

Report subject	Medium Term Financial Plan (MTFP) Update
Meeting date	13 December 2023
Status	Public Report
Executive summary	<p>This report presents:</p> <ul style="list-style-type: none"> • Progress towards delivering a legally balanced budget for 2024/25. • The latest medium-term financial plan (MTFP) of the council as updated for any identified implications of the governments Autumn Statement. • In the first instance, that Cabinet has significantly completed the work to balance the 2024/25 revenue budget based on the £12m funding gap set out in the November report. However, predominately due to the higher than assumed National Living Wage announcement by Government that council needs to find an extra £6m to now close the gap. <p>In addition, the report proposes not to change the Local Council Tax Support Scheme (LCTSS) for 2024/25 and therefore the council will continue to operate the same scheme that it has operated since April 2019.</p>
Recommendations	<p>It is RECOMMENDED that Cabinet:</p> <ol style="list-style-type: none"> Acknowledges the further progress towards delivering a sustainable balanced budget for 2024/25. Endorses the updated MTFP position. Approve the continuation of the current Local Council Tax Support Scheme (LCTSS) into 2024/25. <p>It is RECOMMENDED that Cabinet recommend to Council:</p> <ol style="list-style-type: none"> Further to Councils decision on 12 July 2022 to apply a council tax premium to second homes and an empty homes premium, to approve the formal determination as required by the Levelling Up and Regeneration Act 2023.
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 present the further progress towards delivering a balanced budget for 2024/25 and the latest high-level overview of the medium-term financial plan.</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> <p>To present for Council consideration the formal determination in support of the previous decision to apply a council tax premium to second homes.</p>
Portfolio Holder(s):	Cllr. Mike Cox, Portfolio Holder for Finance
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Wards	Council-wide
Classification	For Decision

Background

1. Cabinet at its meeting on 22 November 2023 received its latest MTFP Update report. In receiving the report, the Cabinet acknowledged the positive progress that had been made towards delivering a sustainable and balanced budget for 2024/25 and developing the latest MTFP position of the council. The report also recognised that this work had been undertaken in the context of.
 - The February 2023 approved General Fund budget for 2023/24 being 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.

Although significant progress had been made it was clear that there was still much work to be done. The November report summarised the position as follows.

2. **Figure 1: November 2023 Medium Term Financial Plan position**

	Incremental Year on Year Changes				
	24/25 £m	25/26 £m	26/27 £m	27/28 £m	Total £m
Annual – Net Funding Gap	12.0	7.0	3.1	7.6	29.7
Cumulative MTFP – Net Funding Gap	12.0	19.0	22.1	29.7	

3. It was also acknowledged that this position would materially alter if any of the key financial planning assumptions, currently adopted to underpin the financial planning framework, were to change. These key assumptions included a basic increase in Council Tax of 2.99% in 2024/25 as well as an increase of 2% in respect of the social care precept. Thereafter the assumption annually was 1.99% by way of a basic increase as well as a 1% social care precept. The National Living Wage assumption was for a 5.6% increase to £11 per hour for 2024/25 and 2% annual increases thereafter.

Autumn Statement

4. On 22 November 2023 the Chancellor of the Exchequer presented his Autumn Statement to the House of Commons alongside the publication of the Office for Budget Responsibility's (OBR) new set of Economic and Fiscal Outlook forecasts.
5. The most significant referenced matter which will have a direct impact on the council's proposed 2024/25 budget was the announcement that the National Living Wage will increase by 9.8% (£1.02) in 2024/25 to £11.44 per hour. As stated above, it had been assumed that the increase would be 5.6% based on the previous statement that it would be £11 per hour as a minimum.
6. The impact of this announcement is stark. The additional cost of commissioned care in just Adult Social Care will require the Council to set aside a total of an extra £12.388m in resources in 2024/25 to cover the additional costs arising from the increase in the National Living Wage alone. This equates to the extra resources that could be generated by a 5.08% council tax increase when the maximum permitted increase is likely to be 5%. This will leave no additional resources available for demand pressures in Children's, Adults or Homelessness services, the annual pay award across all services areas, or the impact of cost-of-living inflationary pressures on any of the other services provided by the Council.
7. Other issues highlighted in the Autumn Statement particularly relevant to local government include.
 - In April 2024, Local Housing Allowance rates will be raised to the 30th percentile of local market rates which should provide an element of mitigation regarding the cost and demand pressures associated with homelessness.
 - Department for Levelling Up Housing and Communities (DLUHC) will bring forward plans for authorities to offer guaranteed accelerated decision dates for major developments in exchange for a fee, ensuring refunds are given where deadlines are not met and limiting use if extension of time arrangements.
 - A consultation on a new Permitted Development Right for subdividing houses into two flats without changing the façade.

