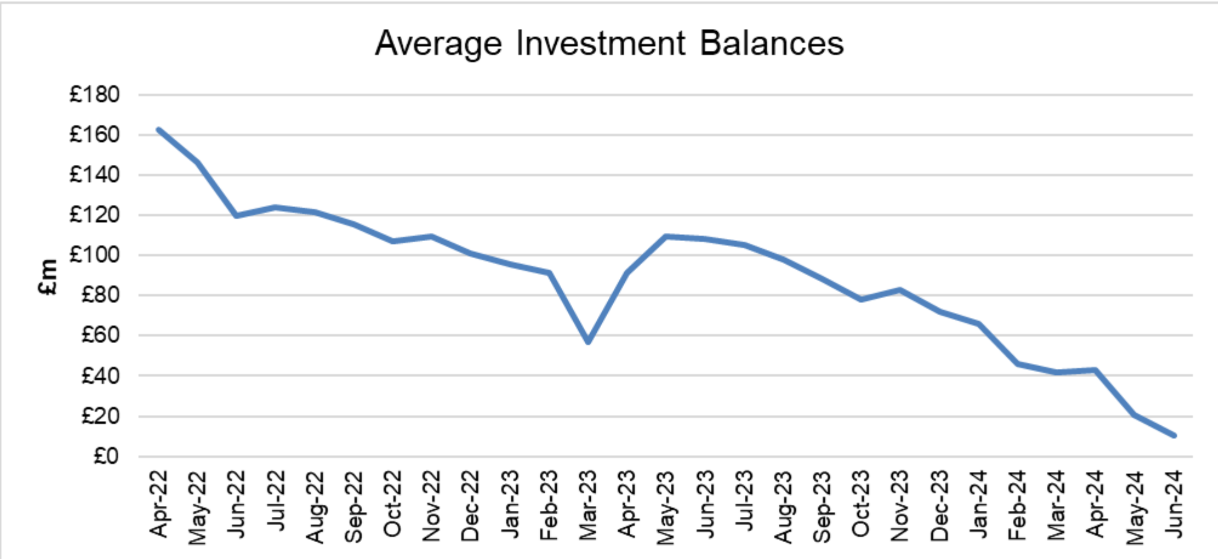
Briefing note

Subject: BCP Council Cash Flow Forecasts

Average Investment Balances

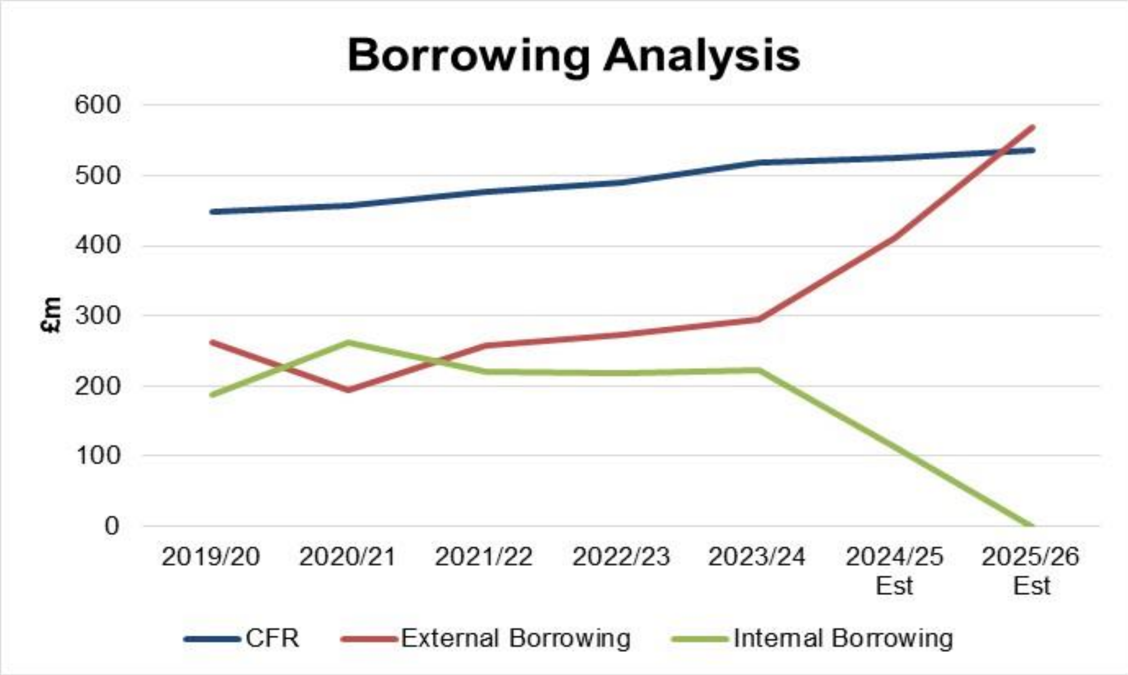
The Council's cash balances move up and down throughout the year as income is received from sources such as council tax and business rates and then paid out throughout the year as the council delivers its services to residents. The below graph shows the movement of the average investment balances of the council over the last 2 years.

