

CABINET



Report subject	Medium Term Financial Plan Update Report
Meeting date	20 December 2019
Status	Public Report
Executive summary	<p>This report details the good progress made in the development of a robust balanced budget for 2020/21. The report also sets out;</p> <ul style="list-style-type: none">• The latest Medium Term Financial Plan (MTFP) position.• Details of the key assumptions being applied to the 2020/21 budget and MTFP process.• An update on the key financial risks as set out in the October MTFP Update report including the High Needs Budget.• Recommendations of the Chief Finance Officer in respect of the review of earmarked reserves. <p>In addition, and in respect of the framework for Council Tax, the report proposes;</p> <ul style="list-style-type: none">• Not to change the Local Council Tax Support Scheme (LCTSS) for 2020/21 and therefore the Council will operate the same scheme as that applied for 2019/20.• To introduce a new Council Tax discount for BCP care experienced young people up to the age of 25.
Recommendations	<p>It is RECOMMENDED that Cabinet:</p> <ol style="list-style-type: none">1) Notes the good progress that has been made in developing a robust and lawful budget for 2020/21.2) Notes the update on the strategic financial risks.3) Endorses the review of earmarked reserves designed to support the Council's Budget and MTFP process.4) Approves the continuation of the current 2019/20 Local Council Tax Support Scheme (LCTSS) into 2020/21.5) Approves the new Council Tax discount for BCP care experienced young people up to the age of 25.

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 ensure Members develop a balanced budget for 2020/21.</p> <p>To provide Cabinet with the latest high-level overview of the medium-term financial plan position for Bournemouth, Christchurch and Poole Council.</p> <p>To ask Cabinet to approve the continuation of the current LCTSS and the introduction of a new Council Tax Discount for care experienced young people up to the age of 25.</p>
Portfolio Holder(s):	Councillor David Brown (Portfolio Holder for Finance)
Corporate Director	Julian Osgathorpe (Director for Resources)
Contributors	<p>Adam Richens, Chief Finance Officer and Director of Finance</p> <p>Dan Povey, Acting Assistant Chief Finance Officer</p> <p>Nicola Webb, Assistant Chief Finance Officer</p> <p>Matthew Filmer, Finance Manager</p>
Wards	All Wards
Classification	For Decision

Medium Term Financial Plan (MTFP)

1. Medium term financial planning processes are designed to provide sound financial management and control arrangements which are integral to the delivery of good governance for the council. Such arrangements help in supporting service delivery, accountable decision making and safeguarding stewardship whilst optimising the use of available resources.
2. The MTFP and budget for 2020/21 should be seen in the context of a rolling, evolving process structured to enable the proactive management and prioritisation of the new Council's resources. To support its development Cabinet agreed at its meeting in June 2019 the following high-level 2020/21 budget cycle;

Stage One: April to June

- Closure of the accounts for the predecessor authorities.
- High level budget planning process as set out in the June 2019 MTFP Update report to cabinet.
- Approval of an outline financial strategy to support the delivery of a balanced budget for 2020/21.
- Design of a two-year base budget review process to aid decision making around the 2020/21 budget and MTFP.

Stage Two: June to September

- Initial detailed bottom up baseline financial assessments for each service. This should include a reflection on previous year's actual performance and forecast in-year performance to evaluate the realism of future year plans.
- Stage one base budget reviews.
- Phase one initial savings and efficiency plan as per the Financial Strategy.

Stage Three: October to December

- Stage two base budget reviews.
- Refinement stage including consideration of budget saving options.
- Consideration of public consultation arrangements should any options or proposals require them.

Stage Four: January to February

- Finalise the 2020/21 Budget.

3. Stages one to three are now substantially complete with generally base budget review process now established at which the Leader, Portfolio Holder for Resources, relevant Portfolio Holder, the Chief Executive and Chief Finance Officer consider the base budget for specific service areas. The intention of these reviews being to not only identify areas for potential savings and efficiencies, but to challenge the cost and understand the risks associated with service delivery, and to plan to ensure consistency in service delivery standards by April 2021. The detail of the reviews is also shared with the External Auditor and form an important link to their Value for Money judgement on the Council.
4. Figure 1 below sets out the current MTFP to 2023. It should be emphasised that the table shows the incremental changes, positive and negative from the preceding year. It does not show absolute amounts.

