

Report subject	Finance Strategy Update Report
Meeting date	23 November 2022
Status	Public Report
Executive summary	<p>The October Cabinet report set out how a balanced budget for 2023/24 would be delivered and this was shared with DLUHC on the 24 October 2022. As set out in October report, having undertaken this work the challenge is now translating this work into a detailed implementation workstream and strength testing the deliverability of the assumptions that had been made with a robust evidence base. Of particular importance will be those around service savings and efficiencies to avoid double-counting savings especially with those be delivered by the transformation programme.</p> <p>This November report presents an update on this workstream and highlights that the consequences of the initial work around implementation is that further “below the line” budget proposals have been established which are those that would be the most challenging to deliver.</p>
Recommendations	<p>It is RECOMMENDED that Cabinet:</p> <ol style="list-style-type: none"> 1) Acknowledges the update of the plan to deliver a balanced budget for 2023/24 and the testing of the implementation process. 2) Recognises the continued improvement to the in-year position with a surplus of £8.5m now projected 3) Acknowledges that further “below the line” proposals have been identified to replace any proposals that cannot now be delivered, or which have been deferred into a future year. <p>It is RECOMMENDED that Council:</p> <ol style="list-style-type: none"> 4) Approve the disposal of Non-Strategic Asset Sales as set out in <u>confidential</u> appendix A, subject to achieving the estimated sales value, with the decision delegated to the Leader or Deputy Leader of the Council and Chief Finance Officer.

	5) Approve a pooled budget arrangement in relation to section 117 Aftercare as set out in appendix B.
Reason for recommendations	Further to a recommendation agreed by Cabinet on the 7 September 2022, an update on the Councils financial strategy will be a standing item on the Cabinet agenda until such time as a balanced budget for 2023/24 has been delivered.
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

- Through detailed public reports to the Cabinet in June, twice in September and in October 2022, the council has reflected on a material change to the risk profile of its budget. Salient factors associated with this position can be summarised as.
 - Cost of living inflationary pressures (with the consumer price index currently at 10.1%), estimated to be around £25m in 22/23 and £30m for 2023/24. These pressures are similar to those consistently being reported by other local authorities nationally.
 - High levels of financial planning uncertainty due to the constant changes and variations to the costs of goods, materials and services required to deliver council operations.
 - Amendment of government guidance which has left the council with a significant funding shortfall in respect of its approved £68m transformation programme.
 - A level of reserves (unearmarked) which is below the 5% of net revenue expenditure threshold often used as a benchmark within the sector.
 - An application to the government under its Exceptional Finance Support programme to be allowed to finance its transformation programme via borrowing (what is referred to as a capitalisation direction) and to spread the cost over a 20-year period.
 - A “minded to” offer from the government of the ability to spread the £20m 2022/23 transformation cost, subject to an external finance and governance review, on the condition that it balances the 2023/24 budget by the end of September 2022 and in the expectation of future asset sales to avoid the need for a further capitalisation direction in both 2023/24 and 2024/25.

2. The public report to Cabinet on the 26 October met the requirement to balance the 2023/24 budget by the end of September, in that it identified the potential actions that now will be necessary to balance the 2023/24 budget based on the current assumptions. This position was achieved after including £42.6m in savings and efficiencies (16% of the Councils Net Revenue Expenditure) made up of £9.6m of currently unitemised transformation related third party spend savings, £0.6m of currently unidentified savings in Children's Services, and £32.4m of specific service-based savings and efficiencies of which £4.6m were noted as being the most challenging. These savings are set in the context of a £53m investment into the cost of delivering council services across all areas in 2023/24
3. As authorised by Cabinet, council officers have now commenced the work to ensure the deliverability of the budget via the progression of the savings and efficiency proposals including any necessary consultations and ensuring there is robust supporting evidence.
4. In addition, the Cabinet at its October meeting made a commitment to.
 - consider the extent to which a capitalisation direction can be avoided in 2022/23 by bringing forward the disposal of non-strategic assets by the 31 March 2023.
 - continue to apply an in-year expenditure control designed to deliver savings and efficiencies in 2022/23 which can be used to support the 2023/24 budget, and to support the council as it moves through its transformation programme.