In a financially stable authority who have not been using reserves to support their budgets you would expect to see an annual rhythm with cashflow returning to a "normal" position at the start of each financial year. However, due to outflows of cash on SEND expenditure, with no offsetting income, we are seeing a continual reduction in cash balances.



Borrowing

The council has always funded a portion of its capital programme from borrowing which is expressed by what is known as the capital finance requirement (CFR). As part of the cash management of the council, during a low interest environment, an active decision was taken to run cash balances down and delay taking out actual debt due to interest costs. Taking this position creates what is known as an internally borrowed position. The graph overleaf shows the overall debt position of the council:

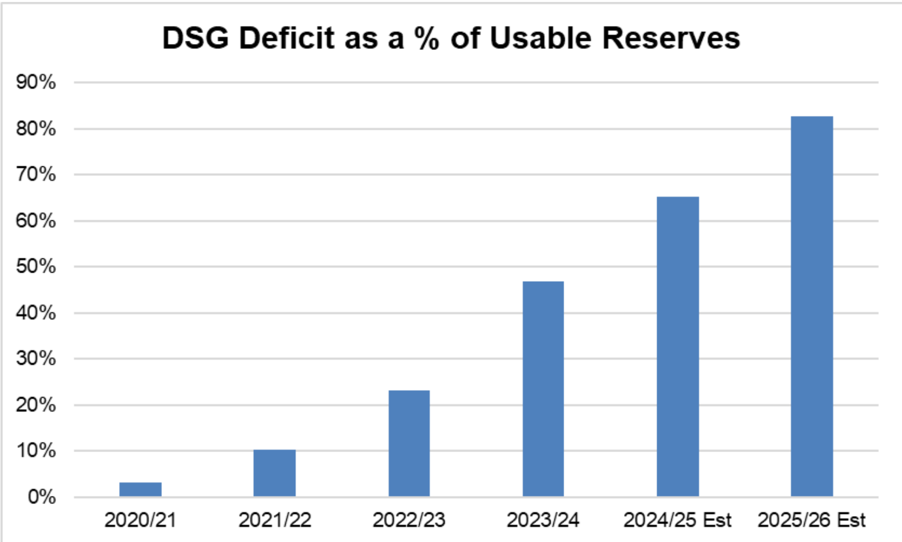


Dedicated School Grant Deficit

From the 2020/21 financial year the accounting arrangements for the deficit on the DSG grant were changed. The council holds usable and unusable reserves on the balance sheet. Usable reserves are in theory cash backed, which include capital receipts grants, whereas unusable reserves are not cash backed. Examples of unusable reserves are pensions and the revaluation of land and buildings.

In April 2020 Ministry of Housing, Communities and Local Government (MHCLG) introduced new legislation to switch the DSG deficit reserve from a usable to an unusable reserve and allowed the creation of an adjustment account on the balance sheet. The size of the deficit is presenting a significant cashflow issue as it represents cash paid out, but not compensated by matching income.

The chart below sets out the council DSG Deficit as a percentage of usable reserves.

