

Bournemouth, Christchurch and Poole Council

Independent Financial Review

Final - February 2024

A Report by:
The Chartered Institute of Public Finance and Accountancy
February 2024

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Contents

1	<i>Executive Summary</i>	1
	Summary of Findings, Issues, Evidence and Analysis.....	1
	Recommendations.....	1
2	<i>Introduction</i>	4
2.1	<i>Background</i>.....	4
	2.2 Requirement	4
	2.3 Methodology	5
3	<i>Areas Reviewed</i>.....	7
	Review Area 1 - FINANCIAL MANAGEMENT / SUSTAINABILITY	7
	Review Area 2: FINANCIAL GOVERNANCE AND DECISION	
	MAKING.....	16
	Review Area 3: CAPITAL PROGRAMME.....	21
	Review Area 4: COMMERCIAL ASSETS/DEBT.....	25

1 Executive Summary

Summary of Findings, Issues, Evidence and Analysis

Overall summary

The purpose of this review is to assess the financial resilience of Bournemouth, Christchurch and Poole (BCP) council in the light of the financial risks and pressures faces and the recommendation set out in the Best Value Notice. The review seeks to assess BCP's financial position and arrangements and determine whether the council is taking all reasonable steps to address the position and identify what more needs to be done as part of its budget setting process and development of its Medium Term Financial Plan (MTFP).

BCP has taken positive steps to improve financial resilience since the Best Value Notice was issued and it looks increasingly likely that BCP will manage its spending effectively within budget for 2023/24 and set a balanced budget for 2024/25 with a projected balanced MTFP covering the four year period to 31 March 2028. The council compares well with its nearest neighbour group when it comes to debt as a percentage of income and reserves. Its capital spend as a proportion of net revenue spend is also relatively low and the council holds reserves that provide some albeit it limited resilience in the face of increased borrowing costs and increasing service pressures. Financial management arrangements are now improving but there is still work to do to improve processes and capacity in some areas and further develop financial reporting. Overall, Member and Officer understanding is clearer with a commitment from the new political leadership to prioritise financial resilience. There is greater focus on the financial reality BCP is facing. BCP is in an improved position to meet the challenges it faces but has still got some work to do to move thinking beyond the historic transformation programme and ensure it has the commitment across the council to make some difficult decisions in key service areas including Adults, Childrens and Cultural services to balance future budgets.

There is more work to do to ensure BCP has the people, process and systems capacity and capability to deliver sustained savings. This includes the need to continue to develop the new financial system and the capability of budget holders and access transparent, timely financial information. It is also important that it develops its detailed 2025/26 budget plans and the medium term financial plan early on next year. Strategies need to be developed to support plans in place. Officer and Political leadership's approach to addressing this collectively is maturing. Medium-term financial projections are developing but more work is needed to build confidence in the process and financial management understanding across BCP but more particularly in Childrens and especially Adults Services. BCP needs to ensure its leadership team deliver on the common narrative and joint commitment to delivering the balanced 2024/25 budget, and its underpinning savings, and in delivering against the medium term projections. This will need to strike the right balance between prudence but with financial support and willingness to exploit opportunities and accept some considered risk. This includes determining the right operating model going forward and assessing what a 'right sized' council looks like.

Recommendations

There are some key recommendations set out below that the council needs to act on if it to build on the progress made so far and address the very real challenges it still faces in the future. These are not critical at present in the context of the most recently reported financial position but the key ones to prioritise are:

1. The council should develop its modelling in building its MTFP alongside agreement with members and senior officers of the frequency of any refreshed MTFP.
2. The council should act quickly to maximise the opportunity to identify potential asset sales and explore the full range of savings opportunities.
3. The council should ensure that members are upskilled and engaged with a commitment to both financial and non-financial learning and development through the available LGA training opportunities.
4. Members and senior officers should agree collectively on the best way to deliver sustainable improvements in the quality of financial, forecasting and performance information and ensure it has the right approach in driving out sustainable change that delivers savings.
5. The council should deliver the agreed finance target operating model. It should further develop its approach to business partnering and service level agreements with Service Managers to ensure it is equipped to manage service and budget pressures.
6. The council should undertake a capability assessment of its finance function and budget managers to identify and gaps in skills and experience and the need for any succession planning.
7. The council should be disciplined in ensuring savings are baselined in service budgets to ensure they are sustainable to address MTFP pressures.

The following recommendations should also be considered:

8. The council should identify the areas where it may need further external support, particularly in demand led services. This should include an assessment of the impact of additional resources in minimising risk or delivering savings or improvements
9. The council should fully explore all savings opportunities and model upper and lower savings limits. Proposals should be considered in the context of the impact on risk and vulnerability in the community through a 'One Council' approach.
10. The council should ensure the ERP system is delivering the desired benefits, address any workarounds and ensure the ERP system is used in the first instance. It should consider how further phases support the integration of risk, service, and financial reporting through dashboards to ensure resources are focussed in the right areas.
11. The council should ensure legacy issues from reorganisation with different systems, policies and process are addressed and look to achieve a standardised approach unless there is an overriding reason not to.
12. The council should ensure it starts its budget consideration early and receives early reports on the progress against its plans in the new financial year to give it the best possible chance of delivering all the required savings.
13. The council should ensure a clear focus on risk and vulnerability as part of a clear framework for Childrens and Adults services decision making but recognise some proportionate risks will need to be accepted and managed collectively by the council.
14. The council should continue with its process to develop its strategic capital programme framework and its implementation to ensure the capital programme is affordable and sustainable.

15. The council should address the inadequacies of its existing property IT systems if it is to maximise the opportunities to optimise the use of its estate and develop its asset management plans.
16. The council should ensure it maintains its capacity and skills to match those found in the remaining companies to ensure effective client side monitoring.
17. The council should consider developing a risk based assessment of reserves and the appropriate target balances.

2 Introduction

2.1 Background

Bournemouth, Christchurch and Poole Council (BCP) was formed in April 2019 following a complex local government reorganisation (LGR), bringing together district and county level services from across four preceding Councils. In August 2023 the Council was subject to a Best Value Notice on account of the findings of the External Assurance Review that identified among other things that the Authority's Medium Term Financial Plan (MTFP) and budget as they were then agreed (February 2023) were unrealistic.

BCP commissioned this financial review partly in response to a recommendation of the External Assurance review that the Council commission an external financial resilience review to inform the MTFP and budget setting.

The purpose of this review is to assess the financial resilience of BCP Council in the light of the financial risks and pressures it is currently facing.

2.2 Requirement

The review seeks to consider assurance over BCP's financial position and determine whether the Council is taking all reasonable steps to address the position and what more needs to be done.

The core objective of the review is to assess the financial resilience of BCP Council in the light of the financial risks and pressures it is currently facing. The key questions to satisfy the review include:

- Is there overall assurance of the BCP Council's financial position?
- Is BCP Council taking all reasonable steps to address the position and what more needs to be done?

We undertook our review using the themes of a DLUHC financial resilience review but focused on those areas which had been identified by previous reviews and by the Best Value Notice as potential areas of risk and on which the authority sought assurance of their progress.

This review focusses on the financial sustainability of the council and does not comment on the appropriateness of or adherence to accounting policies or any on-going external audit work which is a matter for the external auditors.

Context

The review is limited in some areas by the lack of up to date financial and information on the capital programme and uses the latest publicly available information, supplemented by member briefings as part of the 2024/25 budget process where appropriate in forming our conclusions. Updates were made to the report, where appropriate, to reflect the latest information available in finalising the report in February 2024 but the report cannot comment on the validity or detailed assumptions made in respect of the February 2024 MTFP. Some of the progress made since the fieldwork against recommendations may not be fully reflected in the report.

Our work also follows up on any overlapping areas where appropriate to assess progress against the published best value action plan. The following areas have been covered.

