BCP Council

5 February 2025

Section 25 Report of the Director of Finance
(Prepared in consultation with the Chief Executive)

Background

1. The Local Government Act 2003 (Section 25) requires the Director of Finance to report on the following matters to council members when agreeing its annual budget and council tax levels.

   - the robustness of the estimates made for the purposes of the budget calculations, and
   - the adequacy of the proposed financial reserves.

2. Council must have regard to this report when making its decisions around the annual budget and the level of council tax.

3. For members of the Council the Section 25 statement provides critical context for budgetary discussions. The provision of this information is a legal requirement and ensures that all members have regard to the professional advice provided by the authority's chief financial officer when final budget decisions are made being made. To give a level of additional assurance to this report it is also prepared in consultation with the Chief Executive.

4. It should be emphasised that councils can and do experience significant financial difficulties as recent high-profile cases such as those at Northamptonshire County Council, Slough Borough Council, Croydon Council, Thurrock Council, Woking Council, Birmingham Council, and Nottingham City Council all demonstrate.

Introduction

5. It is a demanding time for local authorities. They continue to grapple with immense resourcing challenges ranging from addressing the consequences of government policies such as the National Living Wage and National Insurance increases to relentless rising demand for service be that for Children's or Adult Social Care or homelessness and these are coupled with recruitment constraints for staff. The financial resilience of all local authorities is therefore under severe strain. Nationally, although inflation has fallen, it is currently above the government's 2% target and with an economy that shrank by 0.1% in October adjustments to public expenditure levels cannot be ruled out. Given local authorities' statutory duty to provide a vast range of services where demand is likely to continue to grow the pressure on council finances and services will continue.

6. Reflecting on the financial performance of BCP Council, in each of its first five years of since 2019 its actual financial outturn has delivered an improved position from that outlined in the original approved budget for the year. From an external perspective, the Council's External Auditor, Grant Thornton in his annual report on the 2023/24 accounts concluded that the council has made good progress against previously identified significant weaknesses in respect of governance, the transformation programme, and the council's medium-term financial plan including the use of reserves. Area of improvement were cited as returning to more conventional and traditional budget setting processes combined with a more robust financial strategy underpinning the medium-term financial position. That said, despite the administrations focus on financial rigour, their assessment was the council continued not to have effective arrangements for securing value for money due to four significant weaknesses, namely.

Financial Sustainability:

(1) The Council should continue to explore all opportunities to manage the Dedicated Schools Grant deficit in the medium term. This should include continued discussions with the Department for Education (DfE) and Ministry of Housing, Communities & Local Government (MHCLG) as well as other measures aimed at addressing the deficit.

(2) The Council must devise a plan to manage the cash shortfall expected to occur in 2025/26 and beyond. This plan should include consideration of the application for a capitalisation direction following liaison with MHCLG to mitigate the forecast cash flow emergency.

Improving Economy, Efficiency and Effectiveness

(3) The Council should continue to address the weaknesses identified by Ofsted, and DfE to ensure all children have access to quality services which meet their needs in a timely manner.

(4) The Council should address the weaknesses identified by a recent statutory direction in relation to the special education needs and disability (SEND) service.

The fact that the External Auditor did not raise any significant weaknesses in respect of governance is a testament to the work undertaken in responses to the August 2023 Best Value Notice. Citing constructive engagement and the implementation of improvement measures MHCLG confirmed in early September 2024 that the Council was one of the first local authorities not to have a Best Value Notice renewed.

In addition, through work via the Children's Service Improvement Board the council is cautiously optimistic that the December 2024 full Ofsted inspection of Children's Social Care will demonstrate a marked improvement in the quality of the service. In respect of the financial impact of the DSG deficit the council is in negotiation with government to secure a SEND capitalisation direction which will enable a legally balanced budget for 2025/26 to be set.

7. However, the council should be under no illusion. It cannot be considered to be financially sustainable until such time as a permanent solution to the accumulating DSG deficit is found. Until then, despite the government framework which seeks to prevent the DSG deficit having an impact on the other services provided by the council, it is. This is demonstrated by the £5.4m in lower interest and extra debt costs that the general fund has had to manage in 2024/25 alone and amounts to £5.4m in service reductions which would not otherwise have had to be implemented.

Robustness of Financial Estimates

8. A summary of key assumptions being used to underpin the 2025/26 budget can be summarised as set out in figure 1 below.

9. **Figure 1:** Key Budget & MTFP 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	2.8%	2.0%	2.0%
Mininum Increase in Fees & Charges	2%	2%	2%
National Living Wage (NLW) *% Increase in the National Living Wage*	6.7%	2%	2%
	Dec-24	Dec-25	Dec-26
Bank of England - Base Rate	4.75%	4.00%	3.50%

Please note:
a) 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 the government have confirmed will be £12.21 per hour in 2025/26 an increase of 6.7% over the £11.89 amount for 2024/25.
b) Current December 2024 Bank of England Base Rate is 4.75%.

10. The key budget and medium-term issues faced by the council are summarised in the following sections. In considering these members are reminded that Local Authorities should not put public money or services at risk.

DSG Deficit – Statutory Override

11. Any private sector organisation which has negative reserves on its balance sheet, is likely to fail the “going concern” accounting concept unless there are shareholder/directors support or guarantees in place. In local government a material uncertainty related to “going concern” is unlikely to exist as the financial reporting framework assumes the council’s services, at least its statutory services, will continue to be delivered in all scenarios. Therefore, in local government, the most likely scenario is the council’s Director of Finance (known as the Section 151 Officer) would have to contact MHCLG to advise them of their financial concerns and the possibility of issuing a report under Section 114 of the Local Government Act 1988. A s114 report would result in an immediate and severe restriction of non-statutory services. Even statutory services may be subject to a reduction in frequency or quality.

12. Due to the accumulating deficit on our Dedicated Schools Grant, BCP Council is projected to have negative reserves by 31 March 2025. This means that all things being equal the s151 Officer would be required to issue a s114 report. However, to mitigate this position, which is a problem nationally, the government issued a DSG Statutory Override by way of a statutory instrument (SI) which became law at the end of November 2020. This means the council cannot contribute to the deficit, cannot hold a reserve to act as a counterweight and has been required to move the deficit to an unusable reserve where it will sit as though it did not exist within the council’s accounts and is disregarded from a balance sheet perspective. This means a s114 report triggered by the DSG deficit outweighing BCP reserves will not be issued while the statutory override is in place.