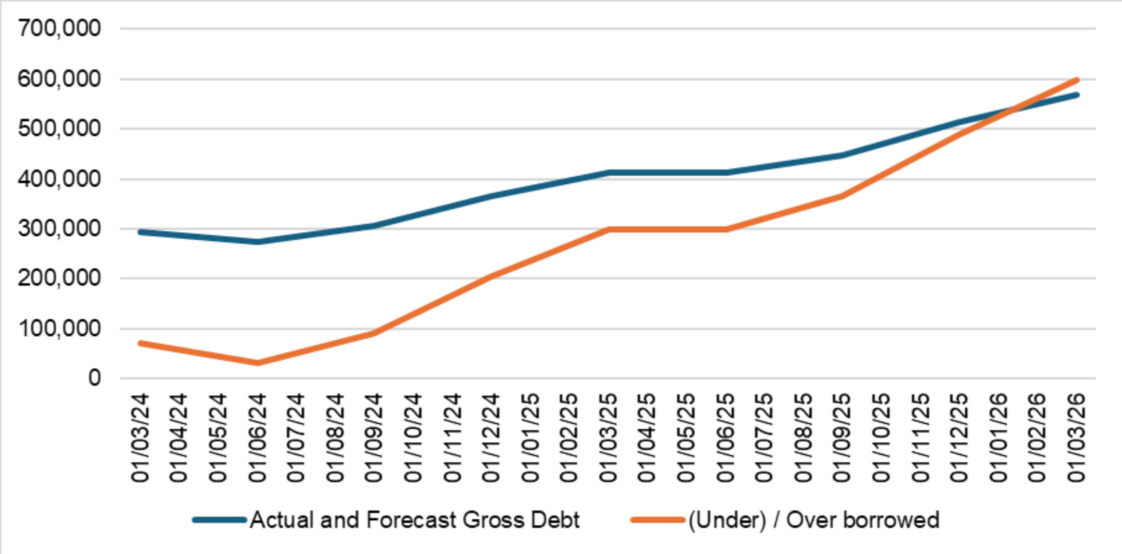


The Council is losing out on potential interest that would be earnt on cash balances, which instead are being exhausted due to the cash demands of the DSG service.

Cashflow

The graph below sets out the cash forecast for the next two years. By the end of 2025 we will need to take on an additional £117m of debt to cover our requirements due to the cash outflow for SEND.

Before the end of 2025/26 financial year, the council will reach a position whereby available borrowing for capital purposes is maximised and there is no further cash to fund the operation of the council. At that point there is no way to operate the council's finances within the relevant legislative and accounting framework, unless other decisions are taken.



This is a critical matter for the council as, in the lead up to February 2025, it will need to consider its ability to set a balanced budget for the financial year 2025/26, and at present, we will not be able to do so because of the negative cashflow forecast.

Potential Solutions:

There are several potential solutions available to government. Our preference would be option 1 as it allowed for DfE guidance/regulations. However, we have included options 2 to 6 as alternatives.

1 **Government provides the DSG grant for future years**, in advance of normal allocations, to provide the cash required to cover the cashflow requirement. DfE regulations allow for grant funding to be brought forward and subtracted from future years allocations, which could provide the mechanism for doing this.

2 **Rapid "Safety Valve" type agreement –** whereby government funds the existing deficit and any future deficit that arises on the SEND budget, having carried out detailed reviews of our SEND recovery plan with no suggested improvements.

3 **Government provides the cash** for all SEND expenditure above the budget, including the accumulated deficit as a "cashflow loan" at zero interest, until a decision is taken on the long-term funding of SEND services.

4 **BCP Council retains the cash** it receives for Business Rates charges that is due to be passed on to government, of around £61m for 2025/26 and in future years, to provide the cash required.

5 **Legislative and accounting framework changed** to expand the definition of allowable borrowing to allow local authorities to temporarily borrow to finance the DSG deficit while a permanent solution is found although this would have a detrimental impact on the revenue budget position of the council.

6 **Capitalisation direction** under the exceptional financial support programme to cover forecast cash shortfall. Noting this is probably the least attractive option as the need to set aside a minimum revenue provision (MRP) would exacerbate the problem further and have an even more detrimental impact on the revenue budget position of the council.

We are willing to explore these, and any other suggested options in a constructive manner, but must emphasise the need for urgency as we will be starting the formal process of preparing our budget for 2025/26 in September.