- **Financial Management and Sustainability** – focusing on how well the Council was addressing financial pressures, the deliverability of savings plans, the efficiency in delivering services and whether the Council was on course to present conventional balanced budgets in the near future (2023/24 & 2024/25) and had an appropriate MTFP.
- **Financial Governance and Decision Making - Financial *governance and decision making*:** an assessment of a council's financial governance/management processes, leadership, operational culture, whether it has the appropriate financial governance procedures in place, and the capability and capacity to make any necessary transformation.
- **Capital programme/companies:** an assessment of the council's capital programme and management of related risks including arrangements with Local Authority Owned Companies
- **Commercial assets/debt:** an assessment of the council's assets and investments including dependence on commercial income, debt costs and other risks.

2.3 Methodology

Our approach comprised the following elements:

Desktop analysis

BCP made a number of documents available for our examination. These included relevant policy papers and strategies, minutes of meetings and progress reports. We reviewed the material and made supplementary document requests as appropriate to the council.

Specialised inputs

Some comparative data analyses were conducted on issues such as revenue spend and indebtedness using CIPFA's Financial Resilience Index and the Office for Local Government. Where relevant they are included in the report.

Interviews

The bulk of the fieldwork comprised interviews conducted in October and November 2023. We triangulated different oral evidence as well as oral against written evidence. Council officers and members were invited to give views and respond to queries provoked by documentary evidence. We would like to thank everyone involved for their courtesy and constructiveness.

Report drafting, feedback and fact-checking

The above inputs were then analysed and subjected to our professional and expert judgement. The result is this report. Initial feedback on themes and key findings was provided to officers in advance of setting the 2024/25 budget to inform any discussions.

This report was fact checked as far as possible and is based on the fieldwork completed within the time frame for the review. It was not a comprehensive audit of the Council's finances. As a consequence, the conclusions do not constitute an opinion on the status of the Council's financial accounts.

CIPFA's review team consisted of two experienced consultants with relevant backgrounds in all areas of the review's scope. CIPFA would like to take this opportunity to thank the council for being so amenable and open to meeting with the review team and for the

considerable effort that has been expended in collating and sharing key documents with CIPFA. We also thank everyone involved for their openness, tact, and honesty.

3 Areas Reviewed

Review Area 1 - FINANCIAL MANAGEMENT / SUSTAINABILITY

An assessment of the Local Authority's financial management and management of risk, financial pressures, deliverability of savings plans and efficiency in delivering services.

Progress has been made with a projected sustainable MTFP (Medium Term Financial Plan)

The draft 2024/25 Budget does present a balanced 4-year MTFP on paper including £52m of savings, efficiencies, and additional income generation proposals for the period to March 2028 to assist in addressing the inherited £30m structural deficit and managing forecast service pressures over that timeframe. However, the delivery of this remains challenging. The assumptions regarding inflation, demand pressures and service evolution appear reasonable but will need continual modelling. One-off resources created from a fundamental review of business rates (with LG Futures) have been used to support timing differences in the MTFP and to improve the financial health of the council including increasing unearmarked reserves and establishing an exceptional one-off contingency to mitigation any delays in delivering the planned savings.

Pressures in 2024/25 and 2025/26 increase and savings set out in the MTFP are assumed to be permanent. Council members recognise some of the improvements being made and the focus on delivering practical savings. More detailed savings plans are in place for 2024/25 which are being developed into practical actions. These will need further development over the four-year period and more strategic thinking to re-engineer services across the range of everything the council does. Challenges remain in respect of an accumulating deficit on Dedicated Schools Grant (DSG) Funding. Although the governments statutory override currently protects the council, if it was withdrawn the scale of the deficit would push the council into an unsustainable financial position. This has been clearly highlighted in updates to the council as part of the Medium Term Financial Plan update and the draft budget report.

Needing to strike the right balance in updating the Medium-Term Financial Plan and budget assumptions.

The level of required savings is still challenging but progress has been made in reviewing the debt position, applying an expenditure freeze, closure of the BCP Future Placed Ltd Company and application of a voluntary redundancy process. These are considered later in the report. BCP has undertaken some modelling on assumptions. The updated MTFP considers the wider implications and strategies for reserves, treasury management and council tax. The MTFP includes some key elements required of a financial strategy, identifying pressures, funding changes including proposed council tax increases. These are further developed in the budget report, however.

The council formally reviews its four-year Medium Term Financial Plan (MTFP) on an annual basis and updates the council, as required, through its reporting against the budget. Budget preparation meetings have been regular and comprehensive and have been more inclusive and focussed in their approach to ensure a balanced budget. The latest MTFP covers 2024/25 to 2027/28.

However, Finance needs to provide some certainty on the continuing financial position and the council should consider how often and on what basis it updates its medium term financial plan projections. It is important to strike the right balance between keeping the leadership team and members updated on a regular basis but also providing confidence that it can act on the information provided without fear of significant changes. There is still significant work needed to deliver the projected balanced budget and MTFP.

Maintaining an appropriate level of reserves but pressures remain

The council recognises the need to hold a prudent level of reserves and forecasts to maintain unearmarked reserves of 6% (£21.9m) as of 31 March 2024 of the 2024/25 net budget which it considers to be slightly above the absolute minimum requirement. The council is forecasting to maintain this position over the next four years. Total reserves stood at £86.4 million at 31 March 2023, projected to decrease to £42 million at the end of March 2024 and then rise to £47.5m by the end of 2025. The council does identify, however, the projected growing Dedicated Schools Grant deficit from £35.8m in 2023 to £92m in 2025. The plan to increase its reserves is prudent in light of the pressures facing the council. The council is clear that the use of reserves is not a sustainable approach to address structural budget issues but these might still be needed to offset short-term pressures and one-off costs if savings plans don't deliver.

Improving financial management arrangements but more work needed to embed processes and systems.

We have seen evidence that the council is improving the arrangements and overall processes in place with a more prudent approach to savings now in place in line with local government accounting principles. There is a budget working group involving members and officers. Members and officers alike are aware that there are challenges and a need to develop more of a corporate, challenging, and transparent approach from Directors on budget management. The areas for improvement set out in the auditor's report are consistent with our findings. Some key improvements are still required, however, to improve processes and systems in particular and the skills needed in departments to ensure effective budgetary control. Some of these have been identified in the council's action plan and some progress is being made in providing transparency over loss making areas which is consistent with our findings as part of our review. However, there are still challenges in resolving historic systems issues and the timeliness of some reporting and budget preparation which is not helped by a lack of SLAs to promote financial responsibility across the Council. Members expressed concerns, particularly on access to self-service information on the position against budget.

There is regular assessment against the CIPFA Financial Management Code and requirements.

The council has assessed itself against the CIPFA Financial Management Code and updates it every year. However, there are some gaps in the action plan based on our findings which will need reflecting in an updated action plan for the Audit and Governance Committee. These will also need to be reflected in the Annual Governance Statement.

These identified improvements are considered, where required, in the relevant section of the report. We do, however, also identify some further areas that the council should consider.

Financial, risk and performance information is reviewed by the Leadership team. There are improvements that could be made to integrate service and financial planning reports. This could help the council and the Leadership to fully assess and understand the implications of service and spending trends and also support the focus on business partnering. Full

realisation of the benefits from the ERP system across the council might provide a further opportunity to do that.

When setting the budget, Section 25 of the Local Government Finance Act 2003 requires the Section 151 Officer to report to members on the robustness of budget estimates and the adequacy of proposed financial reserves. These requirements are met.

The Council's assurance action plan, drawn up in response to the external governance review and Best Value notice, included an action to improve budget management providing a greater emphasis on the skills being held by service managers. This relies on the provision of accurate budget monitoring information to services.

Ensuring the new ERP system delivers

As part of the council's "Transformation Programme" BCP invested in a new comprehensive Microsoft based Enterprise Resource Planning (ERP) system with the intention of giving a more comprehensive and intuitive system bringing together finance and HR and allowing a greater degree of self-service by budget holders. The new system was operational by August 2023.