13. The statutory instrument reads as follows.

Where a local authority has a deficit in respect of its schools' budget for a financial year beginning on 1st April 2020, 1st April 2021 or 1st April 2022, the authority

(a) must not charge to a revenue account an amount in respect of that deficit; and

(b) must charge the amount of the deficit to an account established, charged, and used solely for the purpose of recognising deficits in respect of its school's budget.

14. On 12 December 2022 as part of a local government finance policy statement, government announced the extension of the DSG statutory override for three years **up to 31 March 2026**. This means in respect of the accumulating deficit the position can be ignored until the 2026/27 budget process as a solution will need to be found for any financial year covering 1 April 2026 onwards.

15. On the 18 December 2024, as part of the provisional local government finance settlement for 2025/26, the government confirmed that in 2025 it will set out in detail its vision to reform England's SEND provision designed to improve outcomes, and to return the system to financial sustainability. This will include details of how the government will support local authorities to deal with their historic and accruing deficits and any transition period from the current SEND system to the reformed system. This detail will also inform any decision around the removal of the statutory override.

16. This position presents a clear, and dangerous position for the council and its future sustainability. At the end of 2024/25, the deficit on the DSG is predicted to be **£108m**. At the end of the Statutory Override extension period BCP Council is currently forecast to have an accumulated deficit of around **£166m.**

17. The Council was previously part of the Delivering Better Value in SEND programme which was designed to help the council gain access to resources to support any necessary reforms of its SEND service. This transformation programme did not however provide any resources to address the accumulating deficits. Recognising the severity of the councils position the Department of Education invited the council in July 2023 to engage in a conversation as part of their Safety Valve programme to determine if agreement can be reached on.

- bringing the service back into balance by aligning expenditure with income at least over a defined period.
- how the current accumulated deficit and any further deficit at the point in-year balance is achieved will be dealt with.

18. The council could not reach a Safety Valve agreement with government and in December 2024 DfE announced that it will not enter any further such funding agreements with councils in financial deficit.

19. Ultimately either the government, the council, schools, or a combination thereof will need to finance this deficit. Therefore, as a sector, local government needs to continue to work with government to find a long-term solution. Deferring a solution until 2026/27, with none of the stakeholders making a provision to offset could well prove to be catastrophic. A deficit of £166m would be approximately 50% of the entire current net annual budget of the council.

20. Reflecting on the national position, in a report published on the 15 January 2025 the Public Accounts Committee (PAC) warned that half of English councils could be driven to issue Section 114 notices by 2026 in the face of soaring costs to support children with special educational needs and disabilities (SEND). The committee's chair, Sir Geoffrey Clifton-Brown, said the current system is "inconsistent, inequitable and not delivering in line with expectations", with rising costs representing an "emergency that has been allowed to run and run". While the national budget included additional resources to support children with SEND, the committee

concluded, this fell well short of the funding needed to support the number of children with education, health and care plans (EHCPs), which has risen by 140% since 2015, while school transport costs for children with SEND have also risen sharply. The committee also criticised the "adversarial" system that pits parents against local authorities.

DSG Deficit – Cashflow Crisis

21. As highlighted above the council's annual revenue expenditure on the Special Educational Needs and Disability (SEND) service is significantly higher than the government funding made available as part of the High Needs Block of the annual Dedicated Schools Grant (DSG). This expenditure is being driven by the council response to the needs assessment of the child as set out in their Education, Health, and Care Plans (EHCPs) which are a requirement under the Children's and Families Act 2014

22. **Figure 2:** Forecast High Needs Revenue Expenditure 2024/25 and 2025/26

Revenue Expenditure	Original Government Grant 2024/25 £m	Original Budget 2024/25 £m	Latest Estimate 2024/25 £m	Original Government Grant 2025/26 £m	Original Budget 2025/26 £m
DSG - Grant Funded Expenditure	62.3	62.3	62.0	64.5	64.5
Additional Budgeted Expenditure		28.0	28.0		57.5
Further Additional Expenditure			16.6		
Total Estimated Expenditure	**62.3**	**90.3**	**106.6**	**64.5**	**122.0**
Dedicated Schools Grant (DSG) Funding	-62.3	-62.3	-62.0	-64.5	-64.5
Total DSG Grant Funding	**-62.3**	**-62.3**	**-62.0**	**-64.5**	**-64.5**
Net Overspend / Unfunded	**0.0**	**28.0**	**44.6**	**0.0**	**57.5**

23. The table in figure 2 above demonstrates that in 2024/25 the council is forecasting to spend £44.6m (72%) more than the £62.3m High Needs Block grant allocation for 2024/25. This is £16.6m more than the amount assumed as part of the February 2024 originally approved budget for the year. The reasons for the increase were set out in detail as part of a report to Council on the 25 October 2024 which obtained approval for the increase. For 2025/26 the Council is forecasting to spend £57.5m (92%) more than the grant being made available by the Government.

24. This excess of demand and expenditure over grant has been ongoing nationally since the introduction of EHCPs. Locally the deficit has been growing exponentially for several years with the result that the BCP Council forecast accumulated deficit as of 31 March 2026 is now estimated to be £168m as set out in figure 3 below in the context of the council's overall reserves position.