Autumn Statement 2022

5. Following changes within national Government an original fiscal statement planned for the 31 October 2022 has now upgraded to an Autumn Statement on 17 November, to include an economic forecast from the Office for Budget Responsibility. As this is after the release date for this report, the December finance report to Cabinet will reflect on any implications for the councils and its medium-term financial plan. It should however be highlighted that in the national media, reference continues to be made to the following:
 - a) Potentially delaying the social care reforms until 2024. This may be linked to the reversal in the decision to increase national insurance (followed by the social care levy) which financed these reforms.
 - b) A £40bn national fiscal funding gap with all Whitehall departments being asked to begin to draw up options for making difficult spending decisions.

Progress on implementation of savings and efficiencies workstream

6. Since the October Cabinet report all budget holders have been reviewing the deliverability of the savings, efficiencies and service reduction proposals that formed part of the balanced budget as presented. This included those marked as "below the line" which were those proposals which would be the most challenging. As a consequence, additional and alternative "below the line" proposals have been identified to maintain the equilibrium and ensure the method of balancing the 2023/23 is still maintained. This ebb and flow is likely to be a feature of the monthly reports to Cabinet as the council works towards the February 2023 Cabinet and Council meetings and the delivery of a balanced budget for 2023/24.
7. Recognising the council has a statutory duty to consult in some areas of its work, based on either statute or case law, it is proposed that we undertake a resident and stakeholder budget engagement and consultation exercise to determine public

priorities and how they would spend the 2023/24 budget. It is currently planned to commence this consultation in the week commencing 14 November 2022.

8. In addition, it is proposed to undertake any necessary separate stakeholder consultations for any specific service proposals that need such engagement, with a timing schedule to be agreed for each proposal that requires service-user or staff consultation.

Update on ability to deliver non-strategic asset disposals by 31 March 2023

9. The Finance Strategy Update report to October Cabinet recognised the intent to avoid the need to draw down on a £20m capitalisation direction in 2022/23 by bringing forward the disposal of Non-Strategic Assets. Consequentially a work stream was created to consider the ability to deliver £20m of additional asset sales by 31 March 2023.
10. Confidential Appendix A seeks formal approval for the disposal of these assets, and these should now be considered by Council on 10 January 2023. In presenting this appendix officers are confirming that at this stage it cannot be guaranteed that the additional £20m in capital receipts will be delivered by 31 March 2023 to avoid a capitalisation direction. However, the workstream will continue with best endeavours and for the February 2023 budget report for 2023/24 we will be in a more informed position as to what can be achieved. Much will depend on the appetite amongst potential buyers and any conditions they may attach to the purchases. If by the budget report the sales cannot be guaranteed for the 31 March 2023 deadline, then the council would be recommended to pursue the alternative of drawing down on the capitalisation direction in full or part.

Updated Medium Term Financial Plan

11. The 26 October Cabinet report set out the previous MTFP position assuming the council does not take the £20m capitalisation direction offered by government via the “minded to” offer from DLUHC.

Figure 1: Cabinet 26 October 2022 forecast MTFP Position

	23/24	24/25	25/26	26/27	Total
	£m	£m	£m	£m	£m
Annual – Net Funding Gap	(0.0)	15.8	(3.5)	(1.2)	11.1
Cumulative MTFP – Net Funding Gap	(0.0)	15.8	12.3	11.1	

12. Figure 2 below sets out the current MTFP updated for any changes since the October Cabinet report. 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, it is currently assumed to use £8.5m from the forecast outturn for 2022/23 in support of the 2023/24 budget. An absolute version of the MTFP is presented as Appendix C.