Service budget holders told us they recognised the potential of the improvements that had been introduced in the budgetary information made available to individual budget holders. Information was more granular, and more information was more up to date and provided for more self-service and less reliance on Finance spreadsheets. It was pointed out to us that many of the improvements that had come about were because of a new reporting module and interface rather than the change in the underlying enterprise system.

There were challenges principally associated with establishing and programming a significant service restructure for the Operations Directorate at the same time of implementing the new system and closing the previous financial years accounts. This led to some loss of confidence in some individuals. The Finance team have made efforts to improve the accuracy and recognition of the budgetary information within the system. Nevertheless, the functionality of the new ERP still depends on a great deal of workaround (invoicing, permissions, and some human resources functions in particular).

We recognise that it is inevitable when new systems are introduced that there are bound to be teething problems. The Microsoft based system is not common within local authorities but it is important that there is sufficient senior management attention brought to bear to ensuring benefits of new systems are realised and that the greater efficiencies and effectiveness promised do come about. Some finance and human resources staff told us they did not think senior management sufficiently appreciated the efforts and workarounds that were being made to make the system work.

Raising the profile of risk management and understanding risk appetite

The council approved its Council Plan for four years alongside the MTFP. This alignment ensures that the MTFP reflects the financial consequences of emerging issues and demands. The council, however, doesn't consider the risk register at Cabinet and there is no real discussion amongst members on risk appetite or mitigation. The council does articulate associated medium-term capital and revenue budget pressures in its four-year forecasts, however.

The council has a Risk Management policy. However, there is a view that this is not actively applied and consideration of risk is not routinely embedded in decision making. It is not taken as seriously at Director level for decision-making as it should be. There is a discussion to be had on what is the shared corporate risk appetite. Perhaps understandably, there appear to be different risk appetites across the council and whilst it is reassuring to see that

the budget proposals developed for 2024/25 are based on a more prudent approach to delivering savings, it is important that the council doesn't rule out different delivery models when looking at how it delivers much needed service changes in some areas, particularly in Childrens and Adults and Services. Specific financial risks are considered in respect of the budget, in particular, the withdrawal of government statutory override in respect of Dedicated Schools Grant (DSG) but there is more scope to develop the modelling and scenarios associated with the different aspects of the financial strategy. This discussion needs to happen beyond finance and across the council.

More scope for savings and ensuring deliverability.

There is still a challenge to review the provision of some non-statutory services to assess if they can be delivered differently. This includes financial support to cultural activities and events which are held dear by the Council. There is a view that some savings weren't always captured and 'banked' as part of the 2022/23 budget process. It is important that there is clear understanding of the process for dealing with underspends going forward and the need to instil a 'One Council' approach based on risk and vulnerability when making difficult decisions.

It is important that projected savings include minimum and maximum forecasts by directorate. It is too early to say whether these are deliverable and appropriate until the plans are in progress and can demonstrate they are properly resourced.

The continued modelling and risk assessment of achievability of the savings plans will be essential, in particular, how quickly they can be enacted if the council is to achieve its savings targets. It will also determine whether the council can stick to its position of only applying reserves to fund one off cost and short-term pressures. The latest reserve position does provide the council with some resilience but the ability to apply reserves to meet new one-off pressures and meet any increased borrowing costs is very limited in the future.

One off savings on tight expenditure and vacancy control gave the council confidence that they could balance the budget in 2022/23. This was also supported by asset disposals (c.£20m in 2022/23) which have also sustained the council in the short term. There are further opportunities to make further savings as a large number of contracts are expiring over the next two years. The council has now established a Procurement & Contracts Board to supplement the internal control system put in place since the freeze on non-essential expenditure was implemented in September 2023. Further improvements in procurement including a new contract register, improved pipeline management, and training are in train. These are considered later on in the report.

Moving beyond the historic transformation programme.

Historic savings from the transformation programme have been disappointing. However, As of the 31 March 2024 the council is forecasting that it will be delivering annual ongoing transformation savings of £14.7m based on a cumulative investment of £38.2m. This is forecast increases to annual ongoing savings of £28.5m for a cumulative investment of £52.1m by 31 March 2025. This is ambitious and will need careful monitoring by the council with clear resourcing plans. So far, the programmed savings so far have not been forced through and benefits realisation has not been sufficiently focused and granular. There has also not been sufficient attention to process improvement through programme management with unrealistic expectations on the time needed to embed transformation. This reflects the desire to have new systems in place before the resource is taken out in some areas.

Terming savings from transformation as unidentified but including them within budgets has, in the past, been a method of helping to fill the funding gap rather than being transparent about the programme. This approach has been removed as part of the 2024/25 Budget. Consensus through interviews confirmed the savings associated with the previous

transformation change had not been identified with sufficient granularity and that benefits management was not sufficiently robust. Others told us that replacement of some of the legacy processes and systems (such as MOSAIC and the continued existence of three different legacy planning systems) which would have led to greater efficiency were not covered by the transformation programme or budget.

The council does appear to be moving beyond the thinking that views transformation as having been done. There is a need to deliver structural reform across the council and its individual services. Transformation needs to be on-going.

The Transformation Investment Programme (including the flexible use of capital receipts) which supported the 2024/25 Budget sets out that by 2027/28 the plan is to increase the annual ongoing savings to £32.3m of annual savings for the one-off £52.1m of investments but this will be very challenging as highlighted earlier. Only identified savings are currently included in the new MTFP but plans will still need clear detail and very careful monitoring and scrutiny.

There is more work to do in Children's and Adults services and further transformation in these areas is important as reflected in the high risk associated with the Social Care ratio in the CIPFA Financial Resilience Index. A service-based transformation investment in Children's Services has been approved through a full business case in December 2023.

We would make the following recommendations based on our review:

- The council should develop its modelling in building its MTFP alongside agreement with members and senior officers of the frequency of any refreshed MTFP.
- The council should further develop its approach to business partnering and service level agreements with Service Managers to ensure it is equipped to manage service and budget pressures.
- The council should be disciplined in ensuring savings are baselined in service budgets to ensure they are sustainable to address MTFP pressures.
- The council should fully explore all savings opportunities and model upper and lower savings limits. Proposals should be considered in the context of the impact on risk and vulnerability in the community through a 'One Council' approach.
- The council should ensure the ERP system is delivering the desired benefits, address any workarounds. It should consider how further phases support the integration or risk, service, and financial reporting through dashboards to ensure resources are focussed in the right areas.

The Local Authority's capability and capacity to drive any changes that need to be made in this area.

The need to improve financial skills, knowledge and understanding across the Council.

There are some experienced finance staff at middle management levels but the council is very reliant on key finance staff for HRA and technical accounting, although the council does make use of interim staff where appropriate. It is important that the council considers appropriate succession plans and conducts a capability assessment of its finance function to identify any skills gaps. There is also an increased focus on managing the capital programme due to concerns about slippage with specific support identified. There is an acceptance, as indicated earlier, that business partnering is underdeveloped, and plans are

being developed to address that. The new Finance system will shift initial budget management responsibility on to cost centre managers and if successful, should lead to a new and more constructive relationship with finance business partners.

Budget holders meet regularly with the business partners and management accountants, but the council recognises it can do more to develop understanding and ownership amongst budget holders. It still needs to develop more specific improvement actions to develop that and to map out what a new modernised finance function will look like and how it will behave. Concern was expressed as part of our work that service leads historically appear to have received approval for additional expenditure in some key demand services through their Business Partners without it necessarily being referred up to the Director of Finance. This links to the previous recommendation to instil discipline in financial management.

Ensuring the right financial information and financial skills are available.

