

Report subject	Medium Term Financial Plan (MTFP) Update
Meeting date	2 October 2024
Status	Public Report
Executive summary	<p>This report:</p> <ul style="list-style-type: none"> • Aims to ensure the council continues to maintain a balanced 2025/26 budget forecast by considering the impact that changes to the previous assumptions will have on the underlying approved position and taking mitigating action where necessary. • Present an update on the 22 May 2024 letter submitted by the Director of Finance to Department Levelling Up Housing and Communities (DLUHC) and Department for Education (DfE) outlining concerns regarding the impact the deficit on the Dedicated Schools Grant (DSG) is having on the financial sustainability of the Council. • Provides details of the council's responses to the government's consultation supporting the 30 October 2024 national Budget.
Recommendations	<p>It is RECOMMENDED that Cabinet:</p> <ol style="list-style-type: none"> a) Acknowledges the ongoing progress being made to maintain a balanced budget position for 2025/26 and MTFP. b) Endorses the latest position regarding the developing 2025/26 Budget and MTFP position. c) Approve the implementation of a targeted voluntary redundancy process to enable the delivery of 2025/26 savings with delegation to the Chief Executive, in consultation with the Leader of the Council, to develop an appropriate policy. d) Notes the update on the conversation with government around the impact that the DSG deficit is having on the financial sustainability of the council. e) With local MP support, continue to express concern to government at the existential challenge to the

	Councils ability to set a legally balanced budget for 2025/26 posed by having the lack of cash to fund the special educational needs and disability service (SEND).
Reason for recommendations	<p>To comply with accounting codes of practice and best practice which requires councils to have a rolling multi-year medium term financial plan.</p> <p>To provide Cabinet with the latest high-level overview of the development of the 2025/26 Budget and 3-year medium-term financial plan.</p> <p>To provide an update on the 22 May 2024 letter submitted to DLUHC and CIPFA regarding the difficulties presented by the accumulating DSG deficit.</p>
Portfolio Holder(s):	Cllr. Mike Cox, Portfolio Holder for Finance
Corporate Director	Graham Farrant, Chief Executive
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Wards	Council-wide
Classification	For Decision

Background

- Cabinet on the 17 July 2024 received an MTFP Update report which set out the framework in support of the delivery of the 2025/26 budget including the proposed.
 - Budget planning process.
 - Budget timeline.
 - Financial strategy
- In addition, the council's constitution has been updated in 2024 by way of new Budget and Policy Framework Procedure Rules which enhance governance and safeguard arrangements around any proposed alternative budget proposals.
- Budget Overview and Scrutiny arrangements have also been developed in support of the 2025/26 Budget by way of a Budget Skills Training for Councillors session which was held on 29 July 2024. In addition, Directorate Budget Awareness sessions are being held in September and Task & Finish Groups which will explore key lines of enquiry relating to specific budget matters within their area of responsibility, are being held during October. Financial management training is also being provided for

budget holders and all directors to ensure maximum efficiency in managing our budgets and clear financial understanding amongst our senior managers.

4. The February 2024 council approved budget for 2024/25 and Medium-Term Financial Plan has the following key features.
 - a) A balanced MTFP over the 4-year period to 31 March 2028 based on conventional local government financial management processes and revenue sources.
 - b) Addressed the inherited £30m structural deficit due to the previous use of reserves in balancing the 2023/24 budget.
 - c) Addressed issues associated with the level of savings assumed in building the 2023/24 budget, particularly those associated with the transformation investment programme.
 - d) Recognised financial challenges from the ongoing cost-of-living and service demand pressures not dissimilar to those faced by all other local authorities.
 - e) A 4.99% council tax increase for 2024/25 with a financial planning assumption of the same increase in each of the following years consistent with the projections from the Office for Budget Responsibility.
 - f) Assumed delivery of £38m in annual savings, efficiencies, and additional resources to balance the 2024/25 budget as itemised and supported with individual delivery plans.
 - g) Utilised a one-off business rates collection fund surplus to improve the council's financial resilience.
 - h) Adopted a revised approach regarding the mandatory statutory provision required for the annual repayment of debt with flexibility for voluntary provision.
 - i) A target of £30m in capital receipts from the disposal of assets to fund the council's transformation investment programme over the 2-year period 2023/24 and 2024/25.
5. The approved budget for 2024/25 also contained numerous risks the principle amongst which is the continual threat to the council's ongoing financial health and sustainability caused by the accumulated deficit on the DSG. The assumption being that government funding would be forthcoming to support the 31 March 2024 £64m deficit on the DSG and the current statutory override, that allows the council to ignore the deficit in respect of an assessment of its overall solvency, would continue beyond its current end date of the 31 March 2026.

