

Nico Heslop
 Director Local Government Finance
 Department for Levelling Up, Housing and
 Communities

Date: 22 May 2024

Contact: Adam Richens
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Dear Nico,

Re: Bournemouth, Christchurch, and Poole Council – Potential s114 Issue

I am writing to update you from our previous correspondence and conversations with your team, regarding the forecast position on the High Needs Block, funded by DfE, which is causing grave concern within this council.

As you may be aware, after some very difficult decision-making, we have a balanced budget forecast for both our General Fund and Housing Revenue Accounts, but we are becoming increasingly concerned about the council's annual deficit in grant funding from the Department for Education (DfE) to meet the cost of the councils High Needs expenditure. This accumulated deficit was £64m on 31 March 2024, which is almost in line with our total available reserves of £65m and is predicted to rise to £92m by 31 March 2025. This will exceed our forecast reserves of £64m in March 2025, and will continue to increase while our reserves are forecast to reduce, all of which makes the council technically insolvent as soon as the statutory override finishes on 31 March 2026

	Balance 31-Mar-24 £m	Estimate 31-Mar-25 £m	Estimate 31-Mar-26 £m
Unearmarked Reserves	26.1	26.1	26.1
Earmarked Reserves	38.8	37.4	27.2
Total Reserves	64.9	63.5	53.3
Accumulated DSG Deficit	-63.5	-91.8	-116.5
Net Position	1.4	-28.3	-63.2

The council was previously part of the Delivering Better Value in SEND programme and in 2023 started a Safety Valve conversation with DfE. An agreement was not possible earlier this year as the Council's 15-year recovery programme, which was endorsed by the DfE SEND and finance advisors as robust, was not within the normal 5-to-7-year timeframe to enable an agreement to be reached. The Safety Valve conversations appear to have stalled because of the size of our financial challenge.

In addition to this accumulated deficit potentially crystallising from 1 April 2026, we are also facing a severe shortage of cash, which looks likely to create a financial emergency for the council before the statutory override finishes. Our Cabinet has considered the position at its meeting in May (see copy of report attached), but, in summary, from current forecasts, it looks likely that we will not be able to continue to provide enough cash to cashflow the deficit for the 2025/26 financial year. Until Q2 2025/26 the council can make the case that it is using normal treasury management activity, principally in the form of internal cash resources via reserves, balances etc, to avoid the need to externally borrow to finance these costs. However, from Q2 2025/26 the council's external debt will reach its Capital Financing Requirement (CFR) and therefore this flexibility will have been fully exhausted, at which point we will run out of cash. This could be resolved by DfE or DLUHC providing the cash to fund the accumulated deficit until an alternative solution is provided.

I am therefore writing, to draw these figures to your attention and to request that you give urgent consideration to the support that government can give BCP Council to manage this shortfall in funding and to consider solutions that would prevent the cashflow crisis that I have outlined above. Without government support it is currently my judgement that BCP Council will be unable to continue to support either the accumulated or growing annual deficit on its DSG and will be unable to set a legally balanced budget for 2025/26 because of the forecast cash shortage. In such circumstances I am legally required to consider the necessity for statutory intervention.

I am very keen to work with your department and DfE to obtain your advice and guidance on these matters and any potential mitigation strategies. As part of the protocol, I am also copying in Rob Whiteman at CIPFA, and Peter Barber at Grant Thornton who is our External Auditor. In addition, we have ensured that the Local Government Association via correspondence with its Chair, Shaun Davies, is aware of the issue.

I would welcome an urgent opportunity to meet with you to discuss options at your earliest convenience.

For your information I have consulted with BCP Council's Chief Executive and Director of Law and Governance as well as the Council's Cabinet, in drafting this letter.

Yours sincerely

Adam Richens.
Director of Finance
BCP Council