The new reporting module in the new ERP system has made the budgets of the individual departments more transparent across the organisation. Before much of the budget creation and monitoring was on informal Finance controlled spreadsheets. Now budget holders can create their own dashboards but confidence and understanding of what is possible can still be improved. Members acknowledged that the reporting from the new system, whilst still developing, made them aware collectively of information on spending including expensive child placements.

The general quality of the finance team is considered to be good. However, there is a view that under transformation the savings from reducing the number of posts had to precede any benefits from new ways of working and this has impacted on the quality of financial reporting throughout the organisation. Others believe that savings should be driven out earlier on the back of transformation changes. From the evidence gathered as part of our review, we believe there are some priority actions still needed to get the new ERP system to where it needs to be which require a corporate focus, senior finance involvement and specialist ERP knowledge which is not currently being provided by existing arrangements. These will be essential in maintaining the commitment and continuing to build the confidence of those using the system.

We would make the following recommendations based on our review:

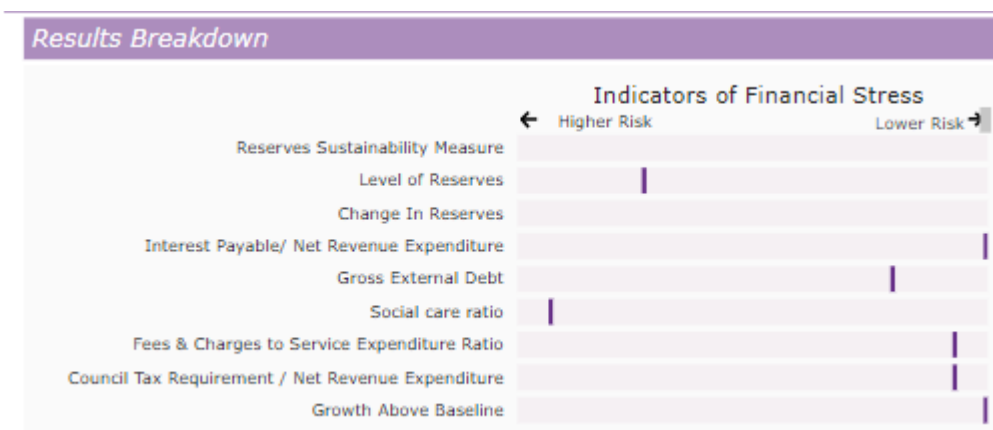
1. The council should undertake a capability assessment of its finance function to identify and gaps in skills and experience and the need for any succession planning.
2. Members and senior officers should agree collectively on the best way to deliver sustainable improvements in the quality of financial, forecasting and performance information and ensure it has the right approach in driving out sustainable change that delivers savings.

<p><i>The efficiency of service delivery, including against comparator Local Authorities, sector metrics and wider public sector metrics.</i></p>
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In assessing the efficiency of service delivery, including against other councils, we have used benchmarking information derived from CIPFA statistics and the Financial Resilience Index (FRI). Some of the data should be treated with caution and there will probably be particular circumstances relevant to the council that need to be considered. However, these may warrant further investigation by the council. Figure 1 shows a high-level summary of

the position, using the resilience index and appropriate analysis follows for other indicators. It uses nearest neighbour analysis where appropriate¹.

Figure 1. CIPFA Financial Resilience Index - Financial stress indicators



It is important to consider this material in the context of the council's wider performance, service effectiveness, inspection ratings and its established medium term financial strategy. The council has identified the need to demonstrate further benchmarking of performance in its assessment against the financial management code. The council may want to consider how it uses some of this comparative information to inform future budget reports and savings opportunities, including 'what if?' modelling in key service areas. Further analysis is also available in published CIPFA Value for Money (VFM) toolkits.

Net revenue and service expenditure

- BCP's net revenue expenditure came in just above the 75th percentile of its nearest neighbours' group in 2021-22. Only Durham, Cheshire West and Wirral had a higher net revenue expenditure. Although it decreased between 2019-20 and 2020-21, it has been at this level for the last 3 years since it came into being.
- On a per head basis, however, BCP's total service expenditure was the lowest in the group last year and was 18% below the group average. Only one authority has spent less on services per head during any of the last three years.
- Almost a third of the council's expenditure on services is allocated to Adult Social Care on which BCP spent 54% more than the group average. Only Durham spent more to provide this service.
- Per person, compared to the group average, BCP spends an extra £1 for every £10 spent to provide Adult Social Care and Planning and Development services to its citizens.
- On the other hand, the authority spends significantly less per head than average on 4 services: Education (-45%), Highways & Transport (-43%), Public Health (-16%) and Central Services (-15%).

¹ The nearest neighbour analysis features 40 metrics that use a wide range of social-economic indicators. The tool is designed to interpret results and assess how the statistical distance between other authorities arises. It allows authorities to see how the statistical relationship between a council and its statistical relevant neighbours has changed

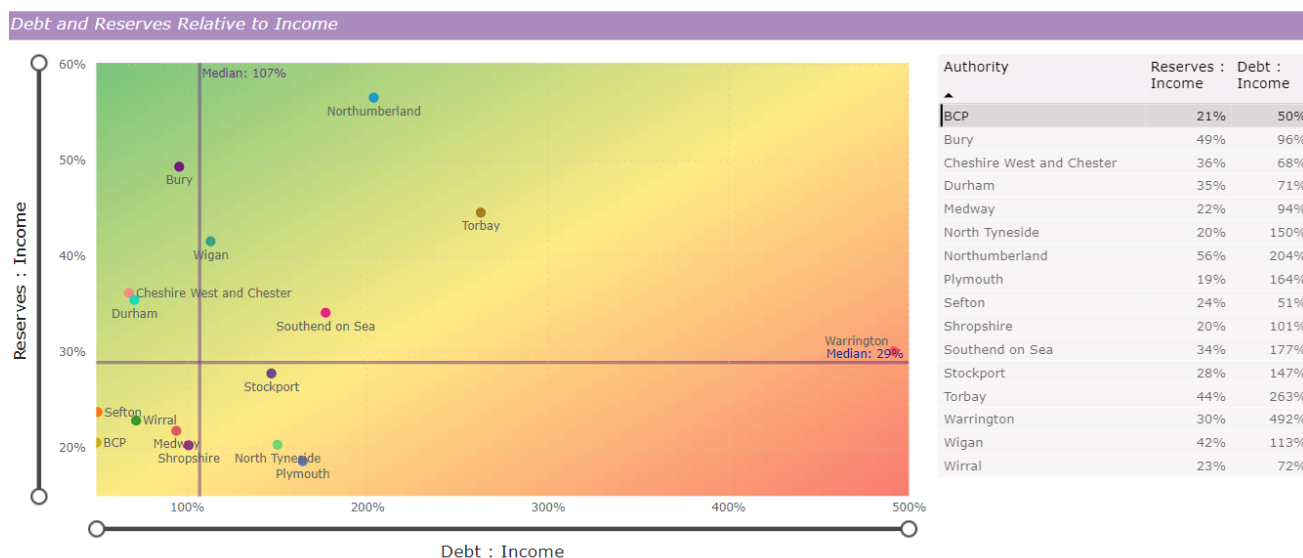
- When combined, Education (26%), Adult (31%) and Children's Social Care (17%) account for 74% of the council's total service expenditure.

Financial Resilience Indicators

- BCP is judged to be relatively 'Higher Risk' for two of the Index's indicators: Level of Reserves, the ratio of reserves and net revenue expenditure and Social Care Ratio, the ratio of total spend on social care and net revenue expenditure.
- There is only one authority at which spending on social care occupies a larger proportion of net revenue expenditure than at BCP.
- Conversely, the council is deemed to be at 'Lower Risk' for all other indicators and is judged to be least at risk in two: Growth Above the Baseline, calculated as the difference between baseline funding level and retained rates income, over baseline funding level and Interest Payable, the ratio of interest payable and net revenue expenditure.
- An average ranking of 8.25 across all 7 of the indicators there is sufficient data to calculate for BCP, reflects this mixed picture suggesting while the authority shows signs of resilience in some areas, others could be worthy of further scrutiny.