Statement on Public Spending Inheritance

6. On the 29 July 2024, the Chancellor of the Exchequer, Rachel Reeves delivered a statement to Parliament accompanied by a policy paper on £22 billion public spending pressures. This covered an assessment of immediate public spending pressures facing the Government, immediate actions being taken and the medium and longer-term approach to public finances.
7. HM Treasury's £22 billion estimate of pressures related to the governments day-to-day spending in 2024/25 and included resources to cover new policy commitments, pay awards, health, and asylum & illegal migration. Included in the £5.5 billion of measures announced to help manage these pressures was.

- Cancellation of the adult social care charging reforms (care cost cap and associated measures) which were due to be implemented in October 2025.
 - £3.2 billion of departmental savings including reduction in administration spend and stopping non-essential spend on consultancy and communications.
 - Winter Fuel Payments will be targeted at recipients of Pension Credit and certain other means-tested benefits from the winter of 2024/25.
 - Other changes including the cancellation of several transport projects.
8. The paper also confirmed that the date of the next national Budget would be 30 October 2024 and that the next Spending Review would be a multi-year review, covering at least three financial years, would conclude in the spring of 2025. The implication is that Local Government is again likely to receive a one-year financial settlement for 2025/26. Provision of a one-year financial settlement gives no confidence in long term expenditure plans and prevents effective medium-term planning of financial commitments and services. Nationally councils are lobbying hard for a longer-term financial settlement, which has been missing for some years
9. Attached at **Appendix A** is the council's response to the government's call for representations to support the October Budget announcement, which focuses on the key issues of funding for the special educational needs and disability service, reform of the framework for council tax, the ability to increase fees and charges set by government in line with cost increases and providing support for the principle of Accommodation Business Improvement Districts.

Latest draft 2025/26 budget and MTFP position

10. The budget for 2025/26 and the MTFP should be seen in the context of a rolling, evolving process structured to enable the ongoing proactive management and prioritisation of the council's resources. It should also be seen in relation to the Best Value Review requirement to draft proposals for a sustainable three-year MTFP.
11. In support of the process the July Cabinet MTFP Update report considered the level of uncertainty and therefore risk that will apply to the key assumptions underpinning the MTFP. In line with good practice these assumptions were then tested via a process of sensitivity analysis and several different models developed that highlight their impact. At the extremes they indicated there could be an improvement in the position or alternatively a deterioration which would lead to a funding gap of up to £24m for 2025/26.
12. As part of a dynamic, agile approach to financial management Portfolio Holders have been working with Corporate Directors, Service Directors, and Budget Holders to prepare potential additional proposals for balancing the 2025/26 budget should they be required. These will be considered at the bi-weekly Cabinet/Corporate Management Board meeting before being brought forward should they be required.
13. Figure 1 below sets out the current MTFP to 2028. As a reminder, the table sets out changes in the revenue budgets, on an annual basis, either positive numbers which represent additional costs to be met, or negative numbers which represent forecast cost reductions or additional income. The variances are shown in the year in which

they are expected to be first seen and are then assumed to recur on an ongoing basis in each of the following years. One-off changes will be seen as an entry in one year and will then be reversed out in a following year. For example, there is currently a £4.2m pressure in 2025/26 in respect of one-off savings that were approved for 2024/25.