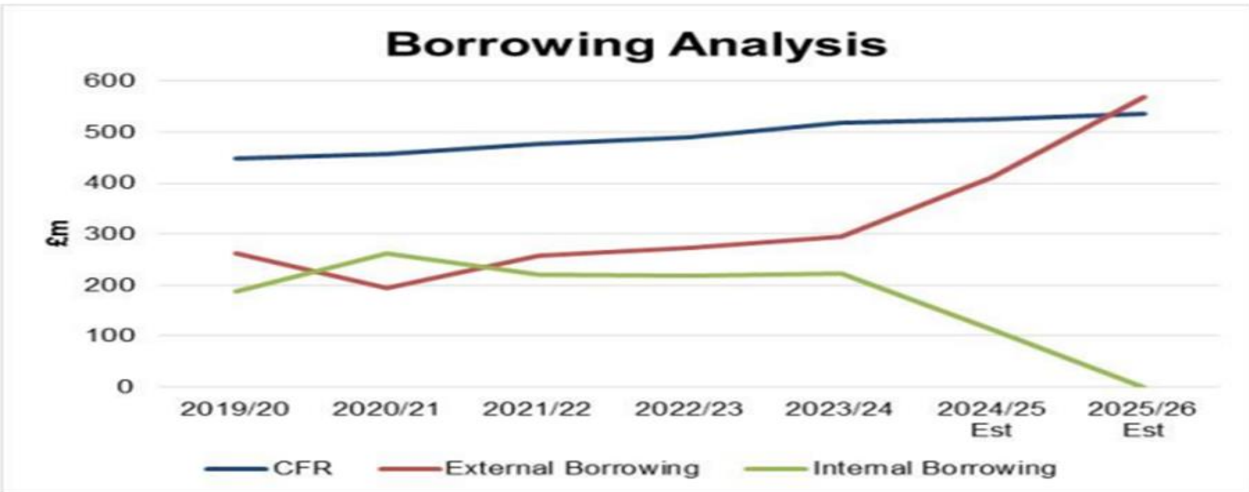
25. **Figure 3:** BCP Reserves including the Accumulated DSG Position

`	Balance 31-Mar-23 £m	Estimate 31-Mar-24 £m	Estimate 31-Mar-25 £m	Estimate 31-Mar-26 £m
Unearmarked Reserves	17.9	26.1	26.6	26.6
Earmarked Reserves	68.5	39.0	35.4	24.9
Total Reserves	**86.4**	**65.1**	**62.0**	**51.5**
Dedicated Schools Grant	**-35.8**	**-63.5**	**-108.0**	**-165.5**
Net Position	**50.6**	**1.6**	**-46.0**	**-114.0**

26. Despite not having the government grant to fund these SEND bills they still need to be paid, and all councils are prohibited from borrowing to fund the day-to-day operational/revenue expenditure. Up until 2025/26 the council has been using what is referred to as its “treasury management headroom” to enable the relevant invoices to be settled. Generally, this headroom is the timing difference between receipts for council tax or business rates arriving and the date when the actual bills they fund are paid, alongside any cash-backed balance sheet items such as reserves and provisions.

27. Figure 4 below sets out that this BCP Councils treasury management headroom will be exhausted by 2025/26 which is when the threshold on borrowing, referred to as its Capital Financing Requirement (CFR) is forecast to be breached. In effect this is the point at which the council runs out of cash to continue to cashflow the DSG deficit on behalf of the Department for Education.

28. **Figure 4:** Analysis of BCP Councils borrowing



29. It should be recognised that if the council did not have to cover this deficit this cash would be earning interest or would enable a lower level of external debt to be held. Therefore, cash flowing the DSG deficit is estimated to cost the council in the region of £4.7m in 2024/25 and a further £7.5m in 2025/26 and is a cost incurred due to mostly external factors beyond the council’s control and one that the council has had limited power to tackle. In respect of 2024/25 that is £4.7m of the £38m of savings, efficiencies and additional resources implemented which could have been avoided if it were not for this issue and which could have been used to otherwise benefit our residents.

30. The consequence of being unable to cashflow the DSG deficit in 2025/26 means the Council would have been unable to set a legally balanced budget for 2025/26. Therefore, as part of the precursor to a formal s114 report the council's Director of Finance wrote to DLUHC on the 22 May 2024 to seek its advice, guidance and support on how a legally balanced budget for 2025/26 could be set.

31. The statutory override is in place to avoid some of the serious consequences of having such a large and growing deficit but has now itself become a threat to councils' financial stability as it is a debt the council is not permitted to tackle proactively, and it is one that the government are not providing an effective long term financial solution to manage. This is an impossible situation where the council cannot pay off the deficit, but the increase of the deficit threatens the financial sustainability of the council and put services at risk.

32. The letter from the Director of Finance was supplemented by correspondence from the Council Leader and Local MPs which highlighted the precarious position the council are in and encouraged government to find a solution. Full details of the issue and all the correspondence was set out in report to Cabinet on the 10 December 2024.

33. In response, representatives of the MHCLG and DfE met with the Council's Chief Executive and Director of Finance on both the 19 December 2024 and 23 January 2024. As set out in section 2 of this report negotiations remaining ongoing. Currently they are focused on the fact that as part of its treasury management headroom councils can exceed its borrowing limits provided it is only temporary. The government's view is that any such borrow would be temporary as they are committed to act to deliver a solution which addresses this issue and returns the SEND system to financial sustainability. A capitalisation direction (permission to borrow) may though be sought to cover the 2024/25 and 2025/26 total £12.2m impact on the general fund from lost investment income / additional borrowing costs.

34. The only other real option open to the council to set a legally balanced budget for 2025/26 would be to reduce the SEND expenditure to be in line with the governments High Needs grant allocation.

35. For background the government have issued capitalisation directions to 19 authorities in 2024/25. These include Birmingham (£685m), Bradford (£140m), Croydon (£38m), Nottingham (£41m), Plymouth (£72m), Somerset (£77m) and Southampton (£122m). None of these related the expenditure on the SEND service. The public announcement on these indicative announcements were made on the 29 February 2024. Therefore, formal confirmation is unlikely at the time Council is asked to approve the 2025/26 budget.

Council Tax - Taxbase

36. A key risk associated with the 2025/26 proposed budget is the assumption around the assumed council tax, tax base. This has been increased significantly (3.6%) between years mainly due to the extra income it is estimated that will be generated via the application of the 100% premium on second homes from 1 April 2025 onwards. It is assumed the second homes premium will add an additional 5,110.8 band D equivalents to the tax base in 2025/26. Alongside other changes, such as reductions in the number of empty homes, single person discounts and levels of assumed housing growth, the overall increase in taxbase is anticipated to generate £9.7m additional annual revenue from 2025/26.

37. There is a key risk associated with this assumption that the increased revenue will not be delivered as property owners could take action to avoid the additional liability such as the sale or rental of the property.