Debt, Borrowing and Capital Expenditure:

- At £264,938k, BCP holds the fourth smallest amount of external debt among its nearest neighbours, and it is comfortably lower than its net revenue expenditure.
- Combined with a relatively high level of income, calculated as council tax requirement and business rates plus sales, fees and charges, this results in the lowest Debt to Income ratio of the group at just 50%, significantly lower than the median 107%.
- That said, it's relatively low level of reserves mean it's Reserves to Debt ratio ranks among the lowest at the group at just 21%. As such, while BCP's debt level is in a relatively healthy position, it's peers typically hold more reserves compared to the scale of their financial operation. This is illustrated in the chart below.



Income is calculated as council tax and business rates plus sales, fees, and charges from the Revenue Outturn Summary (RS). Total service expenditure also comes from the Revenue Summary. Debt is gross external debt at 31st March 2022, taken from the COR form (Capital Outturn Return).

Reserves are calculated as the sum of earmarked and unallocated reserves at 31st March 2022, from the Revenue Summary.

- BCP's capital expenditure to net revenue expenditure ratio has been at around 35% for the least two years which places it alongside the 75th percentile for the group.
- BCP's Prudential Borrowing to Provision for Repayment Ratio is in line with the median of the group at 3% in 2021-22 and was even lower last year signifying the council's borrowing activity is moderate compared to its repayment obligations.

Overall assessment

The analysis does indicate some areas worthy of further review but it is also important in the area of Social Care expenditure relative to comparable authorities that this can be partly explained by the significantly older population profile. However, the analysis confirms the need to maintain a close eye on reserve levels and social care pressures including savings opportunities.

Review Area 2: FINANCIAL GOVERNANCE AND DECISION MAKING

An assessment of the council's financial governance / management processes, leadership, operational culture, whether it has the appropriate financial governance procedures in place, and the capability and capacity to make any necessary transformation

Financial plans are developing alongside the Councils priorities.

The council has an improving process for ensuring its financial plans align to the strategic vision and direction. The council's leadership understand the financial challenges and the more inclusive budget settling process with joint workshops has improved understanding across Members and Officers. The Bi-weekly budget development meetings have taken place since June 2023, particularly into the later stages of the budget.

The Three Towns Alliance has achieved the task of agreeing a new corporate plan supported by a four-year budget. The alignment of the Council Plan with the MTFP is important and ensures council ambitions are not considered without due regard to the financial implications. Consideration of longer-term planning horizons for the council's revenue expenditure and for its capital programme will help, accepting the current challenges with short term settlement announcements.

There is a recognised need to take the tough decisions this year. There is a consensus that there is a need to right size the council for the medium to long term. Four years on and despite transformation there are still areas where the council operates as it did with divisions between the three/four councils that preceded it. There continue to be two planning portals, for example, depending on where you live within the BCP area. There is a view that there is currently goodwill amongst the taxpayers for the council to fix things presents a window of opportunity and a political view that the council needs to maximise opportunities to generate income in a proper way and move on sale of assets as quickly as they can. There is recognition that there are difficult areas where savings could be made, particularly is Culture, Leisure and Wellbeing. There is also an understanding that some of the reasons for living in the BCP area relate to that offer.

Political and Officer leadership is still maturing to ensure ownership, stability, and appropriate expertise.

In the May 2023 election, thirty six new councillors were elected. The political and officer leadership teams are still relatively new with limited influence through portfolio holders at this stage. This provides a challenge in ensuring approaches to the required savings plans are corporate and sustained. Our discussions suggest members and officers want to improve things and do the right thing. However, challenges with the maturity of the political alliance means the focus can often still be focussed on operational matters with work still to do to grasp some of the more strategic issues facing the council. The need for members to build their skills and experience, including in financial matters remains a priority. All members including existing members offered a programme of training through the Local Government Association. Some of the modules have required a mandatory physical presence. The programme does include material on finance, scrutiny, and regulatory services. Although this has been sourced for members, not all members have taken up the opportunity.

The delay in starting the budget process in June 2023, not helped by the local elections in May 2023, meant the management team and council were up against it. However, this has

improved as joint member and officer discussions developed into the more detailed budget considerations. However, there are still key elements of the transitional plan from reorganisation that need to be delivered and a need to provide a focus on key tasks to build confidence in financial and performance information. Education services remain a challenge with limited information available to provide a focus on what needs to be done.

We would make the following recommendations based on our review:

- The council should ensure legacy issues from reorganisation with different systems, policies and process are addressed and look to achieve a standardised approach unless there is an overriding reason not to.
- The council should act quickly to maximise the opportunity to identify potential asset sales and explore the full range of savings opportunities.
- The council should ensure that members are upskilled and engaged with a commitment to learning and development through the available LGA training opportunities.
- The council should ensure it starts its budget considerations and receives early reports on the progress against its plans in the new financial year to give it the best possible chance of delivering all the required savings.

The Local Authority's capacity and capability to improve and transform, including through acknowledgement of problems, openness, and collaboration with sector support.

Governance and transparency is improving.

From our work we recognised a willingness of the politicians to accept advice from officers. The new administration has made a pledge not to allow decisions by individual cabinet portfolio holders without Cabinet discussion. Previously, some decisions had not been documented and had emerged without formal discussion or agreement or challenge. However, there are still major challenges from the new political circumstances. There are eight political groups and two are unaligned on the Council. The Leader of the Council has been clear that transparency and accountability are at the top of her agenda for the Council under her leadership.

The council has taken decisive action to improve the transparency with which the development work formerly undertaken by the separate wholly owned company BCP FuturePlaces Ltd is carried out in the future by closing the company and transferring the regeneration delivery team back to the council. BCP FuturePlaces Ltd transferred all activity to the council with effect from 1 November 2023 and will be closed by 30 June 2024. When the development and regeneration market picks up again, it will be important the authority continues to innovate and consider the risks of flexible approaches to exploiting opportunities to provide income and/or more affordable housing.

There is still a need to make sure the other companies working with the council have the appropriate governance structures and member representation and shareholder interests are adequately protected. The council has recently undertaken a wide-ranging review of governance across these companies and has an agreed programme for now reviewing each of the individual arrangements

The need to ensure savings plans are delivered,

The External Assurance review noted that BCP's 2023/24 budget and MTFP were based on the delivery of an overly ambitious transformation programme both in terms of levels of savings and timescales for delivery. It was the need to fund this transformation programme that led the council to pursue non-traditional financial options in 2022/23 which contributed to the problems that lead to the original external review. Financial sustainability is based on the successful delivery of the transformation programme and delivering the projected savings to the agreed timetable. The financial targets in the transformation programme (and in the 2023/24 budget) were at the highest end of the projected range and that this was highly ambitious carrying significant risk. The review concluded the council needed to review the programme as a matter of urgency which it enacted as part of the 2024/25 Budget.

The need to actively manage risk and ensure effective change management.

The council itself recognises the risks associated with the transformation programme by its inclusion as one of twenty-two key risks on the corporate risk register. It recognises the future efficiency and effectiveness of the council, its reputation as a service provider and its ability to continue to deliver a balanced financial position within the MTFP horizon are fundamentally linked to the delivery of its transformation objectives. It notes that delivering a programme with the complexity, scale and pace would be challenging on a number of levels including effectively engaging the organisation in the vision of the future; committing to the achievement of challenging benefits realisation targets; ensuring the appropriate level of funding to support the resources required to deliver the programme.

We found the actions listed against the risk require further work and clear delivery plans need to be developed from the proposals agreed along with a benefits realisation plan. This work has started.