- Regarding business rates the small business multiplier will be frozen in 2024/25 at 49.9p, while the standard multiplier will be uprated by September CPI to 54.6p. Additionally the current 75% relief for eligible Retail, Hospitality and Leisure properties will be extended for 2024/25. Local Authorities will be fully compensated for the loss of income as result of these measures.
 - Local Government Pension Scheme (LGPS) guidance will be revised to implement a 10% allocation for investment in private equity.
8. OBR forecasts published alongside the Autumn Statement suggest that based on future projections of Council Tax revenues that the existing framework of a permitted 2.99% basic and 2% social care precept will continue.

Latest MTFP Position

9. Figure 2 below sets out the current Medium-Term Financial Plan (MTFP) to 2028. 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.
10. The main changes to the position as set out in the November Cabinet report include.

Items having an adverse impact.

- The 2024/25 increase in the National Living Wage as per the announcement on the 21 November 2023.
- Reduction in the forecast of internal staff costs that can be charged against the transformation budget.

Items having a positive impact.

- An increase in the annual Council Tax increase financial planning assumption from 2025/26 onwards in line with the OBR forecasts published alongside the Autumn Statement.
- Implications of the financial strategy work to undertake a fundamental review of the Business Rates Collection Fund as the position starts to stabilise in a post pandemic environment. This work has enabled the ongoing assumption of base revenue budget resources to be increased as well as providing one-off resources which will be applied to one-off items within the 2024/25 budget.
- Impact of work to review the mechanism by which resources are set aside to repay debt on an annual basis. The work stream has been reflecting on the optimum strategy based on statutory guidance. A consideration within this will be the recent decision of Council to reduce the authority's debt threshold from £1.334bn to £755m. Subject to consideration as part of the annual Treasury Management Strategy the approach will be to move to an annuity basis, as per most household mortgages and as many other councils have done, rather than either a straight line or reducing balance method.
- Further adjustments to the financial planning assumptions around the level of savings that can be delivered either in 2024/25 or over the 4 years of the MTFP.

The public consultation exercise which is open to 20 December 2023 will help inform the final set of proposals.

11. Figure 2: Latest (December 2023) 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	12.7	5.5	5.5	5.8	29.4
Children's Directorate	85.0	4.9	5.0	5.3	5.3	20.4
Operations Directorate	63.1	2.5	2.8	1.6	1.4	8.3
Resources Directorate	40.8	0.6	0.6	0.7	0.4	2.3
	321.9	20.6	13.9	13.1	12.9	60.5
Savings, Efficiencies, Fees & Charges						
Wellbeing Directorate		(11.6)	1.4	(0.6)	(0.6)	(11.4)
Children's Directorate		(3.7)	0.5	0.0	0.0	(3.2)
Operations Directorate		(14.5)	(0.8)	(2.2)	(2.0)	(19.5)
Resources Directorate		(1.0)	(0.2)	(0.1)	(0.1)	(1.3)
Transformation		(10.8)	(3.0)	(0.6)	(0.1)	(14.5)
		(41.6)	(2.1)	(3.5)	(2.7)	(49.9)
One-off Items						
One-off Pressures		11.3	(11.1)	(0.1)	0.0	(0.0)
One-off Resources		(11.3)	11.1	0.1	0.0	0.0
		0.0	0.0	0.0	0.0	0.0
Corporate Items - Cost Pressures						
	16.6	18.2	8.6	2.2	6.4	35.4
Funding - Changes						
	(338.4)	8.8	(18.4)	(16.5)	(16.6)	(42.7)
Annual – Net Funding Gap						
	0.0	6.0	2.1	(4.7)	(0.1)	3.3
Cumulative MTFP – Net Funding Gap						
		6.0	8.1	3.4	3.3	