14. **Figure 1: Latest MTFP**

	Revised Budget 2024/25 £m	Sept MTFP Position (updated from February 2024)			
Service Pressures (net of any specific grant changes)		25/26 £m	26/27 £m	27/28 £m	Total £m
Wellbeing Directorate	126.0	6.8	5.8	6.1	18.7
Children's Directorate	91.0	4.5	5.3	5.3	15.1
Operations Directorate	58.2	4.1	(0.9)	1.5	4.7
Resources Directorate	40.4	0.1	0.3	0.0	0.4
Service Pressures (net of any specific grant changes)	315.6	15.6	10.5	12.9	38.9
Savings, Efficiencies, Fees & Charges					
Wellbeing Directorate		(2.6)	(0.9)	(0.8)	(4.4)
Children's Directorate		(0.6)	0.0	0.0	(0.6)
Operations Directorate		(3.8)	(2.2)	(2.0)	(8.0)
Resources Directorate		(0.5)	(0.2)	(0.1)	(0.8)
Transformation		(4.0)	(1.6)	(1.1)	(6.8)
Reversal of one off savings in 2024/25		4.2	0.0	0.0	4.2
		(7.4)	(4.9)	(4.0)	(16.3)
Corporate Items - Cost Pressures	27.4	3.4	5.9	5.9	15.2
Funding - Changes	(339.6)	(10.0)	(13.8)	(16.7)	(40.6)
Annual – Net Funding Gap	3.4	1.5	(2.5)	(1.9)	(2.8)
Application of one-off business rates resources to MTFP	(3.4)	(1.5)	4.0	0.9	3.4
Annual – Net Funding Gap	0.0	0.0	1.6	(1.0)	0.6
Cumulative MTFP – Net Funding Gap		0.0	1.6	0.6	

15. The position as set out above continues to be underpinned by numerous key assumptions which have been informed by many factors such as government announcements, economic forecasts or targets, and professional judgements. The key assumptions currently being used in building the 2025/26 Budget and MTFP are summarised in Figure 2 below and explained in further detail in **Appendix B**.

16. Figure 2: Latest Key assumptions

	2025/26	2026/27	2027/28
Council Tax: Core	2.99%	2.99%	2.99%
Council Tax: Social Care Precept	2.00%	2.00%	2.00%
Pay Award	2%	2%	2%
Increase in Fees and Charges	2%	2%	2%
National Living Wage (NLW) <i>% Increase in the National Living Wage</i>	3.9%	2%	2%
	Dec-24	Dec-25	Dec-26
Bank of England - Base Rate	4.50%	3.25%	3.00%

Please note:

The increase in fees and charges should be regarded as a minimum increase to those not set by statute. The principle of full cost recovery may mean increases above these levels for example were costs are likely to rise by the National Living Wage which is currently being estimated at £11.89 in 2025/26 which is an increase of 3.9%.

Financial Strategy to support maintaining a balance budget for 2025/26.

17. The main changes to the council approved February 2024 budget for 2024/25 and MTFP position are as set out below.

Removal of the assumed Social Care Reforms Resources

- a) As set out earlier in this report the government have cancelled the social care charging reforms. These reforms which were due to be implemented in October 2025 included an extended means test and a lifetime cap on care costs. The previous MTFP assumed an extra £5.8m of cost in 2026/27 and further £10.2m in 2027/28, both of which fully funded from additional government funding. These entries have now been reversed, but there is no net impact.

National Living Wage (NLW) uplift

- b) The latest MTFP position assumes that the National Living Wage will be increased by 3.9% in 2025/26 (from £11.44 per hour in 2024/25 to £11.89). This is a further 1.9% increase over the inflation based 2% assumption included in the MTFP approved in February 2024. This forecast increase is based on the growing expectation of an announcement of an above inflation move as part of the 30 October 2024 national budget announcement.

Quarter One 2024/25 Budget Monitoring Virement

- c) Cabinet in September received the quarter one budget monitoring report for 2024/25. This report recommended that Council approved a £5.1m redirection of resources from adults to children's social care. This virement takes account of the ongoing adult social care savings identified in quarter four of 2023/24 which was after the budget had been set for 2024/25 and recognises the pressure emerging in the first quarter of 2024/25 in children's social care. The virement has been

assumed for financial planning purposes but is subject to Council endorsement at its meeting on the 15 October 2024.

Adult Social Care – Transformation Business Case

- d) Following Council approval on the 23 July 2024 recognition of the detailed savings identified as part of the Adult Social Care Transformation Business Case.