The risks in programme delivery were also identified by external auditors in their report for 2020/21 and 2022/23. They expressed their concern that the March 2023 risk register did not reflect the true position of the transformation programme given the un-itemised savings and the rapid increase in transformation costs. However, the External Auditors Value for Money (VfM) report that went to the Audit and Governance Committee in September did identify that progress was being made in addressing the financial challenges dispute still including concerns on the going concern position of the council.

There is still a need to reinforce corporate understanding, responsibility, and accountability in some areas.

Despite recent appointments in some key roles, there are still pockets of silo working. Childrens Services performance and failings appears to have created a challenge that has not only necessarily pushed up expenditure but set back fresh thinking about doing things differently and the need to still deliver value for money. Ownership of budgets is still patchy.

Financial understanding is poorer amongst service managers in Adult Social Care and Childrens Services. There is a need for financial training and less reliance on Finance Business Partners if the council is going to deliver the required savings but also ensure the focus on managing within budgets and improve the links between financial and performance information. This needs to be accompanied by frameworks and training to ensure corporate accountability and responsibility so service managers understand their place within the council as a whole and to break down silo thinking.

This will also be vital to ensure managers work closely across with other services to deliver better value for money, for example in providing more in-authority placements which will require joint working across a range of services including housing and the property teams.

Service managers in key functions in the council will have to show a willingness to consider potentially painful budget cuts and accept ongoing savings proposals if it is going to sustain improvements in the council's financial position. A focus on risk and vulnerability as part of a clear framework might help to progress some of these discussions further but some proportionate risks will need to be accepted and managed.

Recognising the importance of Internal Audit and the Audit Committee

Internal Audit is well staffed and meet regularly with the Chair of the Audit Committee. The function was subject to a review by CIPFA in the Summer of 2021 against the Public Sector Internal Audit Standard (PSIAS). The function was found to be broadly compliant, but CIPFA made four suggestions for improvement relating to planning and adherence to the Internal Audit charter. Whilst recognising the required independence of Internal Audit and the Audit Committee, we would expect the Director of Finance to meet regularly with the Chair, along with Internal Audit, to determine the focus and plans for the committee through its work programme.

The Audit Committee was late meeting into the 2023/24 financial year, and it is important that the committee meets regularly. Ongoing training and self-assessment for committee members is needed but it is encouraging that the authority has two independent members now serving on the Committee.

The importance of continuity and resilience in other key functions and services.

There have been five monitoring officers in the last three years with a new Director of Law and Governance (and Monitoring Officer) recently appointed. All legal roles and positions are difficult to fill in the current environment and given the council's location. Call-off arrangements are in place for locums and secondments are being explored but appropriate support from legal services will be key as the council undertakes its broader review of governance and starts implementing many of the savings' proposals developed as part of its 2024/25 budget.

There are continuing challenges for key service areas including recruitment and retention in the light of the Children's Services assessment. This includes a lack of leadership on the key special educational needs agendas, a continued reliance on agency staff to deliver change and challenges in relations with partners. Consideration of different delivery models and further partnerships will be important in building resilience and feedback suggested that the authority needs to be better at working with the voluntary sector to manage demand. There is a view that there is scope for the voluntary sector to do much more. We do recognise however, that this will take time and is not without risk.

There has been some significant turnover across the council with a number of interim arrangements in place in other key areas including Procurement and Commissioning. Our review suggests there is still room for improvement to ensure there is a corporate grip on procurement and improve the systems to enable this. This is still seen as fragmented which means opportunities to benefit from economies of scale and standardisation across the council are being missed. The council has established a Procurement & Contracts Board to supplement the internal control system that was put in place since the freeze on non-essential expenditure was implemented in September 2023. Further improvements in procurement including a new contract register, improved pipeline management, and training are still in development stages. However, more expertise might be needed to drive out savings, for example, in special educational needs transport and school placements.

These issues of continuity and capacity do cause concern when it comes to the ability to deliver against the savings and change plans that the council is developing. There are some

significant change projects in train with the ERP optimisation, review of company governance and the development of a cross cutting savings programme. The council acknowledges these challenges and understands that it might need wider help to address them.

We would make the following recommendations based on our review:

- The council should ensure a clear focus on risk and vulnerability as part of a clear framework for Childrens and Adults services decision making but recognise some proportionate risks will need to be accepted and managed collectively by the council.
- The council should identify the areas where it may need further external support, particularly in demand led services. This should include an assessment of the impact of additional resources in minimising risk or delivering savings or improvements.

Review Area 3: CAPITAL PROGRAMME

An assessment of the council's capital programme and management of related risks

The Local Authority's governance of its capital programme, including the adequacy of its internal processes, scrutiny of investment decisions, use of sufficient expertise, and adequacy of ongoing monitoring of performance.

Governance arrangements are developing and the capital programme is being reviewed

The council has now established a Capital Infrastructure Board and is reviewing all current capital schemes. Progress against the capital programme remains slow with limited capacity in the team and some continued slippage. The quarter 3 monitoring went to Cabinet in January 2024 with capital monitoring for 2023/24 included for the first time as it had been delayed due to challenges with the reporting in the new system. There has historically been some optimism bias in the delivery programme timescales.

The original capital programme approved in 2023/24 is shown below with an expectation that spending will reduce significantly in 2024/25.

Figure 2: Projected capital expenditure

	2021/22	2022/23	2023/24	2024/25	2025/26
Capital expenditure	Actual £'000	Estimate £'000	Estimate £'000	Estimate £'000	Estimate £'000
General Fund	78,539	137,699	172,474	56,491	31,236
HRA	38,508	37,072	68,997	43,574	18,520
Total	117,047	174,771	241,471	100,065	49,756

Receipts from sales of assets did play an important role in allowing the council to balance its overall budget in 2022/23. This included £20m from sale of Wessex Trade Centre and £7m from Airfield Industrial Centre. In considering 2023/24 asset sale contributions the council has established a cross-party strategic asset disposals working group which determined a number of principles to guide disposals subsequently endorsed by Cabinet. The working party has also agreed a number of disposal subsequently endorsed by Cabinet and Council. However, nothing has been sold yet so it is still work in progress. There are two former council administrative centres that were previously being considered as sites to develop as hotels or flats. Upon review, the view is that they should now be considered for sale as part of the review of the current capital programme

The council recognises the financial and delivery challenges associated with its capital programme. It has also identified that with its new Council Plan and limited resources, it needs to ensure it has a prioritised, justifiable, and affordable programme.

One area for improvement is on the IT systems needed to support the estate management function. Different systems are in use for Bournemouth and Poole and some files in Christchurch are still paper based. An amalgamation of all data onto TF Cloud (system used by Bournemouth) would deliver real benefits. However, there are no plans or funding in

place presently to support this. This has significantly hampered reporting into members although project managers can now create and maintain their schemes on the system.

We would make the following recommendations based on our review:

- The council should identify the areas where it may need further capacity to support the review and delivery of its capital programme.
- The council should continue with its process to develop its strategic capital programme framework and its implementation to ensure the capital programme is affordable and sustainable.
- The council should address the inadequacies of its existing property IT systems if it is to maximise the opportunities to optimise the use of its estate and develop its asset management plans.

<p>Whether the Local Authority is following best practice regarding arrangements with Local Authority Owned Companies, including ongoing monitoring and scrutiny arrangements.</p>

The need to ensure appropriate governance for companies.

A general review of companies' governance has been completed. There was a mix of governance in place.

BCP has four main separate entities:

- BCP Future Places Ltd. (FP) – for urban regeneration activity
- Bournemouth Development Company (BDC) – for urban development within the former Bournemouth Council area and is a joint venture between the Council and Muse – a wholly owned subsidiary of Morgan Sindall Group.
- Bournemouth Building and Maintenance (BBML) – undertakes programmed works for the council.
- Seascope Group and Subsidiaries (Seascope South and Seascope Homes and Properties) (SG) – undertakes adaptations and conversions to non-council owned property.

