

Report subject	<b>Medium Term Financial Plan (MTFP) Update</b>
Meeting date	26 July 2023
Status	Public Report
Executive summary	<p>This report:</p> <ul style="list-style-type: none"> <li>• Presents the latest medium-term financial plan (MTFP) of the council.</li> <li>• Proposes a financial strategy to support the delivery of a legally balanced budget for 2024/25.</li> <li>• Proposes a budget planning process and timeline for key financial reports.</li> <li>• Recognises the positive outturn from the 2022/23 financial year end and the impact on some of the key risk areas as identified in the setting of the 2023/24 budget.</li> </ul>
Recommendations	<p><b>It is RECOMMENDED that Cabinet:</b></p> <ol style="list-style-type: none"> <li>1. <b>Approve the budget timetable and process as set out in Appendix A.</b></li> <li>2. <b>Approve the financial strategy to support the balancing of the 2024/25 Budget and MTFP as set out in Appendix B.</b></li> <li>3. <b>Endorse the updated MTFP position which only includes approved and identified savings &amp; efficiency proposals.</b></li> <li>4. <b>Endorse Audit &amp; Governance Committee being asked to consider recommending to Council a reduction in the Debt Threshold to £755m (from £1.334bn).</b></li> </ol> <p><b>It is RECOMMENDED that Council:</b></p> <ol style="list-style-type: none"> <li>5. <b>Approve the disposal of assets as endorsed by the cross-party strategic asset disposal working party, and as set out in confidential Appendix C.</b></li> <li>6. <b>Approve the reduction in the working capital loan facility to BCP FuturePlaces Ltd to £6m (from £8m) with immediate effect.</b></li> </ol>
Reason for recommendations	To comply with accounting codes of practice and best practice which requires councils to have a rolling multi-year medium term financial plan.

	<p>To provide Cabinet with the latest high-level overview of the medium-term financial plan.</p> <p>To present a proposed financial strategy to support the delivery of a balanced budget for 2024/25.</p> <p>To ensure a prudent approach to financial management based on traditional approaches to local government financial management.</p>
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Wards	Council-wide
Classification	For Decision

## Background

7. Council in February 2023 approved a budget for 2023/24 with the following key features.
  - a) A 4.99% council tax increase for 2023/24 with a financial planning assumption of a 4.99% increase for 2024/25 and 2.99% annually thereafter.
  - b) £15m per annum in extra resources allocated to the council's highest priority area, children's services.
  - c) £26m per annum in extra resources allocated to services for the most vulnerable members of our community namely adult services.
  - d) Due regard to the cost-of-living crisis and ongoing economic uncertainty.
  - e) Support to the integrity of the council's financial position and its future sustainability by way of a £1.9m contribution to earmarked reserves in 2023/24 to ensure they are in line with the minimum 5% of Net Revenue Expenditure threshold recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).
  - f) Use of £30m in one-off reserves to support the delivery of the 2023/24 budget. This was further to the use of £36m in support of the 2022/23 original budget and £30m in support of the 2021/22 original budget. It must be acknowledged that a significant proportion of these reserves were created from refinancing of the transformation and capital programmes, a review of inherited reserves and balances, and the deliberate cost-of-living mitigation actions taken in-year to support the 2023/24 budget.
  - g) The assumed delivery of a further £34m of service-based and transformation-based savings and efficiencies in addition to the £48m identified in support of the 2019/20, 2020/21, 2021/22 and 2022/23 budgets, bringing the total budgeted service-based annual savings and efficiencies following local government review

(LGR) to £82m. These savings will have prevented some of the more severe cuts to services implemented by other local authorities over this period.