Pay and Reward Project

- e) Cabinet in September 2024 received an update on the Pay and Reward project designed to create a single new pay and grading structure for the council. The MTFP now reflects the final offer being made to staff as set out in report, the ultimate £1.641m increase in the pay bill, can be compared to the £1.060m included in the 2024/25 budget, and annual fluctuations during the period of implementation.

Ongoing review of growth pressures

- f) Combinations of the outcome of a fundamental review of previous growth assumptions alongside consideration of any new emerging pressures.

Savings, efficiencies and additional income

- g) Ongoing challenge to ensure the robustness of the financial planning assumptions behind the deliverability of any saving proposals to be put forward for formal approval as part of the 2025/26 final budget proposal.
18. Other than those referenced for Children's Services above, the MTFP has not been amended for any emerging 2024/25 in-year pressures that were detailed in the quarter 1 budget monitoring report to Cabinet on 2 September, on the basis that they will be addressed by the Corporate Director and budget holders via the proposed mitigation strategies.
19. Clearly there is still work to be done to ensure that the council can continue its strategy of maintaining the financial health of the authority through a balanced MTFP. In support of this process, it is being recommended that, in line with the approach adopted in 2023, a targeted voluntary redundancy process is established with delegation to the Chief Executive to agree the final criteria. It is likely that this scheme will not be applied to certain elements of the workforce such as social workers but will focus on areas of the Council where future savings are forecast or can be made.
20. Work will now focus on further refining the MTFP as presented and as the current financial planning assumptions are tested further. Any changes will be reviewed alongside the potential for bringing forward additional proposals for balancing the 2025/26 budget. As previously stated, Portfolio Holders and budget holders have been preparing these potential savings in response to the July Cabinet MTFP Update report scenario planning and sensitivity analysis exercise.

Dedicated Schools Grant (DSG) Deficit - Update

21. As set out in the July MTFP Update Report there is growing concern about the accumulating deficit in the DSG budget, caused by expenditure to provide the statutory service which exceeds the budget available. The Director of Finance wrote to DLUHC and DfE on the 22 May 2024 outlining concerns regarding the impact the deficit on the DSG is having on the financial sustainability of the Council. This recognises that due to the forecast £92m accumulated deficit on the 31 March 2025 the council will be

technically insolvent (a situation where the deficit on the DSG is greater than the total reserves held by the council with a negative overall general fund position) when the current statutory override finishes on 31 March 2026.

22. This letter also highlighted the difficulties the council will have in setting a legally balanced budget for 2025/26 when it is forecast that it will no longer have the cash to cover the cost of the DSG deficit. This could make it impossible for the Council to set a balanced budget for 2025/26 without massive cuts in services, unless this problem can be resolved, which will need government intervention.
23. As an update senior officers of the council met with representatives of the DfE and the Ministry of Housing, Communities and Local Government (MHCLG) on the 21 August 2024. The outcome was that DfE have commissioned a detailed review by an independent local authority financial specialist to provide them with a report on BCP Councils budget and cash position. They will then consider next steps and the support they can provide the Council and any advice & guidance they can give to the Director of Finance once they have received the requested report.
24. The council's leadership have also met with the new local MPs to brief them on the urgency of the issue and requested their assistance. They have all expressed support for our position and are working hard to influence government to find a solution for us.

Financial Benchmarking

Unearmarked Reserves

25. Council generally holds two main forms of reserves. The focus of this benchmarking is on unearmarked reserves. Unearmarked reserves are set aside to help manage the risk to the council's financial standing in the event of extraordinary or otherwise unforeseen events and to mitigate the underlying operational risk associated with the operation of the council and the management of service expenditure, income, and the council's funding.
26. The latest analysis of the council's unearmarked reserves level as at March 2024 in comparison with other Unitary Authorities is set out as **Appendix C1** and **C2**. They are shown on both an absolute (C1) and a net revenue expenditure (NRE) (C2) basis. The NRE basis is a common approach to factor in the different size of each of the unitary authorities.
27. As a reminder the council took proactive steps to improve its financial health and sustainability in 2023/24 and increased the unearmarked reserves to £26.1m which represents 7.6% on a net revenue expenditure basis. The minimum recommended level suggested by the Chartered Institute of Public Finance and Accountancy (CIPFA) is 5%. This benchmarking demonstrates the steps taken have moved the council into the mid-range compared to other unitary councils.
28. As highlighted earlier in this report the total reserves (earmarked and unearmarked) are insufficient to cover for the DSG deficit referenced earlier in this report.

