Corporate Peer Challenge – Progress Review

BCP Council

Report of work to support Finance workstream – July 2022

1. Introduction and Context

Bournemouth, Christchurch and Poole Council's (BCP Council) Corporate Peer Challenge took place in November 2021. The LGA peer team made a number of recommendations in their feedback report - some of which related to the medium-term financial sustainability of the council. The council subsequently produced an action plan to respond to the peer teams recommendations.

Some representatives o that peer team are scheduled to revisit the council in November 2022 and assess progress against the recommendations from the original CPC.

In the meantime the LGA has been supporting the council as it looks to deliver its' action plan, for example, with dedicated work in relation to communications, governance and finance.

Therefore, to help prepare for that follow up, and through agreement with the Council's Chief Executive and Finance Director, the LGA has completed this finance related work in advance of the revisit. Given the challenges that were already identified during the original CPC in respect of the council's medium term financial plans, as well as the unprecedented financial challenges all authorities are facing now, it was felt that this work would provide timely reflection, challenge, and observation at this point but also to inform that follow up.

The work included:

- a desk top review of relevant documents provided by BCP Council.
- A 'Teams' meeting between the LGA team and BCP's Finance Director on 6 July.

The documents were reviewed by the finance specialist on the peer team, Duncan Whitfield, Strategic Director of Finance and Governance - Southwark Council and Chris West, who is the LGA's Financial Improvement and Sustainability Advisor (FISA). Chris provides on-going finance support and advice to councils across the Southwest and West Midland Regions. They were supported in their work by Kathryn Trant, Regional Advisor - LGA (also part of the original peer challenge team)

The report that follows summarises the views and advice of the LGA's team, based upon the limited but structured interactions outlined above.

Although the work was intended to help inform the CPC progress review, given the nature of the findings, the LGA team (including the SW Principal Advisor, Paul Clarke), both offer and suggest, that this report is shared now with key political and managerial stakeholders at BCP. Paul and the LGA team would welcome further discussions and engagement with such stakeholders to clarify the issues and views expressed in this report. Our intention is solely to help support the council achieve financial sustainability into the medium term.

The Medium-Term Financial Position in BCP Council.

The discussions which took place on 6th July were informed by the latest forward view of BCP Council's finances which had been reported to Cabinet on 22nd June. The key summary table is below. It shows predicted gaps across the next four years, with the position worsening from that when the budget was set in February, notably because of the cost of the impact of inflation and the cost-of-living crisis.

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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 measures	(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**	

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Of equal concern is the reserves position, summarised in the Table below.

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)**

Ignoring the Council's DSG deficit, total reserves fall to £36.7m at the end of the plan period, which is concerningly low, given the acknowledged risks in BCP Council's budget and the unquestionable ambition of the council set out in the council's 'Big Plan'(it's strategic priorities document)

However, if the DSG deficit is factored in:

- At the end of 2021/22 the DSG deficit already exceeds the unearmarked general fund reserves, and the reserve position goes into overall deficit in 2023/24
- The deficit is predicted to be £216m before corrective action or £122m after corrective action at the end of the plan period. This is significantly greater than the total of all general fund reserves at that point.

Based upon the documents we have reviewed, In the view of the LGA team, BCP Council has moved toward a very precarious financial position over a short period of time since the Peer Challenge in the autumn of 2021. Only the Statutory Override, which suspends the need to offset DSG deficits against general fund reserves and was only ever a 'short term' measure introduced by government, is keeping the authority from a position of non-viability and therefore the need for the s151 officer to consider a Section 114 Notice. The Override is due to end on 31st March 2023.

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It should be noted that all the figures above assume the authority proceeds with its proposals on the sale of it beach huts, which generates a capital receipt of £54m, and will be used to balance the revenue position.

