

Report subject	Medium Term Financial Plan (MTFP) Update
Meeting date	22 November 2023
Status	Public Report
Executive summary	<p>This report presents the positive progress that has been made towards delivering a sustainable and balanced budget for 2024/25 and developing the latest medium-term financial plan (MTFP) position of the council.</p> <p>It is important that the context to the development of the 2024/25 budget is fully appreciated. This can be summarised as.</p> <ul style="list-style-type: none"> • The February 2023 approved general fund budget for 2023/24 was balanced on the assumption of a £30m drawdown in reserves and the delivery of £34m in savings, efficiencies, and additional resources including £9m in respect of transformation which were un-itemised. • A funding gap of £44m for 2024/25 as set out in the July MTFP Update report to Cabinet and a 3-year funding gap to 2026/27 of £67m. • An environment of ongoing uncertainty and volatility associated with the cost-of-living crisis. <p>Although significant progress has clearly been made it is clear that there is still much work to be done and that the savings, which will be considered as part of a November and December public engagement process, will have an inevitable impact on the level of services provided to our community.</p>
Recommendations	<p>It is RECOMMENDED that Cabinet:</p> <ul style="list-style-type: none"> (a) Acknowledges the progress in delivering a sustainable balanced budget for 2024/25. (b) Endorses the updated MTFP position. (c) Approve the implementation of a voluntary redundancy process to support the delivery of a balanced budget for 2024/25 with delegation to the Chief Executive, in consultation with the Leader of the Council, to develop an appropriate policy.

Reason for recommendations	<p>To comply with accounting codes of practice and best practice which requires councils to have a rolling multi-year medium term financial plan.</p> <p>To present progress on delivering a balanced budget for 2024/25 and a high-level overview of the current medium term financial plan position.</p> <p>To ensure a prudent approach to financial management based on traditional local government financial management processes.</p> <p>To present ongoing progress against the Best Value Notice requirement to establish a sound budget setting process and begin preparation for the 2024/25 budget as soon as possible and draft a sustainable MTFP and three-year budget by the end of September 2023.</p>
Portfolio Holder(s):	Cllr. Mike Cox, Portfolio Holder for Finance
Corporate Director	Ian O'Donnell, Corporate Director for Resources
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Wards	Council-wide
Classification	For Decision

Background

1. Cabinet on the 26 July received an MTFP Update report which set out the framework in support of the delivery of the 2024/25 budget including the proposed.
 - (a) Budget planning process.
 - (b) Budget timeline
 - (c) Financial strategy
2. Also included was an articulation of the £44.4m gap in the MTFP position inherited by the new Council following the local elections in May. This gap excluded all the previously assumed additional transformation or service savings and efficiencies 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.
3. This approach of only including transformation savings based on current delivery plans, rather than those assumed in the 2019 Transformation business case, has been endorsed by both a LGA Peer Review and by the government's recent governance review which was part of the Best Value Notice report to Cabinet in September 2023. Both warned against being over-optimistic around assumed transformation savings in terms of both timing and value. Through the MTFP, the

forecast savings to be achieved through the transformation programme currently totals £14m and may increase as further initiatives are implemented.

4. It was also recognised that this £44.4m did not make any allowances for several key risks assumed in the 2023/24 budget including.
 - (a) Any under delivery against previously budgeted savings, efficiencies or additional resources which were not subsequently delivered and would require an adjustment to the base revenue budget. Of particular concern was the unidentified transformation savings included in both the 2022/23 and 2023/24 budgets.
 - (b) Any implications caused by the uncertainty associated with the cost-of-living crises with the adequacy of the pay award assumptions being of particular concern.

Latest draft 2024/25 budget and MTFP position

5. 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. It should also be seen in relation to the Best Value Review requirement to draft proposals for a sustainable MTFP and three-year budget.
6. In support of these requirements Portfolio Holders have been working with Corporate Directors, Service Directors, and Budget Holders to prepare proposals for balancing the 2024/25 budget. This has included bi-weekly meetings between the Cabinet and Corporate Management Board (CMB) since early July 2023 to consider progress and to consider the budget in the context of the developing new corporate plan, which is currently out for consultation. In addition, every growth and saving proposal was considered by Cabinet at a budget focus event held on the 2 and 3 October 2023 with further consideration via series of budget challenge sessions on the 18 and 19 October which focused on the information contained in the new Dynamics F&O system.
7. Figure 1 below sets out the current Medium-Term Financial Plan (MTFP) to 2027. As a reminder to Cabinet, 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. A more detailed summary statement is presented as Appendix A.