The council has conducted a review against best practice.

The [Local Partnerships guidance](#) published by Local Partnerships (a joint venture between HM Treasury, the Local Government Association and the Welsh Government) places emphasis on the importance of ensuring that the strategic fit, risks, benefits, structures, financial and governance arrangements of a Council's entities is subject to rigorous prior consideration and that Councils should review these arrangements on a regular ongoing basis and to ensure that the entities continue to deliver in accordance with the initial business case and subsequent annual business plans. Emphasis is placed on the need to ensure that the entity's objectives and operations remain consistent with the Council's corporate strategy and that they are appropriately taken account of within the Council's oversight, audit, risk management, scrutiny and decision-making arrangements with suitable, sufficient, and timely reporting and escalation of risks and issues.

In late Summer 2023 BCP Internal Audit undertook a self-assessment against the guidance focussing on two different perspectives – the Council's arrangements for overseeing and holding to account its entities and that the entities themselves had effective governance arrangements. The entity perspective check was conducted for all 4 BCP entities. However, the Council perspective checks for BBML and Seascope groups were unable to be completed following the departure of the extant Director of Housing. The assessments at

both BBML and SG were there was an opportunity to increase challenge at the Board through the development of Directors. Development of Directors induction processes were required at both entities. Individual risk registers needed to be developed for each entity and the possibility of recruiting voluntary NEDs was to be pursued.

Good governance practice is generally being followed by the councils' companies.

The self-assessment conducted by the council was positive against the vast majority of guidelines but found in the case of BDC there was a case for reviewing the past partnership business plan which ran to July 2021 due to the stalled pipeline and the Council's budget position.

We were told that conflicts of interest could arise in the case of SG with potential conflicts arising at all levels – between the Council and the Group and between the Group and its subsidiaries. Whilst it might be difficult to avoid such conflicts there needs to be transparent in how they are dealt with.

The Council has two outstanding actions in this area in its action plan in response to the external governance review and Best Value notice. These were:

a) to carry out a governance review of all subsidiary companies. The council acknowledges its need to complete a review of whether each board should be attended by either officers or councillors on the Boards, but not both. This review will also consider the core functions of each company and whether the company structure is required for the longer term.

b) put in place a regular cycle of business plans, mid-year reviews and year-end reviews of all Council companies as part of scrutiny/decision-making processes.

The Corporate Director of Resources lead the review of corporate governance at the Council which covered the entities other than FP. The target date for completion of the review was March 2024 and that was achieved. It will be important that the review addresses the issues identified by internal audit but also considers the viability of the entities in the light of current market conditions. It would also be helpful to apply the learning from the decision to bring staff in-house from BCP Future Places Ltd.

A review of BCP Future Places Ltd. has been completed.

The DHLUC governance review report was published on 3 August 2023 alongside a Best Value Notice to BCP Council. The review recommended that "The Council agrees a business plan for BCP FuturePlaces Ltd by September 2023 which sets the purpose of BCP FuturePlaces Ltd and a portfolio of priority projects with timescales for delivery."

The governance review reported that:

"some concerns have been expressed to me about the transparency of the governance of BCP Future Places Ltd. The original governance structure did not reflect good practice in terms of governance and elected Members were too involved in the day-to-day operational management of the company and in commissioning activity. BCP Future Places Ltd now has an independent chair and three new non-executive directors. There have also been concerns expressed about mission creep and a lack of clarity around the priority projects. The new Chair and Board of BCP Future Places Ltd recognise this and are committed to working to build positive relationships with Councillors and officers. The Chair (then Sir Bob Kerslake, who sadly passed away, following which this was taken up by the interim Chair Karima Fahmy) has initiated a review of key aspects of the work of BCP Future Places Ltd and has begun the process of developing a Business Plan for agreement with the Council. The Council should review its original purpose for BCP Future Places Ltd

and agree an annual business plan which sets out clear priority projects and timescales for delivery.”

We found that the council had completed a review of BCP FuturePlaces during the summer. The review had been conducted by the entity's non-executive directors.

We note the council's thorough review of BCP FuturePlaces in response to the external governance review and endorse the course of action taken which directly addresses the criticisms made of the lack of transparency of decision making and the lack of direct accountability to the Council as a whole.

The Council has also responded to the external review's questioning of the scale and number of projects in development. It has proposed next steps at each of nineteen projects with priority focused on developing two sites in particular. A number of projects have been referred to the Housing team to review viability. Two of the largest project sites (Poole Civic Campus and Christchurch Civic Offices) are now to be sold with proceeds helping to fund the transformation programme rather than developed.

The Council has brought BCP FuturePlaces staff in-house and is establishing an Investment and Development Advisory Board including independent advisors and chaired by an independent to meet quarterly to provide advice against the priority projects.

We endorse the actions taken by the Council to reprioritise its development programme and provide more focus on more realistic opportunities for development. The actions make particular sense in the current economic and regeneration environment. We suggest the independent board's remit should in the medium term and as the economy recovers also include monitoring the capacity and appropriate skill sets within the Council to ensure it does not fall behind those that might be available to an entity such as BCP Future Places.

Inland Homes

BCP Council signed a £46m deal with the brown field site developer Inland Homes in 2021 to build phases 4, 5 and 6 of the Carters Quays Scheme, scheduled to deliver 161 build-to-rent homes, having constructed three earlier phases. These latter three phases were considered "strategically" important to the Council to enable it to meet its Housing Targets and to support the wider regeneration of Poole."

Material changes to global macroeconomics, predominately caused by the war in Ukraine have impacted nationally on the viability of the majority of regeneration and development projects. As an example, interest rates have increased to approximately double those assumed in the Carters Quay development. Alongside this the cost of materials has increased significantly since 2021. We note that the council had mitigated an element of these risks by prudently entering into a fixed price contract to protect itself from inflationary pressures.

At the time of compiling our report the Council was still considering options for taking the project forward in negotiation with Inland Partnerships and their administrators.

We would make the following recommendation based on our review:

- The council should ensure it maintains its capacity and skills to match those found in the remaining companies to ensure effective client-side monitoring.

Review Area 4: COMMERCIAL ASSETS/DEBT

An assessment of the council's assets and investments including dependence on commercial income, debt costs and other risks

The Local Authority's overall position on borrowing and indebtedness and the impact on its longer-term sustainability, including liability benchmarking.

The Council's Treasury Management strategy for 2023/24 has overall borrowing of £253 million at the end of December 2022. Its estimated borrowing for 2022/23 was £272m. The earlier benchmarking against its nearest neighbours and the financial resilience index shows a reasonable position in terms of borrowing and indebtedness.