Figure 2: Funding Gap for 2023/24 and MTFP Position

Adjustments to the cost of services	23/24 £m	24/25 £m	25/26 £m	26/27 £m	Total £m
Adult social care and public health	18.8	13.5	8.2	8.7	49.2
Adult social care reforms	12.8	17.2	2.6	0.0	32.6
Children's services	14.6	8.4	9.0	9.6	41.6
Operations	8.5	4.5	1.8	1.1	15.9
Reversal of securitisation of income stream proposal	(3.7)	0.0	0.0	0.0	(3.7)
Resource services	1.0	1.4	0.5	0.4	3.3
Staff costs being charged to transformation prior 25/26	0.0	0.0	6.7	0.0	6.7
Capitalisation direction 22/23 cost of capital & interest repayments	0.0	0.0	0.0	0.0	0.0
Transformation base revenue budget costs	1.1	0.0	0.0	0.0	1.1
Transformation redundancy costs that cannot be charged against FUCR	2.1	(1.9)	(0.1)	0.0	0.1
Corporate priorities one-offs for 2022/23	(9.7)	0.0	0.0	0.0	(9.7)
Pay related costs	8.3	3.8	3.8	3.8	19.7
Pay and grading project	0.0	9.1	(4.5)	0.0	4.6
Contingency	0.0	0.0	0.0	0.0	0.0
Debt and capital adjustments	0.1	0.3	(0.3)	(0.1)	0.0
Treasury Management & Investment income adjusted disposals	(1.5)	1.3	(0.1)	0.0	(0.3)
Total adjustments in respect of cost of services	52.4	57.6	27.6	23.5	161.1
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)
Council tax - single person discount	(0.2)	0.0	0.0	0.0	(0.2)
Council tax - second homes 100% premium	0.0	(5.3)	0.0	0.0	(5.3)
Council tax - empty homes premium after 1st rather than 2nd year	0.0	(0.9)	0.0	0.0	(0.9)
Collection fund – (surplus) / deficit distribution net of S31 grant	4.7	(2.6)	0.0	0.0	2.1
Government core grant funding changes	0.8	0.0	2.5	0.0	3.3
Assumed social care reforms funding	(12.8)	(17.2)	(2.6)	0.0	(32.6)
Assumed additional social care grant funding	(3.1)	(2.7)	(2.7)	(2.7)	(11.2)
Reserve Funding - One-off funding supporting 2022/23 budget	36.1	0.0	0.0	0.0	36.1
Reserve Funding - Removal of COMF contribution 2022/23 priorities	1.0	0.0	0.0	0.0	1.0
Reserve Funding - Improved outturn 2021/22 to support 23/24 budget	(14.2)	14.2	0.0	0.0	0.0
Reserve Funding - Redirect earmarked reserve to support 23/24 budget	(5.3)	5.3	0.0	0.0	0.0
Reserve Funding - Assumed surplus 2022/23 to support 23/24 budget	(8.5)	8.5	0.0	0.0	0.0
Total previously assumed adjustments in resource levels	(11.3)	(10.4)	(11.5)	(11.7)	(45.0)
Assumed additional savings, and efficiencies					
Unitemised Transformation savings	(9.5)	(16.2)	0.0	0.0	(25.7)
Following transformation, further net FTE reductions	0.0	0.0	(7.2)	0.0	(7.2)
Scheduled service based savings (include. Adults, Children's, Transformation)	(26.6)	(5.9)	(2.6)	(2.4)	(37.5)
Roundings	0.0	0.0	0.1	0.0	0.1
Unidentified Adult Social Care savings (2.99% growth restriction)	0.0	(2.9)	(3.1)	(3.5)	(9.5)
Unidentified Children's savings (2.99% growth restriction)	0.0	(4.8)	(6.5)	(7.0)	(18.3)
Total assumed annual extra savings and efficiencies	(36.1)	(29.8)	(19.3)	(12.9)	(98.1)
Sub Total - Annual – Net Funding Gap	5.0	17.4	(3.2)	(1.1)	18.1
Sub Total - Cumulative MTFP – Net Funding Gap	5.0	22.4	19.2	18.1	
Scheduled service based savings (includes Adults, Children's, Transformation)	(5.0)	(0.7)	0.1	0.1	(5.5)
Annual – Net Funding Gap	(0.0)	16.7	(3.1)	(1.0)	12.6
Cumulative MTFP – Net Funding Gap	(0.0)	16.7	13.6	12.6	

13. As a reminder, the service-based savings and efficiencies are presented above and below a sub-total line. To reiterate, the reason for this is to emphasise that although a lot of the savings will be challenging for the council, those below the line will be more challenging.
14. Appendix C to this report presents the MTFP on an absolute rather than incremental basis.
15. Appendix D presents an update on some of the key financial planning assumptions being used to underpin the latest reiteration of the MTFP.
16. The key variances from the position as set out in the previous Cabinet report, which have overall worsened the financial forecast in the next two years include.
 - a) Further improvement in the forecast outturn for 2022/23. Analysis of these further variances, which amount to a £0.7m increase in the surplus, now mean that the overall surplus for the year is predicted to be £8.5m and is presented as Appendix D to this report. The variance includes additional care costs due to demand pressures within Children's services reduced by an assumption of less expenditure on staff related costs. It is possible that this outturn position will continue to improve as the expenditure control continue to bear down on service expenditure and as officers continue to reduce costs.
 - b) Refinement of a number of service pressures in reflection of the latest estimates for the cost of services or materials including negotiations with suppliers.
 - c) Removal of potential service changes completely or their deferral to a later implementation date in 2023, or future years, due to clarification or confirmation of consultation timelines and the legislative framework.
 - d) Additional "below the line" proposals that have been identified to maintain the equilibrium and ensure the budget remains balanced.