12. Figure 2 demonstrates that the further actions that were required to close the £12m funding gap reported in the November MTFP Update have been identified and that gap was effectively closed. However, predominately due to the higher than assumed National Living Wage announced by the Chancellor the Council now has a further £6m to find. Further work is now required on additional savings and efficiencies to ensure a legal, balanced, budget can be put forward for 2024/25 and ideally produce a balanced budget across the 4-year planning period of the MTFP.
13. The updated key assumptions made in presenting the latest MTFP position can be summarised in Figure 3 below.

Figure 3: Key Budget & MTFP Assumptions

	2024/25	2025/26	2026/27	2027/28
Council Tax: Core	2.99%	2.99%	2.99%	2.99%
Council Tax: Social Care Precept	2.00%	2.00%	2.00%	2.00%
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>	9.8%	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 where costs are likely to rise by the National Minimum Wage which has been confirmed at £11.44 per hour in 2024/25 which is an increase of 9.8%.

Council Tax Premium - Second Homes & Empty Homes

14. Council on 12 July 2022 agreed, subject to the passing of the Levelling Up and Regeneration Bill, to:
 - a) reduce the qualifying period for the empty homes' council tax premium from two-years to one-year from 1 April 2024 onwards to reinforce the incentive for owners to bring empty properties back into use.
 - b) levy a council tax premium of 100% from 1 April 2025 to support the council in addressing the impact of second homes, as defined as a dwelling occupied periodically (there is no resident of the dwelling, and the dwelling is substantially furnished).
15. To levy the second homes council tax premium an authority first needs to make a determination at least one-year before the beginning of the financial year to which it relates and to enact the determination it must be publish a notice in at least one local newspaper 21 days before the determination date. The formal determination is presented as Appendix B.
16. The MTFP as presented earlier in this report includes the following assumptions.
 - a) An estimated extra £900k from 1 April 2024 from bringing forward the change in the empty homes' council tax premium qualifying period to one-year from two.
 - b) An estimated extra £6m per annum from 1 April 2025 from the application of the 100% council tax premium on second homes. This is reduced to £5.650m net of the extra staff that it is estimated will be required to support and administer the new arrangements as there is currently no mechanism in place to identify a property as a second home. This will be subject to further significant due

diligence. The forecast has been constructed based on local knowledge around homes that used to get the 50% second homes council tax discount updated for any subsequent information gathered. There is currently no incentive for homeowners to make the council aware that a property is a second homes as they pay the same council tax rate as if it was their main residence.

Local Council Tax Support Scheme (LCTSS)

17. No changes are proposed to the Local Council Tax Support Scheme for 2024/25 which will mean a consistent policy has been applied by the Council from 1 April 2019 onwards.
18. Ongoing consideration will be given to changing the existing LCTSS to a 'banded scheme' reflecting evolving best practice to reduce the burden of administration for both claimants and the council. Any changes proposed would not be designed to reduce expenditure on LCTSS but to deliver operational and administration efficiencies and better meet the needs of residents.
19. As of 1 November 2023, BCP Council was providing LCTS to 23,258 claimants a reduction of 3.1% over the previous 12 month period.

Options Appraisal

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

Local Council Tax Support Scheme

21. Numerous alternative LCTSS are possible however the viability of any proposal that would increase the cost met locally would need careful consideration especially in the current financially challenging environment. Public consultation is required to consider any change with engagement not just limited to claimants but also council taxpayers who cover the cost of the scheme.