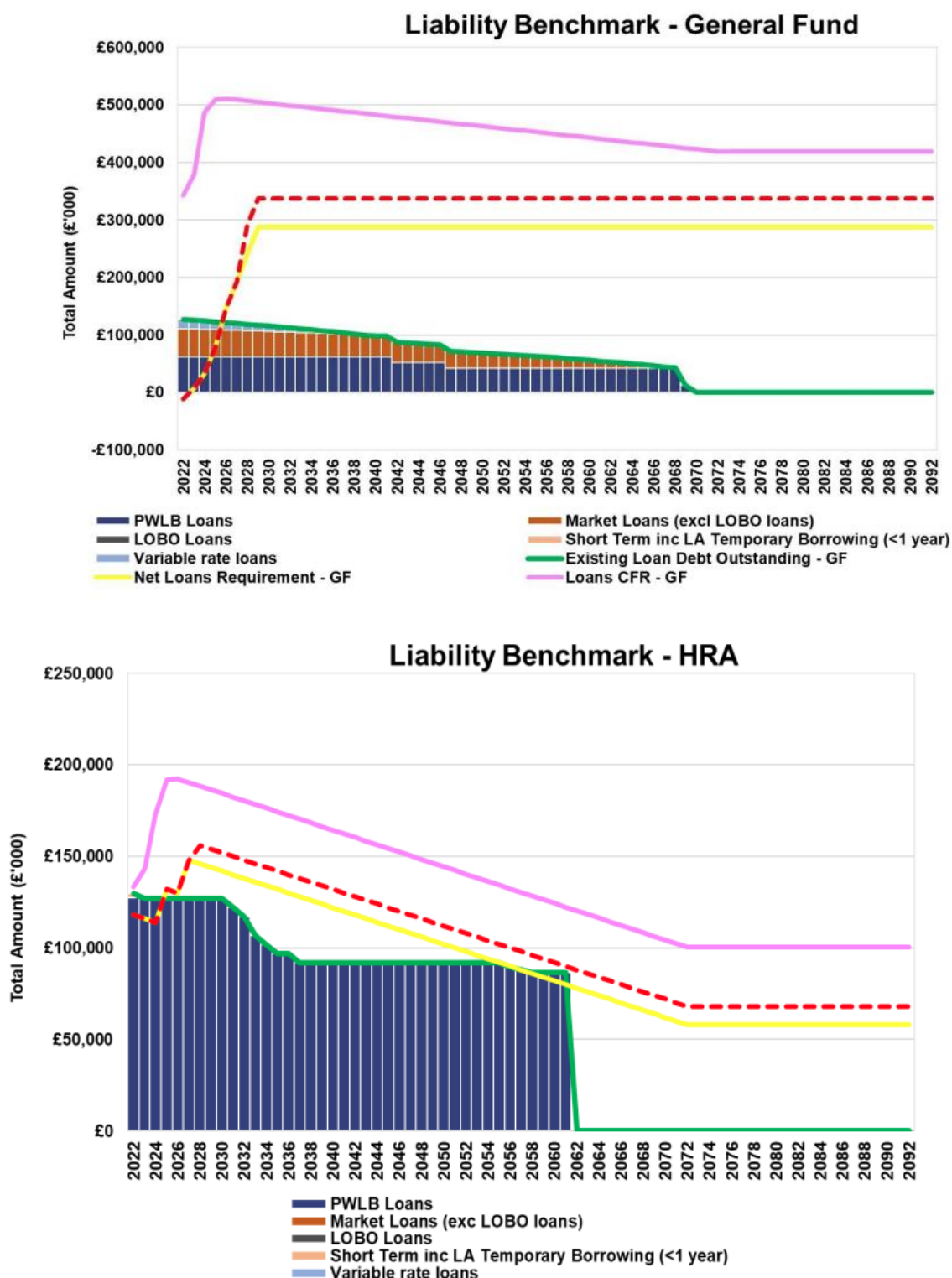
The council is currently maintaining an under-borrowed position, with £193 million of loans. The council is expected to be under borrowed for the next three years (see figure 3).

Figure 3. Borrowing compared to the Capital Financing Requirement

	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
External Debt					
Treasury Debt at 1 April	256,812	256,812	256,812	266,812	316,812
PFI and Finance Lease Liability	6,711	6,211	5,711	5,211	4,711
Expected change in Debt	0	0	10,000	50,000	50,000
Actual gross debt at 31 March	263,523	263,023	272,523	322,023	371,523
The Capital Financing Requirement	456,660	502,637	636,301	673,305	670,377
Under / (over) borrowing	193,137	239,614	363,778	351,282	298,854

The gross debt is well within the Capital Financing Requirement. The liability benchmark is shown below. Where external loans are less than the liability benchmark, this indicates a borrowing requirement thus identifying where the council is exposed to interest rate, liquidity, and refinancing risks. The treasury strategy does identify the risks that the council faces with future borrowing and the council is reviewing its capital programme.

Figure 4. The Liability benchmarks



Given the level of earmarked reserves the council holds, this does create a risk and going concern risks have been highlighted by the auditors in their progress report to the Audit Committee in November 2023. The planned improvement in the Medium-Term Financial projections on the back of savings plans developed as part of the 2024/25 budget will be key along with the review of the capital programme but it will be particularly challenging.

The Local Authority's approach to mitigating risk, such as the use of risk reserves or sinking funds to offset fluctuations in commercial income or debt costs.

The council has a clear statement in its Treasury Management Strategy that investment priorities will be security first, portfolio liquidity second and then yield.

The council makes provision in reserves for a financial resilience risk reserve. It draws on this to mitigate pressures and smooth savings delivery. Increased debt costs will be addressed through the reserve. Debt is secured largely through PWLB (Public Works Loan Board) on a fixed rate which mitigates any fluctuations. Debt exposure is considered further below.

Reserves at the end of 2022/23 and projected reserves for 31 March 2024 are listed in figure 5 below and it is also considered earlier against the nearest neighbour group.

Figure 5: Earmarked reserve balances 31 March 2023 and estimated for 31 March 2024
(Source: December 2023 MTFP)

Detail	31/03/23 Actual Balances £000's	Estimated movement £000's	31/03/24 Estimated Balances £000's
Financial Resilience Reserves	(31,715)	31,715	0
Transition and Transformation Reserves	(185)	185	0
Insurance Reserve	(5,000)	225	(4,775)
Held in Partnership for External Organisations	(3,416)	1,287	(2,129)
Required by Statute or Legislation	(883)	(100)	(983)
Planning Related	(510)	510	0
Government Grants	(17,914)	11,082	(6,832)
Maintenance	(1,500)	519	(981)
ICT Development & Improvement	(1,570)	1,220	(350)
Corporate Priorities & Improvements	(5,800)	3,681	(2,119)
Total Earmarked Reserve Balance	(68,493)	50,324	(18,169)

At the financial year end of 2022/23, the council had £31.7 million (or 53%) of their total usable earmarked reserves of £68.5 million available to contribute to mitigate risks plus £17.9 million in the General Fund working balance which the council considers its minimum working reserve.

The council's approach to mitigating risk is adequate to offset fluctuations in commercial and debt costs in the short term. However, a risk-based assessment of reserves and what can be considered an appropriate balance in the context of the risk using impact and likelihood. This would help to demonstrate that reserves are proportionate to risks.

We would make the following recommendation based on our review:

- The council should consider developing a risk-based assessment of reserves and the appropriate target balances.

The Local Authority's exposure to refinancing and other risks as a result of its chosen borrowing strategy.

Projected future borrowing is also shown in 6 below and Figure 3 earlier in the report shows a continued under-borrowed position.

Figure 6. Projected capital expenditure and borrowing (Source: December 2023 MTFP)

Capital expenditure	Actual £'000	Estimate £'000	Estimate £'000	Estimate £'000	Estimate £'000
General Fund Total	78,539	137,699	172,474	56,491	31,236
Financed by:					
Capital receipts	-	-	-	-	-
Capital grants & Contributions	46,072	84,967	49,488	19,569	16,881
Revenue Finance	903	2,406	2,025	1,318	518
Prudential Borrowing (inc HRA Transfers)	31,564	50,326	120,961	35,604	13,837
Total financing for the year	78,539	137,699	172,474	56,491	31,236

HRA Capital Expenditure

Capital expenditure	2021/22 Actual £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
HRA Total	38,508	37,072	68,997	43,574	18,520
Financed by:					
Capital receipts	3,484	-	2,445	4,000	478
Capital grants & Contributions	3,886	6,203	20,524	3,867	905
Revenue Finance	12,746	-	-	-	-
Major Repairs Allowance	18,392	18,808	14,386	14,955	14,550
External Borrowing	-	12,061	31,642	20,752	2,587
Total financing for the year	38,508	37,072	68,997	43,574	18,520

This borrowing strategy is prudent as medium and longer dated borrowing rates are expected to fall from current levels once prevailing inflation concerns are addressed by tighter monetary policy. The council is being cautious with borrowing decisions in 2023/24 and 2024/25 and its capital investment programme has some core principles agreed to limit the councils exposure.



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