Pooled budget arrangement in relation to section 117 Aftercare.

17. Appendix B to this report presents a briefing on the proposal to create a pooled budget for the management, monitoring, and overseeing of the free help and support those individuals are entitled to under s117 of the Mental Health Act, after they leave hospital (often referred to as 'section 117 aftercare').
18. This pooled budget will be with NHS Dorset, valued at £17m with a contribution from BCP council of £11.9m (70%). The number of people that qualify to be part of the pooled budget is currently 380. Any variation in the cost of the service will be shared 57.5% to BCP Council and 42.5% to NHS Dorset based on the current cost share split.

Options appraisal

19. This paper continues to build on the Finance Strategy update reports to Cabinet in June, twice in September and in October 2022. These reports recognised material changes to the risk profile of the 2022/23 budget and MTFP. This includes significant costs pressures associated with the cost of living, changes to the FUCR statutory guidance, messages from the Secretary of State around ensuring authorities also adhere to the spirit and intent of legislation, and the government being minded to offer the council a £20m capitalisation direction for 2022/23.

The "minded to" offer of a £20m Capitalisation Direction for 2022/23 is an opportunity for the council to avoid bringing forward further capital receipts or

resources currently earmarked in support of the 2023/24 budget to fund the cost of its transformation programme in the current financial year.

The October Cabinet report requested officers consider the extent to which a capitalisation direction can be avoided in 2022/23 by bringing forward the disposal of non-strategic assets. Work continues to determine if it is possible to deliver these additional £20m asset sales, in addition to the £7.4m already assumed and still outstanding, by the 31 March 2023 deadline. It is essential that the 2023/24 budget is clear about which strategy is being pursued.

Conclusion

20. Cabinet previously prudently positioned the council to deliver a balanced budget for 2023/24. Work since then on ensuring the deliverability of the assumed savings, efficiencies and service reductions means that a further £2m of proposals now need to be brought forward to maintain that balanced position for next year.
21. In support of the savings proposals the council intends to commence a general public consultation exercise in the week commencing the 14 November 2022. This will be supported by any necessary consultations in support of specific service proposals.
22. The council's budget position should be seen in the context of the funding gaps being signalled by all local authorities at this time be that due to demand pressures or due to the impact of the cost of living.
23. The work to determine the feasibility of bringing forward £20m of non-strategic asset sales by the 31 March 2023 will be critical if the council is to avoid drawing down on the "mind-to" capitalisation direction.

Summary of legal implications

24. 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.
25. 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.
26. 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, 1 March each year to allow sufficient time for the council tax direct debit process to be adhered to.

Summary of human resources implications

27. 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.

28. 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

29. There are no direct sustainability implications of this report

Summary of public health implications

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

Summary of equality implications

31. 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

32. The risks inherent in the 2022/23 budget were clearly set out in the February 2022 Council budget report for 2022/23. This and the previous June, September and October finance reports to Cabinet recognised a change in the risk profile and recommended appropriate mitigation to maintain a balanced budget for 2022/23 and deliver a balanced budget for 2023/24. Key risks include.

Uncertainty

The only certainty at this moment in time is uncertainty. There are currently high levels of financial planning unpredictability caused by the cost-of-living crisis and constant changes and variations to the costs of goods, materials and services required to deliver council operations.

2022/23 Forecast Outturn

A key element of the Council's Financial Strategy is the aim to deliver a surplus in 2022/23 which can be used to create resources (via an earmarked reserve) which then can be drawn down in support of the 2023/24 budget. As stated earlier in this report the surplus being forecast under this mechanism is currently £8.5m. It should however be emphasised that there is a significant risk associated with this figure as it is based on trend analysis and professional judgement centred on activity from 58% of the financial year. Predications and estimates can and will change over the remaining 42% of the financial year. Assurance can be taken from both the monthly review process and the fact that the previous decision not to undertake any new financial commitments until such time as a balanced budget for 2023/24 has actually been delivered. Risk with this forecast include those associated with the funding of the transformation investment programme and the base revenue costs being charged to the programme.

Accumulating Deficit on the Dedicated Schools Grant

Accumulated and growing deficits on the dedicated school's grant which by the 31 March 2024 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 s151 Officer, and probably may others nationally, will be required to issue a s114 notice for 2023/24.