8. The budget inherited by the current administration contained a number of significant risks. The first amongst these was that the financial outturn for 2022/23 could be delivered without needing to borrow to finance revenue expenditure. Borrowing is normally only permitted to finance capital expenditure however government as part of their Exceptional Finance Support programme had given the council a “minded to” capitalisation direction which would have allowed us to borrow up to £20m to fund revenue expenditure on the transformation investment programme and the Children’s Services improvement journey. A separate report on this Cabinet agenda confirms that the council heeded the advice of government in taking all necessary steps since September 2022, including controls on expenditure and asset sales, to avoid drawing down on the capitalisation direction.
9. In addition, the 2022/23 financial outturn report confirms that the council delivered the £10.6m surplus required to fund the 2023/24 approved budget as well as providing a degree of mitigation for a number of emerging risks such the working capital loan facility advanced to BCP FuturePlaces Ltd.
10. Although a positive step has been taken the financial challenge ahead should not be underestimated. Cabinet, Corporate Management Board, and Budget Holders need to continue to be focused on.
  - a) Delivering the £34m of assumed savings for 2023/24.
  - b) Identifying the £9m of unidentified transformation savings which formed part of the £34m alongside the £1.6m of savings from the £8.7m transformation target for 2022/23 remaining to be established.
  - c) Delivering a programme of asset disposals by the 31 March 2024 to finance the approved transformation investment programme forecast for 2023/24.
  - d) Continuing the improvement journey for Children’s Services.
  - e) Resolving the funding of the annual shortfall in resources to finance the High Needs (SEND pupil related) element of the Dedicated Schools Grant (DSG). The assumed in-year deficit for 2023/24 was £27.1m which once added to the accumulated deficit of £35.8m brought forward will mean the council is now projecting an accumulated deficit of £62.9m as of 31 March 2024. This level of accumulated and growing annual deficits is not sustainable and will mean as of 31 March 2024 the council is predicting to have negative reserve. Such a position would mean it is technically insolvent. However, there is a current statutory override which allows this deficit to be ignored until the 31 March 2026 meaning that the process that would normally have to be followed in such circumstances can be deferred for now.

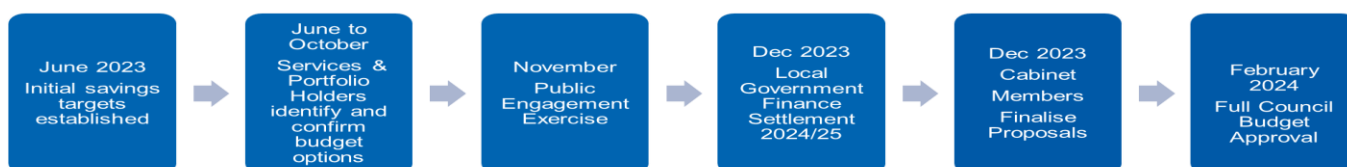
#### **Update on risks associated with the 2023/24 budget**

11. All services have confirmed that they have taken the necessary action to implement the savings assumed and specifically identified in the 2023/24 budget. It should however be recognised that a number of these were based on price changes to income streams which will be influenced by the elasticity of demand and therefore forecasts will need to be carefully monitored throughout the year.

12. Where savings were unidentified, particularly around the transformation programme, work is ongoing to establish the extent and timing of any individual savings that can actually be delivered. The spend control approved by council as part of the 2023/24 budget will provide some level of mitigation, as will an approach to review all variances during the 2022/23 financial year with a view to determining the scope for abating 2023/24 budgets and by doing so reducing the level of savings to be identified as part of the process.
13. The ongoing uncertainty caused by the cost-of-living crisis should not however be overlooked. As an example, provision was made a part of the 2023/24 budget for a 4.25% average pay award. The National Employer organisation has made an offer on behalf of member councils of £1,925 on every grade up to SCP 43 and 3.88% above this level. If agreed, and the unions have initially rejected the offer, this would equate to more like a 6.25% on average pay award and an additional in-year service pressure of £3.4m. Another example, which will act as a slight counterbalance to this issue, is that the current estimate is that not all the amount provided for increases in electricity and gas costs is likely to be needed.

### Budget Planning Process

14. The budget for 2024/25 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.
15. As a relatively new council, setting the budgets in the first five years has been a challenge due to the lack of historic data and trend information for the council as a single entity. Stability around this position has been and will continue to be impacted by the ongoing uncertainty around the impact and long-term consequences of Covid-19 alongside that caused by the cost-of-living crisis.
16. Full details of the budget planning process and timetable to support the 2024/25 are set out in **Appendix A** attached. Key features include.
  - Public participation in the budget via and engagement process in November/December 2023.
  - Two budget cafés', one in October 2023 prior to the public engagement and one in January 2024 setting out the final budget proposals.
  - Cabinet members working with Corporate Management Board colleagues to shape the proposals between June and early October 2023.
17. A high-level summary can be shown as follows.



## Inherited MTFP

18. Figure 1 below sets out the current Medium-Term Financial Plan (MTFP) to 2027. As a reminder to councillors, the table sets out changes in the revenue budgets, on an annual basis, either positive numbers which represent additional costs to be met, or negative numbers 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 be reversed out in a following year. For example, there is currently a £28.9m pressure in 2024/25 from using this level of resources in support of the 2023/24 budget.