The key points made during discussion were as follows and the LGA team would welcome discussions with other key stakeholders to clarify these issues:

How can BCP reasonably proceed with the beach hut transaction, given the government response that, although not unlawful, it is outside the intent of the capital receipt flexibility? Government is at this time actively consulting on amendments to regulations that would prevent the capital receipt being used to fund transformation expenditure. In any case, the LGA team believe that the business plan underpinning the transaction may be deteriorating and compromised as tax issues are being clarified.

The council is considering replacing the capital receipt from this transaction with an application for a capitalisation direction. The LGA team have a cautionary note in respect of this is because:

- Capitalisation Directions are normally agreed on an exceptional basis to put a council back on a stable footing that can be resilient in the medium to long term. As the tables above show, even with a Capitalisation Direction equivalent to the beach hut transaction, BCP remains in a very precarious position.
- Giving BCP this Direction may appear to other councils as being rewarded for pushing the capitalisation rules to the edge. This may make DLUHC reluctant to support it.

Even if the Council were to proceed with an application, it is likely that the time that it could take before a decision is made could be significant. In any case, national policy now, in general terms, appears to direct councils to fund capitalisation from asset sales not from borrowing. A sale of the beach huts on the open market may therefore be seen by Government as the way of funding capitalisation.

Overall, the reliance on the beach hut transaction which underpinned the budget and

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MTFP agreed in February, needs to be reconsidered urgently.

In the view of the LGA team, BCP Council is basing its MTFP on the assumption that the Statutory Override on DSG deficits is extended. This is a risky position to take, for the following reasons:

- It is by no means certain that the Override will be extended at all, leaving BCP Council in an unmanageable position.
- If it is extended, it will most likely be for a further limited period. Given the scale of BCP Council's predicted deficit, and the time that it is likely to take to reach an in-year balance on DSG, let alone extinguish the deficit, an extension does not solve the underlying problem.
- We are unaware at this stage of the prospect of significant resources coming from DfE to help deal with the deficit.
- If there is an extension, it is likely not to be made clear until much later in the financial year. By the time there is a final position, it may well be too late to make alternative plans and implement them quickly.

The Council needs to consider whether its current financial planning gives adequate weight to this issue.

BCP Council's budget for 2022/3 was agreed in February 2022 incorporating some highly risky assumptions – these were clearly identified in the reports to members by the S151 Officer. Subsequent political and economic events have meant that many of these risks are materialising, and that the outlook is significantly bleaker than when the original budget was set.

Given the points outlined above, it is clear that BCP Council could not now set the budget it agreed in February 2022. In particular:

- The ongoing impact of inflation and cost of living pressures.
- There are significant risks related to the size and speed of the Transformation Programme savings.
- The council's reliance on commercial strategies to balance its budget are also inherently risky, especially as the government appear less inclined to these approaches than previously.

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- The boundary between capital and revenue transactions is also coming under significant audit scrutiny.
- There are risks with the Future Places strategy given its scale and ambition.

Summary of the LGA team's advice

Given the documentation reviewed and discussions to date, the LGA team's advice is that the council's 151 Officer produces a report as soon as is practicable that:

- Reviews and updates on the budgetary control position for 2022/23.
- Proposes an immediate reset of the in-year budget and the MTFP based on that information and incorporates detail about the risks associated with the current budgets and any revised proposals.
- The revised MTFP needs to take account of the position on the beach hut transaction, the DSG deficit and the latest underpinning risks discussed above.
- The Council should consider some immediate actions to control and reduce spending. These may include, for example:
    - A freeze on all unnecessary spend
    - A review of all capital schemes with a view to pausing or stopping schemes where this is possible
    - A suspension of all recruitment unless absolutely essential.
    - Generating additional capital receipts from additional assets sales to fund the transformation investment programme.

We believe that swift and decisive action is the best route to protecting the council's position and avoiding the looming risk of a S114 Notice.

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Next steps

The LGA team and Paul Clarke, Principal Advisor for the LGA in the Southwest, would welcome the opportunity to discuss further with the council this report and the advice within.

This report will be provided to the LGA peer challenge team as they return for the CPC Progress review in November 2022.

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