New Pay and Grading Structure

38. The council does not have a single pay and grading structure, and standard terms and conditions applied across all posts. Potential equal pay risks increase the longer it takes to achieve this outcome. These risks have further increased based on the recent Trade Union ballot outcome which was not to accept the Councils proposal. Officers remain committed to achieving a single pay and grading structure alongside standard terms and conditions and to negotiating this outcome. However, a December 2024 Pay and Reward update report to Cabinet agreed the approach, if needed, to move as a last resort towards the dismissal and reengagement of the workforce.

39. The financial implications of the pay and reward project which have been included in the 2025/26 budget and MTFP reflect an update to the costing set out in the December 2024 Cabinet report. The updated costing relates to a significant number of staff who have subsequently been remapped. In summary, £419k is now included in the base revenue budget for 2025/26 based on a 1 March 2026 implementation date and an overall increase in the pay bill of the authority of £2.793m profiled across the MTFP time-horizon including as to when any pay protection costs need to be funded.

40. An amount of £2.197m in one-off resources has also been set aside to fund the cost of the implementation team in 2025/26. It is proposed to hold the £1.060m budget for in 2024/25 and not used in an unearmarked reserve to cover the increased risks caused by this delay and support bringing it to a swift conclusion.

Financial Outturn 2024/25

41. The Quarter 3 Budget Monitoring report which appears as a separate item on the 5 February 2025 Cabinet report sets out the council will manage its budget within the parameters of the February 2024 Council approved resources for the year. In a demonstration of the proactive management arrangements in place, this estimate is an improvement from the Q2 forecast £2.964m overspend and reflects a combination of the continuation of the application of strictly controls over expenditure and budget holders applying mitigation strategies to reduce or manage previously identified service pressures.

42. At this stage the balance forecast has been achieved without drawing down the entire £7.9m of corporate contingencies set aside as part of the original budget to manage risks including that associated with the delivery of £38m of assumed savings. The residual £0.9m not being applied at this time will help address any volatility in a number of estimates including those associated with contributions towards social care costs, inclusive of those from the NHS and other local authorities.

43. As a matter of principle should any surplus resources be available at year end then consideration with be given, as recognised in the Treasury Management Strategy, to the voluntary repayment of debt bearing in mind the budget for the year adopted a different strategy to debt repayment from that previously applied.

44. The risk will be that although the Quarter 3 forecast is based on trend analysis and professional judgement it is only based on activity from 75% of the financial year. Predications and estimates can and will change over the remaining 25% of the financial year. Assurance can be taken from the finance performance in previous year's, from 2024/25 in year monthly reporting and the fact that it is hoped that the current controls on expenditure will continue to bear down on service expenditure.

Legal Claims

45. The Council has several outstanding legal claims against it. Examples include claims brought against the council due to contractual terms and arrangements and claims because of the impact of the Councils actions on third parties. Detailing them is likely to prejudice the council's position. They cover a range of matters such as planning, highway, car parking, social care,

and staffing. Each has the potential to have an adverse impact on the council's financial position. As an example, recently the council was one of 23 named in a legal claim by Thurrock Council seeking to mitigate its failed Solar Farm investments. This relates to the council's membership of the Association for Public Service Excellence (APE) which it is claimed provided Thurrock with valuation advice upon which it relied. Ultimately this could end up affecting all 256 councils in the UK. The risk includes exposure to legal costs in defending the councils position in excess of the normal provision made as part of the legal service budget.

Uncertainty

46. High levels of financial planning unpredictability at this time caused principally by the ongoing implications of various inflationary factors on the costs of goods and services procured by the council with geopolitical factors continuing to have a particular influence.

47. Alongside this is the uncertainty associated with the impact of the 30 October National Budget. Principle amongst these is the current financial planning assumption that the council will receive £3.3m compensation for the increases in employer national insurance costs for its employed staff which are forecast to increase the councils cost base by £5.2m per annum from 2025/26 (equivalent to the resources generated by a 2% council tax increase). The actual grant allocation will not be known until the release of the final local government finance settlement for 2025/26 which is normally in early February but based on national modelling is estimated at £3.3m creating an estimated shortfall of £1.9m.

48. Another area of potential variation is the interest rate risk volatility on any new council debt. Previously the interest rates on council debt were supposed to reduce in line with anticipated reductions in the bank of interest base rate. Therefore, an outlook which reflected reductions to 4% in December 2025 and 3.5% in December 2026 from the current rate Bank of England base rate of 4.75%. However, concern around the health of the economy and the impact of the Chancellors Autumn 2024 National Budget has seen the interest rates that the council would borrow at increase by over 0.6% since the end of October (based on a 25yr loan).

Pay Award

49. The budget as presented makes provision for a 2.8% pay award in 2025/26. This is in line the award the government are proposing to make to public sector workers including teachers and NHS staff in 2025. Reflecting on recent years the amount the council budgeted for was inadequate in both 2022/23 and 2023/24. In 2024/25 the budget provided for 4.5% and the actual award averaged out at closer to 4%. Within each of these last 3-years the National Employers Organisation, who negotiate the pay award on behalf of the council, has taken a different approach from the traditional standard percentage uplift. Instead, they have adopted a fixed amount increase on the majority of spinal column points with a percentage uplift then applied above a certain level. This change in approach reflected factors such as high inflation, and the impact of the national living wage. Any variance from the 2.8% provided for in 2025/26 is estimated to be £1.9m per 1% variation. The uncertainty presents a clear risk that the budget provision will be insufficient.

Local Government Funding Reforms

50. The local government finance policy statement 2025 to 2026 published on 28 November outlined the intention of the government to progress with funding reforms across local government with a phased implementation beginning with the first year of the multi-year settlement in 2026/27. In advance of this the government published an initial consultation on the objectives and principles of their proposed approach alongside the provisional Local Government Finance Settlement for 2025/26.

51. Early work by a national modelling organisation suggests that BCP Council could see up to a £12m per annum reduction in Revenue Support Grant from this process. At this stage the MTFP makes no financial planning assumptions relating to the assumed outcome from this process. This is on the grounds that the work remains at an early stage and the council will be

lobbying to encourage government not to implement a funding formula that takes local resources, predominately those raised from council tax and business rates, and redistributes them nationally to authorities with lower council tax levels.

Extended Producer Responsibilities

52. This government policy is designed to help achieve environmental goals such as recycling by making producers responsible for their products along their entire lifecycle including the post-consumer stage. In 2025/26 BCP council have been given a guaranteed allocation of £9.447m to help offset costs associated with waste collection and disposal.