Council Tax

29. BCP Council is highly geared toward Council Tax financing, and this is demonstrated with the analysis in **Appendix C3** which compares the councils tax base (the number of properties a council can levy council tax on) compared to other unitary authorities.

30. Council tax increased in 2024/25 by 4.99%. This increase was broken down into a 2.99% increase in relation to general inflationary pressures and an additional 2% relating to the social care precept. It is government policy to fund cost pressure in local government principally through the ability to raise council tax, including the social care precept. Recognition should therefore be made of the need to ensure that every step is being taken to align the council's expenditure with the resources at its disposal.
31. The BCP Band D council tax for 2024/25 is £1,767.22. The equivalent of our nearest neighbour Dorset Council is over 12% higher at £2,001.15. This equates to approximately £34m per annum in additional resource BCP Council could be generating based on the BCP 2023/24 tax base if it had Dorset Council's level of Council Tax. **Appendix C4** shows a comparison of 2024/25 council tax level to other unitary authorities. This demonstrates that the council tax for BCP Council continues to be below the unitary average. For 2024/25 it is 2.6% below the average which in resources terms is equivalent to £7m per annum.

Debt

32. The benchmarking analysis intended to also consider the councils debt levels. However, the national actuals for 2023/24 have not yet been released. Subject to its availability, the proposal will be to include debt benchmarking in the next MTFP update to Cabinet in December.

Options Appraisal

33. Ultimately the budget process results in a consideration of alternative savings, efficiency, income generation and service rationalisation proposals. This may include consideration of alternative council tax strategies.

Summary of financial implications

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

Summary of legal implications

35. The council has a fiduciary duty to its taxpayers to be prudent in the administration of the funds on their behalf and an equal duty to consider the interests of the community which benefit from the services it provides.
36. 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, which will include the need to ensure there is sufficient cash to fund the commitments at the time they fall due. 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.
37. As a billing authority, failure to set a legal budget by 11 March each year may lead to intervention from the Secretary of State under section 15 of the Local Government Act 1999. It should however be noted that the deadline is, in reality, 1 March each year to allow sufficient time for the council tax direct debit process to be adhered to.

Summary of human resources implications

38. The establishment of a voluntary redundancy process will have direct human resources implications on the authority. In turn it is likely to have a direct impact on the level of services delivered by the council, the mechanism by which those services are delivered and the associated staffing establishment.

Summary of sustainability impact

39. The 2024/25 approved budget protected the staffing resources associated with climate change and ecological emergency activity. In respect of support to projects £1.239m was available in an earmarked reserve on 31 March 2024.

Summary of public health implications

40. The Department of Health and Social Care allocated BCP Council £21.77m, a 2.3% increase from 2023/24, to deliver its public health service in 2024/25. This will be combined with the £15.44m allocated to Dorset Council as part of the joint pan Dorset service.
41. There is an additional package of investment nationally from 2024/25 of £70 million per year to support local authority led smoking services in support of delivering smoke free generation. (BCP allocation for 2024/25 is £422,313)

Summary of equality implications

42. 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 2025 report to members as part of the annual budget process.

Summary of risk assessment

43. The risks inherent in the financial position of the council include.
- **Uncertainty.** High levels of financial planning uncertainty at this time caused principally by the ongoing implications of cost-of-living crisis and the potential policy and resource allocation impact of the recent change in national government.
 - **Accumulating DSG Deficit.** Expenditure by BCP Council of c£30m more annually than the government grant available to fund the Special Educational Needs and Disability service is not sustainable. The accumulating deficit is predicted to mean the council will technically be insolvent as of 31 March 2025.
 - **Intervention.** Children Services is on a journey of improvement since the inadequate Ofsted judgement in February 2022. Additionally, the external auditor concluded as part of their latest annual report (Audit & Governance Committee July 2024) that despite good progress against previous recommendations especially governance, a more robust financial strategy covering the MTFP period, and the administrations clear focus on financial rigour the council still has significant weaknesses due to the assessment of Children's Services and the DSG deficit.