19. **Figure 1:** Inherited MTFP as approved by Council in February 2023

Medium Term Financial Plan - Incremental Basis	Current Estimate 2024/25 £m	Current Estimate 2025/26 £m	Current Estimate 2026/27 £m	Total £m
Total inflationary and cost pressures	36.9	30.6	35.5	103.0
Council Tax - 4.99% in 2024/25 and 2.99% annually thereafter	(12.0)	(7.7)	(8.0)	(27.7)
Assumed increase in taxbase (no. of properties)	(1.4)	(1.2)	(1.3)	(3.9)
Second Homes and Empty Homes Premium		(6.2)		(6.2)
Core Government Grant Funding Changes		2.5		2.5
Assumed Social Care Grant Funding	(8.0)	(8.5)	(12.9)	(29.4)
One-off reserve funding being drawdown in 2023/24	28.9			28.9
<b>Net Annual Funding Gap</b>	<b>44.4</b>	<b>9.5</b>	<b>13.3</b>	<b>67.2</b>
<b>Cumulative MTFP – Net Funding Gap</b>	<b>44.4</b>	<b>54.0</b>	<b>67.2</b>	

20. The position as presented excludes the previously assumed additional savings and efficiencies. This is on the basis that they were either unidentified against a specific budget line of the council or the public had not been transparently made aware of or engaged as to their deliverability. This approach also recognises that the council has in the past been over-optimistic around assumed transformation savings both in terms of timing and value, a matter the recent LGA Peer Review warned against. This approach can also be linked to the external assurance review on behalf of the DLUHC which encourages the council not to have a budget and MTFP predicated on the delivery of overly optimistic transformation savings.

## Financial Strategy supporting the delivery of a balanced budget for 2024/25

21. Clearly a huge amount now needs to be done. A financial strategy in support of the process for setting a legally balanced budget for 2024/25 is set out attached in **Appendix B**. This focuses on traditional local government financial management processes and revenue sources and a prudent approach to the council's financial management. This financial strategy will be reviewed alongside the development of an updated Corporate Strategy for the council following May's local elections.

22. Key aspects linked to the recommendations of the report are set out in the following section of the report.

### **Debt Threshold**

23. Historically the council approved a debt threshold significantly above the level that it has currently committed to in order to emphasise its willingness to consider the use of borrowing to underpin its Big Plan ambitions. This results in significant concerns around the risk associated with higher levels and the robustness and accountability for any underlying business cases. The recommendation of this report is to now reduce the debt threshold to £755m based on the current committed level via the approved capital strategy, plus a 5% variance which equates to approximately £30m. This approach does not reduce the ambition of the council. It will though mean that Audit & Governance Committee will also need to consider the debt obligation associated with any significant new business cases which are underpinned by the use of borrowing which will strengthen the governance arrangements around the robustness of any proposal.

### **Capital Receipts from Asset Disposals**

24. The financial strategy supporting both the 2023/24 and 2024/25 budgets assumes that to fund the one-off revenue costs associated the council's transformation programme the council will use the flexibility, currently only available to 31 March 2025, which enables such costs to be funded from capital receipts. This funding source can normally only be applied to the financing of capital expenditure. To support the identification of appropriate asset sales which can generate the required level of capital receipts, in the first instance by the 31 March 2024, a cross party asset disposal working group was established. The terms of reference of this group also included to review the disposal strategy, and to strengthen public trust and transparency in the process
25. **Appendix C** sets out the principles that the working party recommend are used moving forward to define assets that should be sold. The application of these principles has led to the proposal to Cabinet to dispose of the following assets in 2023/24.
- St Ambrose Cottage.
  - 27 High Street, Christchurch.
  - Public Conveniences in Adastral Square, Canford Heath, Poole.
  - Waitrose Car Park, Christchurch but only to the Town and Parish Council.
  - Madeira Road Student Accommodation.
26. Further details of these disposals are included in a separate **Appendix D** which is confidential on the basis that it contains the estimated values the council will be looking to achieve as a minimum on these disposals. These minimum values accord with the councils duty to achieve best value and are set in line with an independent valuation.

### **BCP FuturePlaces Ltd – Working Capital Loan Facility**

27. As a fully owned subsidiary company of the council BCP FuturePlaces Ltd was created in June 2021 to accelerate and enhance the regeneration of the BCP area by providing expert development advice. Originally all activity was fully funded via a revenue budget within the council. Since 2022/23 a new "capital"

funding model was implement which meant the revenue budget was removed and the council would purchase the advice of BCP FuturePlaces Ltd in arrears using capital resources, subject to the successful approval of capital business cases. To support this model an £8m working capital loan facility was put in place. As of June 2023, £4.75m had been drawn down. On the basis that this model is deemed to be of high risk a £4m provision was established in mitigation as part of the councils 2022/23 accounts.

28. A recommendation of this report is to reduce the financial risk exposure to the council by reducing the working capital loan facility to £6m. This will be supported by reducing the remit of the company to be narrower and more focused around a number of core schemes. A new more sustainable commissioning model is now being worked on for BCP Future Places Ltd which is likely to involve more of a hybrid between the complete revenue and complete capital models used to date.