Figure 1: Medium Term Financial Plan 2019 to 2023

19/20 £m	Pressures	20/21 £m	21/22 £m	22/23 £m	Total £m
6.9	Adult Social Care – growth in demand and cost	11.3	6.5	6.7	24.4
2.9	Pay award for staff	3.0	2.9	2.9	8.8
6.9	Government Funding reductions	1.2	4.1	1.0	6.3
1.3	Children’s Services – demand and cost increases	3.9	0.9	0.6	5.4
1.1	Regeneration and Economy	1.4	1.4	1.6	4.4
1.8	Pension Fund – tri-annual revaluation impact	1.3	0.7	0.7	2.7
1.3	Environment and Community	1.6	0.1	0.1	1.8
0.7	Minimum Revenue Provision / Interest payable	0.4	1.4	0.0	1.8
1.1	Corporate Services / Central Items – Microsoft licence costs and time limited contributions	0.2	0.4	0.9	1.5
0.1	Public Health – grant contribution to service reduced	0.1	0.0	0.0	0.1
2.0	Contingency	0.0	0.0	0.0	0.0
1.7	Adult Social Care - winter pressures	0.0	0.0	0.0	0.0
1.1	Revenue Contribution to Capital	0.0	0.0	0.0	0.0
28.9	Total Additional Annual Pressures	24.4	18.4	14.5	57.3
	Cumulative Pressures	24.4	42.8	57.3	
19/20 £m	Additional Resources	20/21 £m	21/22 £m	22/23 £m	Total £m
(3.9)	Council Tax – Income	(3.9)	(3.0)	(6.8)	(13.7)
(2.7)	Council Tax - Tax base increases	(1.7)	(1.1)	(1.2)	(4.0)
(0.4)	Council Tax – Discounts / Local CT Support Scheme	0.0	0.0	0.0	0.0
0.3	Charter Trustees	0.0	0.0	0.0	0.0
(1.7)	Business Rates Income	(1.0)	(1.0)	(1.1)	(3.1)
(0.6)	Collection Fund – Surplus Distribution	0.2	0.0	0.0	0.2
(0.8)	Use of Reserves	0.8	0.0	0.0	0.8
(1.3)	DCC Disaggregation 2018/19 Budgets	0.0	0.0	0.0	0.0
(3.0)	Social Care Funding	(6.7)	3.4	0.0	(3.3)
(1.7)	Adult Social Care – winter pressures funding	0.0	0.0	0.0	0.0
(1.9)	Improved Better Care Funding	0.0	0.0	0.0	0.0
(2.2)	Adult Social Care – services savings & efficiencies	(2.1)	(0.8)	(0.1)	(3.0)
(1.6)	Children’s Services – services savings & efficiencies	(1.9)	0.3	0.0	(1.6)
(4.3)	Regeneration & Economy – savings & efficiencies	(1.2)	(0.5)	0.0	(1.7)
0.0	Environment & Community – savings & efficiencies	(1.6)	(0.0)	0.0	(1.6)
(3.1)	Corporate Services – services savings & efficiencies	(0.6)	0.0	0.0	(0.6)
(28.9)	Total annual extra resource & savings	(21.1)	(1.3)	(9.2)	(31.6)
	Cumulative extra resources & savings	(21.1)	(22.4)	(31.6)	
	Annual – Net Funding Gap	3.3	17.1	5.3	25.7
	Cumulative MTFP – Net Funding Gap	3.3	20.4	25.7	

5. **Appendix A** provides the detail of the key assumptions currently being used to underpin the development of both the Budget for 2020/21 and MTFP. These have been informed by numerous factors such as government announcements, economic forecasts, trend analysis and professional judgement.
6. Key matters for consideration in this update position which are particularly pertinent to the 2020/21 position can be listed as;
 - a. **New Homes Bonus**

Projected additional New Homes Bonus for 2020/21 which will be paid as a one-year allocation rather than for four years. It is based on the technical consultation issued on the Local Government Finance Settlement 2020/21 issued in October.
 - b. **Council Tax – Tax Base Growth**

Projected increase from the growth in residential property numbers over those previously assumed.
 - c. **One-off distribution of Council Tax (collection fund) surplus**

Surplus of actual Council Tax revenue generated in 2018/19 with an estimate of the amount which will be generated in 2019/20 both of which are then required to be distributed as a one-off in 2020/21.
 - d. **Service based savings and efficiencies**