8. **Figure 1: Latest MTFP**

Service Pressures (net of any specific grant changes)	Budget 2023/24 £m	Incremental Year on Year Changes				
		24/25 £m	25/26 £m	26/27 £m	27/28 £m	Total £m
Wellbeing Directorate	133.0	4.2	4.9	4.9	5.0	19.0
Children's Directorate	85.0	4.9	5.0	5.3	5.3	20.5
Operations Directorate	63.1	2.8	3.2	1.8	1.6	9.4
Resources Directorate	40.8	0.6	0.6	0.7	0.4	2.3
	321.9	12.6	13.7	12.7	12.2	51.2
Savings, Efficiencies, Fees & Charges						
Wellbeing Directorate		(7.8)	(0.5)	(0.7)	(0.6)	(9.6)
Children's Directorate		(4.3)	0.0	0.0	0.0	(4.3)
Operations Directorate		(10.2)	(2.8)	(2.3)	(2.0)	(17.3)
Resources Directorate		(0.6)	(0.2)	(0.1)	(0.1)	(0.9)
Transformation		(10.6)	(3.1)	(0.6)	(0.1)	(14.4)
		(33.4)	(6.6)	(3.8)	(2.7)	(46.5)
One-off Items						
One-off Pressures		4.9	(4.9)	0.0	0.0	0.0
One-off Resources		(4.9)	4.9	0.0	0.0	0.0
		0.0	0.0	0.0	0.0	0.0
Corporate Items - Cost Pressures	16.6	20.2	12.0	3.8	7.7	43.7
Funding - Changes	(338.4)	12.6	(12.1)	(9.7)	(9.7)	(18.8)
Annual – Net Funding Gap	0.0	12.0	7.0	3.1	7.6	29.6
Cumulative MTFP – Net Funding Gap		12.0	19.0	22.1	29.6	

9. The key assumptions made in presenting the latest MTFP position can be summarised in Figure 2 below and in Appendix B.

10. **Figure 2:** Key Budget Assumptions

Key MTFP Financial Planning Assumptions

	2024/25	2025/26	2026/27	2027/28
Council Tax: Core	2.99%	1.99%	1.99%	1.99%
Council Tax: Social Care Precept	2.00%	1.00%	1.00%	1.00%
Pay Award	5%	2%	2%	2%
Increase in Fees and Charges	5%	2%	2%	2%
National Living Wage (NLW) <i>% Increase in the National Living Wage</i>	5.6%	2%	2%	2%
	Sep-23	Sep-24	Sep-25	Sep-26
Bank of England - Base Rate	5.25%	5.00%	3.00%	2.75%

Please note:

The increase in fees and charges should be regarded as a minimum increase to those not set by statute. The principle of full cost recovery may mean increases above these levels for example were costs are likely to rise by the National Minimum Wage which is predicted to increase by 5.6% (to £11 per hour) between 2023/24 and 2024/25.

11. The main changes to the inherited MTFP position as set out in the July report include.

Items having an adverse impact on the draft 2024/25 Budget.

- A £6.1m rebase of the 2024/25 base budget to excluded previously assumed, but unitemised, transformation savings. The quarter one budget monitoring report for 2023/24 highlighted the total of £10.7m in unitemised savings, £9.1m in respect of 2023/24 and £1.6m from 2022/23, which has been reduced by £4m based on a rigorous review of the 2022/23 financial outturn where positive variances were identified as ongoing. This net £6.7m has then been reduced to £6.1m because of further identified third party spend savings.
- Increase in the pay award assumption to reflect the offer by the National Employer Association for 2023/24 and an increase in the assumption for 2024/25 from 4.25% to 5% based on benchmarking with south coast unitary authorities (circa £4m total to reflect the change in both 2023/24 and 2024/25).
- Recognition of the intention to invest up to an extra £1.4m per year in regeneration further to “The future of BCP FuturePlaces Ltd, investment and development” report to Cabinet on 27 September 2023 as opposed to building up an off-balance sheet debt.

Items having a positive impact on the draft 2024/25 Budget.

- Recognition of the latest profile of asset disposals supporting the generation of £43m in capital receipts to fund the transformation programme across 2023/24 and

2024/25. The positive impact comes from the deferral of the disposal of income generating assets from towards the end of the 2023/24 financial year to towards the end of the 2024/25 financial year.