53. Regarding future years there is a high degree of uncertainty. It is clear that the Scheme Administrator (PACK UK) will be required to assess the effectiveness of the council's waste management services, and the amount received will no longer be guaranteed and will be impacted by the market's reaction to these costs and their activity to reduce packaging and increase recycling. At this stage a 20% reduction in 2026/27 and further 10% reduction in 2027/28 have been assumed in the grant allocation. In future years the arrangement may have an impact on costs associated with recycling and waste disposal and there may also be the need for additional service costs to ensure compliance with this new government policy. The Environment Service are looking to engage leading sector specialist to help ensure the robustness of the council interpretation of the policies financial implications.

Loss or disruption to IT systems and Networks from cyber-attack

54. A loss or disruption to IT systems, specifically those caused by cyber-attacks, can incapacitate essential networks, for example, by encrypting or destroying data on which vital services depend. Such attacks could cause a variety of real-world harm if services like social care, housing, or place (highways etc) are impacted.

55. Financial loss is the most common impact through both direct loss of funds as well as recovery costs and reputational impacts. In 2020, both Redcar and Cleveland Council and Hackney Council faced ransomware attacks that had significant financial impacts on their services, resulting in £10m and £12m worth of damages, respectively. In January 2024 three councils in Kent, Canterbury City Council, Thanet District Council and Dover District Council were referencing disruption to their services as a result of an attack.

56. Public confidence may be affected if the council is not able to adequately protect its IT systems and networks against loss or disruption, whether caused accidentally or intentionally. The industry adage is when, not if, an attack will happen. No council is immune from such attacks and for this reason the council is as part of the proposed 2025/26 budget looking to invest further into its security arrangements.

57. On the 14 January 2025 the Home Office launched a consultation around ransomware and proposals to increase incident reporting and reduce payments to criminals. Their intent is to deter criminals from attacking UK organisations including local government and to increase intelligence and understanding of the ransomware threat.

Children's Services

58. BCP Council is committed to ensuring every child can live a happy fulfilled live. However, the council continues to face spiralling costs and pressures in children's services which has seen the services budget increase by 61% between 2019/20 and 2025/26 net of any additional specific funding made available by government. This presents a key risk to the sustainability of the councils' finances.

59. To emphasise the point as of December 2024 the council has 536 Looked After Children (LAC) which is a 55% increase compared to 346 LAC in March 2020. In addition, at the end of December 2024 4,417 children have an Educational Health and Care Plan (EHCPs) which is an 80% increase compared to 2,448 EHCPs in January 2020.

60. For 2025 these pressures have been extenuated by additional costs associated with the government led increases in the National Living Wage and National Insurance contributions. Other issues which impact on the volatility of the service include.

- In a market described as dysfunctional, the cost of child placements continues to increase with concerns being raised nationally regarding the level of profit being made by providers. This concern of the level of profit generated within the sector also extends to the providers of privately-run special schools.
- Agency staff workers and the effectiveness of the steps the government are proposing to take to stem their rising costs and increase the likelihood of the child having a permanent social worker.

61. From an assessment of the robustness of the budget perspective it should be emphasised that Council in October 2024 approved, over and above the extra resources made available as part of the 2024/25 original budget setting process, a £5.1m permanent increase in the base revenue budget of Children's Services. This followed the first quarterly assessment for 2024/25 and was funded via a transfer of resources from Adult Social Care following consideration of their financial outturn for 2023/24.

62. In respect of the budget for 2025/26 provision has been made for a further growth in the number and cost of children in care, and an increase school transport costs particularly those connected the SEND service. There is also significant reliance being placed on the effectiveness of the Children's commissioning team in driving down costs. In respect of Home to School Transport the budget for 2025/26 is £17.119m which includes provision for an increase of £2.234m over and above the budget for 2024/25. For comparison, as part of the Operations Directorate, the council is budgeting to spend £7.752m on the concessionary fares scheme in 2025/26.

63. Government investment in prevention in the form of the new Social Care Prevention Grant and a £966k BCP Council allocation for 2025/26 is welcome. The intention is that this new resource will be applied to fulfil the DfE's new Children's Social Care policy, Keeping Children Safe, Helping Families Thrive. This reflects the governments vision for reform and a legislative agenda to reset the children's social care system, both in terms of how national government collaborates with local government, but also in taking a whole system approach to reform.

<u>Adult Social Care Services</u>

64. The role of adult social care in our society cannot be overstated. It is a fundamental pillar that provides dignity, safety, and independence to millions, supports families, underpins local economies, and alleviates pressure on the NHS by enabling timely hospital discharges and reducing avoidable admissions. However, it is a sector that has been left on the margins of government policy, despite clear evidence of its essential contribution to communities and economic wellbeing.

65. The adult social care sector was already facing an unsustainable level of pressure before recent government policy changes added further financial strain. Years of funding pressures, rising demand, and workforce challenges have left providers in a precarious position, struggling to deliver essential services within increasingly tight budgets. The recently announced uplifts to the National Living Wage and the increase in Employer National Insurance contributions from April 2025 will have done little to ease the pressure either on local authorities or the care providers who's services they commission. As demonstrated in the main budget report any government confidence that these costs can be absorbed by the extra social care grants or the estimated employer's national insurance compensation grant is misplaced. The reality is that these settlements fall far short, leaving the council struggling to absorb these costs without risk and implications to the range of essential services it provides.

66. Reflecting on the robustness of the budget the risk is associated with the possibility that demand for care and support exceeds the approved budget or the cost of care home placements continues to increase beyond the inflationary increases allowed for in the budget. In addition, should the current capacity in the domiciliary care market, at the council's framework rates, fail to keep pace with demand this could result in higher home care costs above framework rates.

67. A separate risk is the significant financial challenge due to the high proportion of self-funding care home residents locally whose depleting capital resources require local authority funding support.

68. Assurance around the delivery of the Adult Social Care budget can be provided by the analysis which demonstrates the service has been delivered within the parameters of the approved budget in every completed financial year since April 2019.