Council Tax second homes and empty homes premium

22. Any decision not to issue a determination would be contra to the July 2022 decision of Full Council.

Summary of financial implications

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

Summary of legal implications

24. 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.
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, 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

27. 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

28. Provision was made as part of the 2023/24 budget to protect the budget supporting climate change and ecological emergency activity.

Summary of public health implications

29. 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

30. 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

31. The most significant risk to the council's financial sustainability continues to be the current and growing deficit on the Dedicated Schools Grant (DSG) specifically regarding the annual expenditure on the High Needs Block being more than the annual government grant. As previously indicated the deficit on the DSG was £35.8m as at the 31 March 2023 and this is currently estimated to grow to £63.4m on the 31 March 2024. This is not a tenable position. By April next year the deficit will be greater than the council's total general fund reserves and ordinarily the council would be required to issue what is referred to as a s114 notice which basically would put the council into administration and it would likely lead to government intervention. This action is currently not necessary as the government have put in place to 31 March 2026 a statutory override which enables the council to ignore the DSG deficit for the purposes of the s114 assessment.
32. In response to this issue, and to mitigate the risk, the council has been invited to be part of the Department for Education Safety Valve programme and is engaged in a conversation to determine if agreement can be reached on a way forward.
33. In addition to the DSG position, the two next most salient financial risks are ensuring that the council's financial outturn for 2023/24 is in line with the February 2023 approved budget and that the council bring forward a legally balanced budget for 2024/25. The main risks associated with the 2023/24 Budget will be the delivery of the £34m in savings, efficiencies, and additional resources including £9m in respect of transformation which were un-itemised. Quarter 2 budget monitoring presented to Cabinet in November 2023 identified that the council is not currently forecasting to

achieve this objective as the council will need to draw down a further £4.3m in reserves to balance the 2023/24 in-year position. However, officers are continuing to explore ways of reducing this deficit before the year end and the restrictions which have been put on spending which will help this.

34. In respect of the draft budget proposals for 2024/25 the key risks will be addressing the structural deficit created by using £30m in one-off reserve funding to balance the 2023/24 budget alongside the demand and inflationary pressures which have been exacerbated by the cost-of-living crisis. The Cabinet July MTFP Update report established that the funding gap for 2024/25 was forecast to be £44m and the funding gap over the period to 2026/27 was forecast to be £67m. A further Cabinet meeting in November received an update that significant progress had been made in reducing the funding gap for 2024/25 to £12m although it referenced that there was still much work still to be done.
35. Mitigation measures have been put in place to support the balancing of both the in-year (2023/24) and draft budget for 2024/25. These include.
 - In-year expenditure freeze and vacancy management process since September for the remainder of 2023/24.
 - Reduction in the Councils Debt Threshold to £755m from £1.334bn.
 - Closure of BCP FuturePlaces Ltd and bringing the development and investment activities of the company in-house.
 - Implementation of a voluntary redundancy process.
36. Officers continue to monitor the risk of delivering £47m of capital receipts to fund the transformation investment programme across the period to 31 March 2025.
37. By following a prudent approach to financial management based on traditional local government financial management processes steps have been taken to mitigate these risks. Members should however be under no illusion significant financial challenges, underpinned by numerous difficult choices, remain.

Background papers

38. February 2023 Budget and Medium-Term Financial Plan 2023/24
<https://democracy.bcpccouncil.gov.uk/ieListDocuments.aspx?CId=284&MId=5032&Ver=4>
39. 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>
40. September 2023 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>
41. November 2023 Medium Term Financial Plan (MTFP) Update
November 2023 Budget Monitoring 2023/24 at Quarter Two

<https://democracy.bcpccouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=5363&Ver=4>

Appendices

Appendix A Detailed MTFP Summary

Appendix B Determination - Second Homes and Empty Homes Premium