

CABINET



| | |
|-----------------------------------|--|
| Report subject | Addendum to the Finance Update Including Quarter One 2022/23 Budget Monitoring Report |
| Meeting date | 7 September 2022 |
| Status | Public Report |
| Executive summary | This report provides details of an additional letter received from the Department of Levelling Up, Housing and Communities (DLUHC) as an addendum to the Finance Update (including Quarter One 2022/23 Budget Monitoring) report to the 7 September 2022 Cabinet. |
| Additional Recommendations | It is RECOMMENDED that Cabinet: 9) Prepare financial forecasts based on the assumption of accepting and receiving a £20m capitalisation direction for 2022/23 from government which will need Council approval, to be sought once a final offer has been received from DLUHC. |
| Reason for recommendations | To ensure Councillors are sighted on the latest correspondence from government in support of their consideration of the 7 September Finance Update report to Cabinet. |
| 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. The finance update (including quarter one 2022/23 budget monitoring) report to Cabinet on the 7 September provides an update on the council's financial position further to the financial forecasts set out in the June Medium Term Financial Plan Update (MTFP) report to Cabinet. The report included acknowledgment of the recent update to the Government's Flexible Use of Capital Receipts statutory guidance and the application under the Exceptional Financial Support (EFS) programme for a capitalisation direction of £76m (£20m in 2022/23).
 2. By way of a further update the Council received a letter from Paul Scully MP, Minister of State at the Department for Levelling Up, Housing & Communities on the 2 September 2022 which is attached as Appendix A to this report.
 3. The letter, in response to our Exceptional Financial Support application offers a minded to, in principle, £20m Capitalisation Direction of 2022/23 subject to the following conditions.
 - An external review of the councils' finances and governance arrangements to take place in the Autumn of 2022.
 - The production of a plan for addressing its budget gap in 2023/24 and beyond by the end of September 2022. This plan should seek to utilise all the resources available to the Council to close the budget gap, be fully within the spirit and intent of all local government guidance, and aim to eliminate any amount of exceptional financial support required going forward
 4. No decision in respect of 2023/24 or 2024/25 capitalisation directions will be made until after the above reviews have been completed and even then, not before the Local Government Finance Settlements for those years are known. The external reviews will also enable a final decision on any total amount of EFS for 2022/23 as well as any further conditions that may be imposed such as the application of a 1% premium on any borrowing from the Public Works Loan Board associated with the capitalisation direction.
- 5. 2022/23 Capitalisation Direction**
6. The 15 July 2022 application for a capitalisation direction requested the following amount for 2022/23.

Figure A: Capitalisation Direction for 2022/23

| | 22/23 £m |
|--|-------------|
| Transformation Investment Programme | 25.3 |
| Children's services transformation programme (<i>not budgeted</i>) | 2.0 |
| Adult Services transformation programme (<i>not budgeted</i>) | 2.0 |
| Capital Receipts - already delivered | (1.9) |
| Capital Receipts - scheduled and assumed deliverable | (7.4) |
| Capitalisation Direction | 20.0 |

7. Impact on consideration of the substantive Finance Update report to Cabinet

The substantive 7 September Cabinet report set out, for both 2022/23 and the MTFP, the impact that different scenarios associated with the potential to receive a capitalisation direction would have on the council's financial position. Having now received this letter, and assuming councils' acceptance of a £20m capitalisation for 2022/23 only at this stage, the scenarios the Council are advised to plan for would be a financial forecast for 2022/23 as set out as figure 3 in the substantive report (reproduced as Figure B below).

Figure B: Financial forecast for 2022/23 assuming a £20m capitalisation direction.

| | 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 <i>(Principal repayments start in 2023/24)</i> | 0 | 436 | 436 |
| Drawdown on earmarked reserves <i>(Reserves previous allocated to regeneration and not currently committed)</i> | 0 | (1,459) | (1,459) |
| Drawdown on Earmarked Reserves <i>(£14.828m total reserves in the June MTFP Update report allocated to supporting the extra cost of living pressures in 2023/24)</i> | 0 | (638) | (638) |
| Net current forecast (Surplus) or Deficit | 0 | 0 | 0 |

8. Additionally, the council would now be recommended to consider an MTFP position as presented as figure 7 in the substantive report (reproduced as Figure C below). Just to emphasise this assumes a £20m capitalisation direction for 2022/23 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 C: MTFP position assuming a £20m capitalisation direction for 2022/23 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 |
| Transformation 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 | |

9. The position as presented.
 - 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.

Options appraisal

10. The council retains the option to turn down the offer of a £20m capitalisation for 2022/23. This is something it will wish to consider further once the final offer letter is received further to the finance and governance reviews. However, not accepting the capitalisation direction would require a significant recasting of the 2022/23 budget and there is very little room to manoeuvre already given the increasing pressures on the budget and the lack of alternative facilities to mitigate the pressures.

Summary of legal implications

11. As set out in the substantive report.

Summary of human resources implications

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

Summary of sustainability impact

13. There are no direct sustainability implications of this report

Summary of public health implications

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

Summary of equality implications

15. There are no direct equality implications of this report

Summary of risk assessment

16. As set out in the substantive report.

Background papers

17. As set out in the substantive report.

Appendices

- A Letter from Paul Scully to Drew Mellor dated 2 September 2022