69. Looking to the future in its 2024 manifesto the now Labour government made a committed to create a National Care Service. In support of this objective they announced in January 2025 an independent commission, chaired by Baroness Louise Casey, to make clear recommendations on how to rebuild the adult social care system to meet the current and future needs of the population. The first phase of the commission will identify the "critical issues" and recommend tangible, pragmatic solutions that can be implemented in a phased way to lay the foundations for a National Care Services by the middle of 2026. The second phase, set to be finalised by 2028 will make longer-term recommendations for the transformation of adult social care and shape how services should be organised to best create a fair and affordable adult social care system for all.

70. As all previous attempts to reform adult social care have failed there is a clear risk that despite the best of intentions the opportunity to deliver the necessary reforms to create an affordable and sustainable Adult Social Care system will not be taken. Even if it is, the fact that the finance aspect will only be considered as part 2 of the commission and not reported on until 2028 means the current system which fails both the NHS and councils is likely to continue for probably another 4 years. An example of the failing of the current system is that for BCP Council the entire extra government social care grant funding for 2025/26 and the majority of the permitted council tax increase will be needed to cover the impact of the 1 April 2025 increases in the National Living Wage and National Insurance, with no resource to left from the grant to address the growing demands, any other inflationary pressures, or the systemic problems it is being provided to support.

<u>Housing Services</u>

71. The councils housing register currently has over 3,100 households of which 736 are banded in the emergency or gold band which is the highest needs category. Commentators relate this demand to the real-life impact of record house prices, high mortgage rates, huge waiting lists for social-rent housing, and the boom in second homes and short-term lets. Currently there are 520 households in temporary accommodation of which 99 are in Bed & Breakfast accommodation including families. The councils housing strategy targets the affordability crisis, with a particular recent focus on acquiring homes via the Council Newbuild Housing and Acquisition Strategy (CNHAS) so that they can be let at social or affordable rents.

72. There are however risks with such an approach. Firstly, the purchase of homes requires the council on a short-term basis to utilise precious cash resources which had been enabling the council, up until now, to provide short-term funding for the DSG High Needs deficit. There is then the risk that the council will not have lined up the purchase with the operational turnaround teams leading to high voids numbers and periods in recently purchased properties. This means the council need is unaffected, but it is now incurring additional costs. The final risk is the viability of the whole model in that it undoubtedly means that the council will have seen reductions in the level of unrecoverable bed and breakfast subsidy costs that it would otherwise

have had to face. However, this may have just been cost avoidance with actual budget resources needed to cover the capital and interest repayments on the loans taken out to finance the purchases. In addition, the actual interest rates the council can actually achieve on these loans has remained high, particularly since the October 2024 national budget. There are also the relentless cost increases to manage and maintain these properties.

73. Risk mitigation includes the application of the £8.723m Homelessness and Rough Sleeping grant for 2025/26 which is approximately a 24% increase from the £7.051m made available in support of the current 2024/25 financial year. This funding is via a specific grant which means it can only be applied in line with the conditions set out by government.

Operational risk of a reduction in fees, charges and rents income.

74. Although the 2025/26 budget includes estimates for fees, charges, and rents the actual amount collected can be heavily influenced by factors outside of the council's control such as the weather and individuals' personal wealth. The inflationary uplifts applied to these income streams can also be impacted by the elasticity of demand. Associated risks include not putting in place appropriate arrangements for their collection. BCP Council is particularly sensitive to changes in these income streams as its activity is high when benchmarked against other local authorities.

Operations Directorate

75. The Operations Directorate is diverse covering a wide range of service areas including Commercial Operations, Environment, Planning & Transport, Infrastructure, Investment & Development, and Customer & Property. This is a broad portfolio containing various activities which are uncertain by nature and therefore capable of variation from the budget assumptions. For example, several of the Commercial Operation services generate significant income levels which will be weather dependent as would be anticipated for a coastal tourism destination.

76. The budget as presented assumes a further rebase to the bereavement service budget due to the ongoing strong competition in the local market. The budget also allows for a rebase of the parking services budget to reflect additional collection costs however the proposed savings and efficiencies put forward for member consideration a series of mitigations.

77. The budget assumes funding for the support of subsidised local bus services is reduced in a phased approach beyond 2025/26. Discussions are ongoing with the Department for Transport (DfT) as to the acceptability of the approach regarding any future year Bus Services Improvement Plan (BSIP) grant allocations after 2025/26.

78. Provision has also been made in the proposed 2025/26 budget for costs associated with the local plan.

Resources Directorate

79. A particular risk which impacts on the robustness of the proposed 2025/26 Budget is the assumption that ICT & Programme Management Service will successfully manage the necessary downsizing of their establishment and activities in line with income achievable and available funding. This includes £576k in respect of the Projects & Programmes (PPM) Centre of Expertise and £372k in relation to the Data & Analytics service. Alternative funding sources have been fully explored including transformation funding. However, as they relate to improvement expenditure and specific savings supported by a robust business case cannot be identified they do not meet the required legislative framework / definition of transformation expenditure. The service has mitigated the potential risk of any redundancy costs from downsizing these teams in 2025/26 due to realigning resource to income and funding streams in PPM. Data & Analytics affected resources are aligned to fixed term contracts which will cease in March 2024.

80. Resources have though been included in the proposed 2025/26 budget to address the persistent and ongoing high use of locums within the Legal Service, to annualise the 2024/25 investment in the People & Culture Service, and to reduce/remove the previous income assumptions included in the budget and MTFP for the Policy, Communication and Marketing Service.

<u>Delivering savings, efficiencies and additional income generation</u>

81. There is significant risk associated with delivering £7.8m in additional savings, efficiencies and additional income/resources which underpin the delivery of the legally balanced budget for 2025/26. This includes assumptions of significant income generation and reduced service-based expenditure which have required some very difficult and painful choices.

82. In 2024/25 the analysis based on the Quarter Two Budget Monitoring report shows that 88% of the £38m budgeted savings for the year are on track to be delivered. The majority of the currently undelivered savings will eventually be delivered just not within the original time-horizon.

83. Analysis of the £7.8m saving proposals for 2025/26 indicates.

- 12% by value (£0.9m) where the service is 100% certain the saving is deliverable. RAG rated as blue
- 88% by value (£6.9m) where the service is reasonably confident the saving can be delivered. RAG rated Green or Amber.
- The are no savings where the service have not yet started activity to ensure they can be delivered (white RAG rating) and there are no savings where the service believe there is a serious risk to delivery (red RAG rating).