- Ongoing negotiations with the trade unions now mean that from a financial planning perspective the implementation date for the pay and grading review, and the consequential financial implications, has been delayed. The council will however endeavour to deliver at the earliest date achievable.
 - A reduction in the cost of utilities based on positive market movements over the last quarter.
 - Financial planning assumptions around a level of savings that can be delivered either in 2024/25 or over the 4 years of the MTFP. These and other options will be further considered as part of the public engagement exercise.
12. Clearly there is much work still to be done to ensure that the council can deliver a sustainable balanced budget for 2024/25 based on traditional approaches to local government finance. In support of this process, it is being recommended that in addition to the expenditure freeze and vacancy management process for 2023/24 approved by Cabinet in September, that a voluntary redundancy process is established with delegation to the Chief Executive to agree the final criteria. It is likely that this scheme will not be applied to certain elements of the workforce such as social workers but will focus on areas of the Council where future savings are forecast or can be made.
13. Work will now focus on further service efficiencies and savings and on options to enable the 2024/25 budget to be balanced. This will include further consideration of the items laid out in the financial strategy as set out in the July MTFP Update report and, via the council's Senior Leadership Network, will be a whole organisation response. This further work will also include a reflection of the amounts included in respect of both service and corporate pressures. For example, the Local Government Association is undertaking a use of resources exercise in regard to Adult Social Care which includes a reflection on the services budget position.

Options Appraisal

14. Alternative council tax strategies and savings proposals will be considered as part of the final budget report for 2024/25 to Cabinet and Council in February 2024.

Summary of financial implications

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

Summary of legal implications

16. The council has a fiduciary duty to its taxpayers to be prudent in the administration of the funds it manages on their behalf and an equal duty to consider the interests of the community which benefit from the services it provides.
17. 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.

18. 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

19. The establishment of a voluntary redundancy process will have direct human resources implications on the authority. In turn it 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

20. Provision was made as part of the 2023/24 budget to protect the annual budget supporting climate change and ecological emergency activity. This is supplemented by an Earmarked Reserve which provides resources to support one-off costs.

Summary of public health implications

21. The Department of Health and Social Care allocated BCP Council £21.29m, a 3% increase from 2022/23, to deliver its public health service in 2023/24. This will be combined with the £15.09m allocated to Dorset as part of the joint pan Dorset service.

Summary of equality implications

22. 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

23. The risks inherent in the current year's budget were clearly set out in the February 2023 Council budget report for 2023/24. Key risks and assumptions made in balancing the 2023/24 budget included.
 - (a) £30m drawdown from reserves.
 - (b) Delivery of £34m in savings, efficiencies and additional resources including £9m in respect of un-itemised transformation savings.
 - (c) Recognition of the ongoing uncertainty caused by the cost-of-living crisis.
 - (d) In addition to those referenced in (b) the delivery of £8.7m in transformation savings assumed in the base budgets for 2022/23 onwards.
 - (e) Delivery of a financial surplus compared to previous plans of £10.6m in 2022/23.
 - (f) Disposal of assets to deliver capital receipts to fund the transformation investment programme in 2022/23, 2023/24 and 2024/25.
 - (g) Specific exposure regarding BCP FuturePlaces Ltd, and any amount drawn down from the £8m loan facility made to them which ultimately proves

unrecoverable, and any payments capitalised which might need to be written off in the Council decides not to progress with the Full Business Case.

24. In addition, it should continue to be highlighted that council continues to predict that it will have negative reserves as at the 31 March 2024 due to the accumulating deficit on the Dedicated Schools Grant (DSG) as pertaining to the growing annual deficit on the High Needs Block. If a council has negative reserves, then technically it is insolvent however government regulations currently allow councils to ignore the deficit on the DSG for the purposes of this assessment up to the 31 March 2026. The Council's general fund revenue budget is though having to cover the annual interest charges on the DSG debt.
25. By following a prudent approach to financial management based on traditional local government financial management processes steps have been taken to mitigate an element of these identified risks. Principally these have been outlined in the Financial Outturn for 2022/23 and Quarter One Budget Monitoring reports to Cabinet. Members should though be under no illusion, as evidenced in the body of this report, significant financial challenges underpinned by numerous difficult choices remain.

Background papers

26. February 2023 Budget and Medium-Term Financial Plan 2023/24
<https://democracy.bcpccouncil.gov.uk/ieListDocuments.aspx?CId=284&MId=5032&Ver=4>
27. July 2023 Financial Outturn Report 2022/23
July 2023 Medium Term Financial Plan (MTFP) Update
<https://democracy.bcpccouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=5359&Ver=4>
28. Budget Monitoring 2023/24 at Quarter One
September 2023 Responding to the Best Value Notice
<https://democracy.bcpccouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=5360&Ver=4>

Appendices

- Appendix A Detailed MTFP Summary
- Appendix B Key Budget Assumptions