External Intervention

The External Auditor reported to the Audit & Governance Committee on the 20 October 2022 that they had qualified their latest Value for Money judgement on the council due to its significant weaknesses in its arrangements for financial sustainability. From the debate it was made clear that the External Auditor does not share the optimism around the council's ability to deliver a balanced budget for 2023/24 based on robust, evidenced based assumptions. They continue to articulate that they will continue to oversee progress carefully and will not hesitate to act if they deem it necessary to do so.

BCP FuturePlaces Ltd

The Council have committed a £8m working capital loan to BCP FuturePlaces Ltd a wholly owned teckal company established to drive the Councils regeneration ambitions. They recover expenditure incurred principally by being paid for successful business cases approved by the Council.

Social Care Reforms

These reforms will levy significant new responsibilities on local authorities as well as introducing a cap on care costs. There is a significant 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.

Capitalisation Direction.

Not presenting a full plan to balance the 2023/24 budget to DLUHC would have jeopardised the Councils ability to achieve a £20m capitalisation direction in 2022/23. This would have meant either additional in-year capital receipts needing to be generated (which the Council are continuing to test the feasibility of achieving) or utilising the resources currently supporting the balancing of the 2023/24 budget. The second of these would impede the ability to set a legal, balanced budget for 2023/24. Associated with this would have been at least the possibility of direct government intervention in the council.

The "minded to" £20m capitalisation direction for 2022/23 was subject to an external finance and governance review. The latest is that DLUHC intend to commission these reviews shortly with the work slightly delayed due to the reshuffle of Ministers.

Adults & Children's Services: Unidentified Savings

The February 2022 budget report included an assumption that annual growth in Adults and Children's Services will be restricted to 2.99% from 2023/24 onwards. The MTFP as presented in Figure 2 however now only includes savings, efficiencies, and service changes that both areas have committed as deliverable in 2023/24. This is not the case in respect of future years with the unidentified savings due to this restriction included in the MTFP amounting to £9.5m in Adult Social Care Services and £18.3m in Children's services for the period from 2024/25 onwards.

This assumption is aligned to the intended £10m investment in a specific service-based transformation programme in these service areas in both 2024/25 and 2025/26 to deliver the savings presumed by the growth restriction.

Clearly due to the current pressures on the council, especially Children's Services, the deliverability of these savings needs to be treated with a high degree of caution.

Transformation Investment Programme: Unitemised Savings

As at the date of this report the Council has delivered £7.1m (82%) of the £8.7m annual transformation savings target that was set with £1.6m remaining to be delivered. The potential budget for 2023/24 assumes that any shortfall in this £8.7m target will be delivered in the up-and-coming financial year.

In addition, the 2023/24 potential budget, assumes an additional £10m of annual transformation savings which will bring the cumulative total to £18.7m. This further £10m is associated with a third party spend workstream. At this stage £0.5m of the assumed savings and efficiencies are directly related to those which would be part of the third party spend workstream leaving £9.5m to be identified. It is probably worth emphasising that to score against these third party spend savings target they will need to be.

- Revenue not Capital related
- General Fund not Housing Revenue Account related
- Budgeted not unbudgeted expenditure.

Taken together this mean the proposed 2023/24 budget includes £11.1m in currently identified transformation savings.

This assumption will need to be monitored carefully as the Council moves towards budget setting in February 2023.

Background papers

33. February 2022 Budget report to Council.

Appendix 3 s25 Reserves Report CFO.

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

34. June 2022 MTFP Update report to Cabinet.

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

35. Finance Update (including Quarter One 2022/13 Budget Monitoring) report to 7 September 2022 Cabinet.

<https://democracy.bcpccouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=5013&Ver=4>

36. Addendum to the 7 September 2022 Finance Update (including quarter one budget monitoring) report to Cabinet.

<https://democracy.bcpccouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=5013&Ver=4>

37. Finance Strategy Update report to 28 September 2022 Cabinet.

<https://democracy.bcpccouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=5014&Ver=4>

38. Finance Strategy Update report to 26 October 2022 Cabinet.

<https://democracy.bcpccouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=5015&Ver=4>

Appendices

- A Confidential - Schedule of Non-Strategic Asset seeking formal approval for sales
- B Brief on pooled budget arrangement in relation to section 117 Aftercare
- C MTFP Absolute Version
- D Key Budget Assumptions
- E 2022/23 Additional Variance Analysis