84. The overall savings risk recognises the relentless requirement to identify further potential proposals to support the ongoing need to balance future year budgets.

<u>Realisation of capital receipts to fund the council's transformation programme</u>

85. In the context of the council's overall financial position and its financial sustainability, a critical issue is the assumption that the council will generate capital receipts to finance its transformation programme over the 2-year period to 31 March 2026. The budget as proposed has been drawn up on the basis that capital receipts of £18.7m will be made available to cover the estimated transformation expenditure over this two-year period. This expenditure includes £14.6m on the main transformation investment programme, £1.1m on the approved Children's Services specific transformation programme and £2.9m on the Adult Social Care Services specific transformation programme.

86. The key risk to the council is in respect of any expenditure which it intends to incur before the necessary cash from actual capital receipts has been realised. Bear in mind that conveyancing is often described as a challenging, time-consuming process, with many potential pitfalls. Any transformation expenditure which cannot be financed because insufficient capital receipts have been generated has to be charged to the revenue budget.

87. In 2024/25 the council is forecasting to spend £7.7m on transformation which it planned to finance from capital receipts. At the time of writing this report (Jan 24) an amount of £5.5m has been realised by sales either in the current or previous financial year. This means that a further £2.2m in sales must be delivered in the remaining 3-months before 31 March 2025. Subject to the risks around each individual sale, assets planned to be sold in this period include land at Wessex Fields and Christchurch by-pass car park.

88. For 2025/26 the council intends to spend £11m on transformation which will need to be financed from capital receipts. There will however be a £0.4m shortfall once the planned

residual sales in 2024/25 are considered alongside sales planned for next year including the south part of Beach Road car park, Christchurch Civic Centre, the former Westbourne Plus day centre, and the former depot site in Cambridge Road. However, some of the forecast receipts are hopefully prudent estimates and work on the pipeline of assets indicates there is scope for a couple of others to come forward subject relevant governance approvals. There is also the possibility for the approved expenditure on the transformation programme to be further reprofiled.

Carters Quay

89. The Carters Quay Housing and Regeneration Scheme is a Build to Rent Scheme designed to provide 161 new homes with an ancillary ground floor amenity and commercial space. Council in late 2021 agreed to purchase the completed scheme from Inland Partnership Limited for £44.3m.

90. In late 2023 Inland Partnership entered administration with the Council having made £15.3m in payments as part of the contract arrangements for work completed to date. Contract arrangements, including a legal mortgage over the property provide a degree of mitigation of the risk the Council is exposed to in this arrangement.

91. Officers are currently in negotiation with the Administrators for the developers to recover the land at Carters Quay. BCP Council have a registered charge on the land to cover the monies paid but are negotiating a release fee to obtain the freehold title and take possession of the land.

92. Until the current position is resolved with the administrator and the scheme fully developed there is a clear risk the arrangement will cost more than has been allowed for as part of the approved business case. Alternatively, there is a risk that council may choose to pay off the debt associated with the amount already incurred.

Capitalisation of costs.

93. Provided in line with the parameters of approved capital schemes, and the Accounting Code of Practice, the council will continue to adopt the approach of charging expenditure incurred developing an Outline Business Case (OBC) to capital. Under normal circumstances subsequent expenditure preparing the Full Business Case (FBC) and delivering the scheme shall also be capitalised.

94. However, it should be noted that by continuing this approach the council is continuing to accept the risk that it will have to write off to revenue any payments on schemes which it subsequently decides not to progress with be that at either OBC or FBC stage.

Enterprise Resource Planning (ERP) System

95. Following the engagement of KPMG as part of the Transformation Investment Programme the Council has implement a new Microsoft ERP system on the 1 April 2024. This is a relatively new system in the local authority marketplace and with any new system there is always numerous glitches and a period of associated learning. Although we are seeing clear improvement to and engagement with the financial management arrangements there will be risks around the financial accounting requirements until at least one full cycle has been completed including the outturn and statutory accounts and their review by the External Auditor.

Council owned Companies and Joint Ventures

96. BCP operates several companies and third-party arrangements with these organisations 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 were the risk is likely to materialise

97. A good example is the Council has resources at risk in respect of advance fees incurred on schemes being worked-up by the Bournemouth Development Company (BDC) a joint venture

between the Council and Morgan Sindall, which should eventually be covered by the individual schemes business case. For example, in respect of the Winter Gardens Scheme the Council has outstanding loans totalling £3.74m (plus accruing interest) supporting the expenditure undertaken. The council has previously made a £4.2m provision to cover its 50% share of the overall costs associated with this scheme should it not progress.

Section 117 (6) Mental Health Act 1983 Accommodation Plus

98. Guidance issued by the Local Government and Social Care Ombudsman and recent legal advice clarified that people should not be paying for services which meet their mental health needs under Section 117, including specialist accommodation/supported living. Where accommodation costs form an intrinsic part of the aftercare arrangement, the Council and/or Integrated Care Board (ICB) should pay for this, and the person should not be expected to claim housing benefit. This legal position may affect as many as 110 people currently in specialist accommodation in BCP Council who may be entitled up to 6 years back pay. There will be an expectation that NHS Dorset will pay part of the cost identified in line with their agreed contribution to the after-care provision for each individual. BCP potential risk after NHS Dorset contribution could be as high as £2.4m in backpay and over £396,000 as an ongoing pressure. However, estimating the financial risk to the social care budget accurately is not easy because each service user assessment of need, care plans, tenancy agreements etc, is required to determine if the accommodation arrangements are indeed an intrinsic part of the aftercare needs assessment under section 117(6). Not all service users will have been in an after-care arrangements for 6 years some, may have covered their accommodation costs with housing benefit, some from their personal funds.

Adequacy of reserves

Figure 5: Latest Reserve Forecast

`	Balance 31-Mar-23 £m	Estimate 31-Mar-24 £m	Estimate 31-Mar-25 £m	Estimate 31-Mar-26 £m
Unearmarked Reserves	17.9	26.1	26.6	26.6
Earmarked Reserves	68.5	39.0	35.4	24.9
Total Reserves	**86.4**	**65.1**	**62.0**	**51.5**
Dedicated Schools Grant	**-35.8**	**-63.5**	**-108.0**	**-165.5**
Net Position	**50.6**	**1.6**	**-46.0**	**-114.0**

99. The council must ensure reserves are retained at an appropriate level to provide adequate contingent resources for any unforeseen pressures or to provide sufficient time to identify on-going mitigations in a systematic way. They should not be seen in a short-term context. They should not only be placed in the context of significant uncertainty in respect of the impact on the council of increases in commission costs due to the governments national living wage and national insurance increases, general inflationary pressures, and service demands but in the context of the future. Therefore, they should also be seen in the context of potential future issues which could include.

