary of public health implications

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

Summary of equality implications

47. There are no direct equality implications of this report

Summary of risk assessment

48. The risks inherent in the 2022/23 budget were clearly set out in the February 2022 Council budget report for 2022/23. This report recognises a change in the risk profile and recommends appropriate mitigation to maintain a balanced budget for 2022/23 and make a material impact on the potential funding gap for 2023/24.

Background papers

49. 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

50. June 2022 MTFP Update report to Cabinet

    https://democracy.bcpcouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=5011&Ver=4

Appendices

A Letter from Kemi Badenoch to Cllr Drew Mellor dated 16 June 2022

B Letter from Greg Clark to all Council Leaders dated 1 August 2022

B1 Letter from Greg Clark to firms offering councils commercial advice dated 19 August 2022

C Letter from Paul Scully to Drew Mellor dated 29 July 2022

C1 LGA Peer progress review of the Finance Workstream July 2022

D Standard Council Budget Monitoring report information for Quarter 1 2022/23

- D A1 Projected variances greater than £100,000 for 2022/23
- D A2 Revenue summary position 2022/23
- D B Schedule of forecast movement in reserves for 2022/23
- D C Capital programme progress 2022/23
- D D1 Summary of HRA revenue budget monitoring for 2022/23
- D D2 Summary of HRA capital budget 2022/23

E Baseline MTFP Position for September 2022 Cabinet

F Detail supporting baseline MTFP position.