### **Options Appraisal**

29. As alternatives to the recommendations put forward councillors could consider.

### **Debt Threshold**

30. Council is free to determine its own self-imposed debt threshold under the CIPFA Prudential Code. This means it is free to retain the current debt threshold, to reduce it by a lesser amount, or even to increase it further.
31. The approach to reduce the debt threshold is in line with the method the council has in the past adopted and it accords with a prudent, traditional approach to local government finance. This includes consideration of the duty to demonstrate value for money and the ability to ensure the security of funds raised via any business case.
32. The advantage of the recommend approach is that it strengthens governance and improves the transparency round any new significant business cases. It will though add an extra procedural process which may extended the timeline for a business cases approval depending on the timing within the Councils approved calendar of meetings.

### **Asset Disposal for Capital Receipts**

33. The council has a wide range of assets of different types and natures that could be used instead of those proposed to generate a capital receipt. However, the Cross-Party Asset Disposal Working Group in putting these assets forward felt they best met the established criteria which for the investment property was the ability to generate a significant receipt by the 31 March 2024 time constraint.
34. Information was made available to the working group on all the assets held by the council, the current schedule of assets declared surplus and the details of investment properties. The Asset Management Strategy of the council will look to develop an ongoing programme of disposals to make best use of the Bournemouth Civic Centre, and to reduce both the operational costs and carbon impact of buildings the council no longer needs. This approach should ultimately deliver additional capital receipts that can be used to fund capital expenditure an example of which might be improvements to Civic Hubs.
35. The disadvantage of disposing of assets is that the council loses any income generated by those assets, which is particularly pertinent to investment

properties, and it has to continue to service any historic debt remaining to be paid off in respect of those assets.

### **BCP Future Places Ltd – Working Capital Loan Facility**

36. Subject to its fiduciary duty to the taxpayers to be prudent in the administration of the funds held on their behalf the council is able to determine the appropriate value of the working capital loan facility. Previous budget and financial reports have continued to highlight the risk associated with the arrangement including any amounts drawn down which ultimately prove unrecoverable, or any payments made against outline business cases which then have to be written off to revenue if the council subsequently decides not to progress with the full business case.
37. Reducing the working capital loan facility to £6m will decrease the financial risk exposure to the council however the directors of BCP Future Places will need to assure themselves around sustainability of the company which may result in changes to its cost profile.

### **Summary financial implications**

38. Any financial implications of the report's recommendations are considered, alongside alternative options, elsewhere within this report.

### **Summary of legal implications**

39. The council has a fiduciary duty to its taxpayers to be prudent in the administration of the funds on their behalf and an equal duty to consider the interests of the community which benefit from the services it provides.
40. 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.
41. 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**

42. There are no direct human resources implications associated with this report. However, the 2024/25 budget is likely to have a direct impact on the level of services delivered by the council, the mechanism by which those services are delivered and the associated staffing establishment.

### **Summary of sustainability impact**

43. Provision was made as part of the 2023/24 budget to protect the £480,000 annual budget supporting climate change and ecological emergency activity. This is supplemented by a £763,000 Earmarked Reserve which protects any differentials between previous budget provisions and actual expenditure.



### **Summary of public health implications**

44. The Department of Health and Social Care have announced the public health grant allocations for 2023/24. Nationally the grant will be £3.529 billion a rise of 3.3% in cash terms. Locally public health is delivered via a pan Dorset service arrangement in partnership with Dorset Council. The local increase was as follows:

- BCP Council £21.29m (£20.6m 2022/23) 3.3% increase
- Dorset Council £15.09m (£14.6m 2022/23) 3.4% increase

### **Summary of equality implications**

45. Officers are expected to deliver the services they are responsible for with due regard to the equality's implications. A full equalities impact assessment will be undertaken as part of the final February 2024 report to members as part of the annual budget process.

### **Summary of risk assessment**

46. Risks linked to recommendations, and alternatives and how mitigated.
47. The risks inherent in the 2023/24 budget were clearly set out in the February 2023 Council budget report for 2023/24. Key risks include.

### **Background papers**

48. February 2023 Budget and Medium-Term Financial Plan 2023/24  
<https://democracy.bcpccouncil.gov.uk/ieListDocuments.aspx?Cld=284&Mld=5032&Ver=4>

### **Appendices**

- Appendix A Budget Planning process and timetable.
- Appendix B Financial strategy supporting the delivery of the 2024/25 budget.
- Appendix C Principles for asset disposals.
- Appendix D **Confidential Appendix** – Detail proposed asset sale