- Government funding reforms from 2026/27 with early indications the council could lose up to £12m per annum over a phased period of time.
- Application of additional government policies. Reference is made to a £4m annual costs from the implementation of the Emissions Trading Scheme (ETS) from April 2028.

- Significant additional services pressures for 2028/29 when the MTFP is rolled forward including £1.6m per annum associated with the uplift in Microsoft Licenses and £1.3m per annum for the final phase of the vehicle fleet replacement strategy.

100. The Chartered Institute of Public Finance and Accountancy (CIPFA) previously advised that general or unearmarked reserves should be 5% of net revenue expenditure (NRE) as an absolute minimum. Our nearest unitary neighbour, Dorset Council, has a policy of trying to maintain their unearmarked reserves at up to 10% of NRE. BCP Council has recently taken proactive steps to improve its financial health and sustainability, and this included an almost 50% increase in the level of its unearmarked reserves, from £17.9m on the 31 March 2023 to a forecast £26.6m on 31 March 2025. At £26.6m they will represent 7.7% on a NRE basis. National benchmarking demonstrates that the steps taken have moved the council into the mid-range compared to other unitary councils.

101. In support of the unearmarked reserves position the council has undertaken a detailed risk assessment (presented as Appendix 10b). Recommended as part of the CIPFA Financial Resilience Review this indicates that the council should maintain its unearmarked reserves within the range £25.5m to £51m.

102. As part of the strategy to assist in the mitigation of unforeseen events the council will hold an in-year base revenue budget contingency of £2.603m (0.8%). These contingent resources should also enable any expenditure associated with the devolution agenda or any need to adjust the budget for Members allowances to be financed. For comparison our nearest neighbour has indicated that they are potentially looking at a £5m general contingency for 2025/26 with an additional £4.5m for supplier national insurance pressures.

103. Earmarked reserves are set aside to meet identified spending commitments and can only be used for the purpose for which they have been created. These reserves will continually be reviewed, and any resources not needed as intended transferred into unearmarked reserves. They include reserves in support of various partnerships where the council is the accountable body, reserves which represent government grants received in advance of the associated expenditure, reserves held on behalf of third parties and several reserves the council is required to hold in line with statute or its own governance requirements.

104. The council had earmarked reserves of £68.5m as of 31 March 2023. Of this, £30m related to resources specifically set aside to support the balancing of the 2023/24 budget, and to avoid the severe cuts to services that would otherwise have had to be made. As these resources were one-off then the 2024/25 approved budget was required to include £38m of savings, efficiencies and additional income to ensure the necessary structural adjustment to the budget / service levels was made.

105. Whilst the current level of reserves may be adequate to support the core budget for 2025/26 it does not require any professional judgement from the Chief Financial Officer (CFO) to assess that the council's reserves **cannot** be considered adequate based on the accumulating DSG deficit. However, as legislation prevents the council from making provision to offset the deficit in 2025/26 it appears there is no other option than to accept the position. Members do need to recognise that this legislation will not, as it stands, be applicable for the financial year 2026/27 and in the absence of government support the council will be insolvent from the 1 April 2026 onwards.

Conclusion

106. In the context of this report, the Director of Finance considers the proposed budget for 2025/26 is robust and the level of reserve is just about adequate, given a clear understanding by members and senior management of the following.

- The council, on 1 April 2025, will technically be insolvent as it will have negative general fund reserves due to the deficit on its DSG as pertaining to expenditure on the Special Educational Needs and Disability service. This DSG deficit is growing by more than £57.5m per annum which is the amount the expenditure on the High Needs Block continues to be more than the government funding being made available. A permanent solution needs to be identified with government by this time next year on the basis that as it stands, the Director of Finance is unlikely to be able to advise that a legally balanced budget can be set for the 2026/27 financial year.
- That the funding source for the 2025/26 excess expenditure on the Special Educational Needs and Disability (SEND) high needs service over the government grant being made available is yet to be finalised and is still subject to confirmation.
- The financial assumptions associated with the pay and reward project and the continuation of the assumption that budget holders manage within their budgets any additional incremental drift associated with the new arrangements, as with the current arrangements.
- The need to carefully monitor the Local Government Funding reforms which indicate a significant risk that the council will be unable to retain a greater proportion of resources generated locally.
- That unearmarked reserves are only just sufficient to cover an unexpected single event such as a cyber-attack, the requirement to provide for/or write-off the expenditure on Carter's Quay, or significant in-year overspending. Any such single event would then require drastic action to restore such reserves to the minimum recommended level. They would be insufficient for the realisation of multiple risks.
- That the advice of the Director of Finance is to continually look to all opportunities to increase unearmarked reserves and improve the councils overall financial sustainability.
- Earmarked reserves will be supported by a clear plan held by the service and will be drawn down in line with the profile. Any not needed for their original purpose will be redirected into unearmarked reserves.
- The levels of reserves and contingencies is adequate, but all opportunity should be taken for them to be enhanced by any further improvement in the in-year position.
- Effective governance arrangements will be maintained at Portfolio Holder, Executive, Senior Management, Directorate, and budget holder level to monitor the overall delivery of the 2025/26 budget.
- Portfolio Holders, Directors and budget holders accept their responsibilities and accountability to deliver their services within the parameters of the agreed budget including the realisation of approved savings.
- Directors will diligently identify and rigorously apply mitigation strategies for any in-year budget pressures that do materialise.

107. It should be highlighted in mitigation of the risk associated with the appropriate financial management processes and practices it is intended to ensure that all budget holders are issued with a "Budget Assurance Statement" in support of their 2025/26 budget. This document will formalise that they accept their budget and agree to deliver services within its financial parameters. The document is also intended to provide evidence in support of any major elements such as the staffing establishment and high value contracts.