- **Children's Services.** Ongoing costs and demands on the service including the delivery of approved savings at a time when they are focused on their improvement journey.
- **Wellbeing Services.** Ongoing costs and demands on the service including the capacity in the care market at affordable rates and the sharp rise in homelessness.
- **Delivering savings, efficiencies, and additional income generation.** Combination of delivering the £38m of additional savings, efficiencies and additional assumed in approving the 2024/25 with the relentless requirement to identify further potential proposals to support the ongoing need to balance the 2025/26 Budget and MTFP.
- **Pay award.** A 4.5% provision for the pay award was made as part of the approved budget for 2024/25. Unison sought views from its members in respect of a 2024 pay claim of 10% or £3,000 whichever is greater. Every 1% variation is estimated to cost the council £1.9m. On 16 May 2024 the National Employers Organisation (NEO) offered £1,290 on all grades up to spinal column point 43 and 2.5% over this amount. This would mean a 5.77% increase for the lowest paid within the council. The NEO offer was not accepted by the trade unions, and they are currently balloting their members for industrial action. The MTFP makes provision for annual pay awards of 2% from 2025/26 onwards and this assumption will need to be kept under constant review considering ongoing levels of pay inflation.
- **New Pay and Grading Structure.** Including ongoing negotiations with the Trade Unions seeking to agree the arrangements for a new single pay and grading structure and terms and conditions.
- **Realisation of capital receipts to fund the council's transformation programme.** £16.8m of capital receipts from the disposal of assets need to be delivered in 2024/25 to fund the estimated spend on the transformation programme. Receipts to this value have been approved and are in the process of being delivered via work on a pipeline of asset disposals. Further work on the pipeline will enable funding of future years transformation expenditure, any backlog investment in assets, and potentially towards helping to create community hubs.
- **Carters Quay.** Payments of £15.3m have been made towards the development of the agreed 161 new homes with ancillary ground floor amenity and commercial space scheme. Inland Partnership the contractor entered administration late in 2023. Officers continue to work with the administrator on the way forward and to try to ensure the council's investment is protected.
- **New Enterprise Resource Planning (ERP) System.** A new Microsoft Enterprise Resource Planning system was implemented as part of the transformation programme in April 2023. This is leading to demonstrable improvements in the financial management and human resource information systems but there will always be glitches and a period of learning before the council is making best use of such technology.

- **Legal Claims.** Covering various matters such as planning, highway, car parking, social care, or staffing, numerous legal claims have been logged against the council.
- **Loss or disruption to IT systems and Networks from a cyber-attack.** Such actions can incapacitate essential networks by encrypting or destroying data on which vital service depend. Financial loss is common through both direct loss of funds as well as recovery costs and reputational damage. Recent ransomware attacks are reported to have cost councils between £10m and £12m in damage. The industry adage is when, not if, an attack will happen.
- **Companies.** BCP operates several companies and third-party arrangements with these organisations are exposed to their own set of financial and operational risks. As such the council would only provide for its share of such risks in circumstances where the risk is likely to materialise

Background papers

44. February 2024 Budget and Medium-Term Financial Plan 2024/25 2024

<https://democracy.bcpccouncil.gov.uk/ieListDocuments.aspx?CId=284&MId=5386&Ver=4>

45. July 2024 MTFP Update Report

<https://democracy.bcpccouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=5901&Ver=4>

46. September 2024 Quarter One Budget Monitoring Report

<https://democracy.bcpccouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=5902&Ver=4>

Appendices

Appendix A BCP Council response – Fixing the foundations

Appendix B Detailed MTFP Summary and key budget assumptions.

Appendix C1 Absolute unearmarked reserves compared to all unitary authorities

Appendix C2 Unearmarked reserves as a percentage of net revenue expenditure

Appendix C3 Council Tax Base levels 2024/25

Appendix C4 Council Tax levels 2024/25