Further Directorate based savings and efficiencies proposals.
7. The intention is that through the application of the approved Financial Strategy and working within the process and timetable set out in the budget cycle highlighted above, Members and Officers will now bring forward the final proposals to enable a balanced, robust and sustainable budget to be set for 2020/21.
8. The October MTFP update report identified several key financial risks associated with the budget for 2020/21. Amongst these will be;
 - *Uncertainty due to the national political landscape.* The impact of the general election in December includes a delay to the issuing of the provisional 2020/21 Local Government Finance Settlement which may not now be received until very late December or early January 2020.
 - *Balancing the High Needs element of the 2020/21 Dedicated Schools Grant (DSG).* The current forecast deficit on this budget is estimated at £9.8m. In October 2019 the Commons Education Committee concluded that they believe the Department for Education had set local authorities up to fail on this issue by making serious errors around the funding for special educational needs and disability (SEND).
 - *Providing resources to support the Councils transformation.* Cabinet at its meeting on the 13 November 2019 approved the proposed future operating model for the Council with an ambition and scale to the programme consistent with the challenges set out in the MTFP. Cabinet also agreed to receive a further paper in April 2020 setting out the delivery plan and funding

arrangements. The budget for 2020/21 will need to begin to position this funding strategy with particular reference to the £20.5m to £29.5m that KPMG identified as needing to be spent on one off cost associated with the process.

- *Establishing a reasonable level of contingent capital resources.* The October Cabinet report set out that the Chief Finance Officer would recommend each annual budget details how a baseline £2m capital contingency can be established accepting that the actual level held will vary during the year due to the ebb and flow of allocations made and funding delivered.

Some of these issues are expanded upon in the following sections.

Local Government Finance Settlement

9. Last year an independent review of local government finance and processes recommended that the Ministry of Housing, Communities & Local Government (MHCLG) issue the provisional local government finance settlement annually around the 5 December. This suggestion reflected criticism that the settlement was being issued ever closer to the Christmas period.
10. In a letter from the Director General at MHCLG dated the 5 November 2019 the Council was informed that due to the General Election this timetable could no longer be adhered to with the expectation that the provisional settlement will be a priority for Ministers to consider after the General Election.
11. In addition, the Chancellor, Sajid Javid, was due to make the 2019 Budget Statement to the House of Commons on Wednesday 6 November 2019. This process was also cancelled as Parliament was dissolved on that date due to the General Election.

Dedicated Schools Grant (High Needs Block Funding)

12. The Dedicated Schools Grant (DSG) includes the provision of funding to support the specialist provision of services for children and young people with high needs. This includes funding for mainstream schools and specialist providers to support pupils with Education, Health and Care Plans (EHCPs) aged 0-25, and those educated out of school, for example due to permanent exclusion or medical needs.
13. The BCP budget for 2019/20 identified a £4.8m funding gap within the High Needs Block of the DSG. Through joint working with the BCP Shadow Schools Forum approval was obtained to support this budget by transfers from other elements of the DSG including a £2.2m (1.1%) transfer from the Schools Block and a £0.2m transfer of early years funding. This left a residual £2.4m which BCP Council agreed to contribute from its limited reserves.
14. Any contributions from the schools or early years funding can only be agreed on an annual basis. The contribution from BCP Council was very clearly articulated as a one-off as no such reserves exist moving forward.
15. The Council's Budget Monitoring report for the second quarter in 2019/20 indicates that there is a £2.2m projected in-year deficit on the high needs

budget. This is reduced to a £1m deficit on the DSG once account is taken of other additional allocations and underspends. The current projection is that BCP will have a £4.6m deficit on its DSG as at the 31 March 2020 made up as follows;

- £3.1m Inherited deficit from Bournemouth
- £1.7m Inherited deficit from Christchurch
- (£1.2m) Inherited surplus from Poole
- £1.0m BCP 2019/20 forecast deficit (*net of other DSG adjustments*).

£4.6m BCP DSG projected deficit 31 March 2020 to be carried forward

16. In respect of High Needs, based on a £52.4m forecast spend and £42.6m of forecast government funding the current projection is a £9.8m funding gap for 2020/21. It should be stressed that this includes the additional £3.4m allocated as BCP’s share of the extra £700m additional funding for 2020/21 announced by the Government in September 2019. The forecast is explained further below;

Figure 2: Summary of High Needs Budget

	Budget 19-20	Forecast 19-20	Forecast 20-21
Forecast Spend	£43.7m	£46.2m	£52.4m
High Needs Block Funding	£38.9m	£39.2m	£42.6m
Shortfall	£4.8m	£7.0m	£9.8m

17. A delegation from the DfE Special Educational Needs Team and the Education Skills and Funding Agency are due to visit the Council to support the Council develop its strategic recovery plan.

18. In summary a position where a £9.8m budgeted funding gap on the High Needs Block of the DSG is approved as part of the budget process for 2020/21 is not financially sustainable. A forecast deficit of £14.4m on this budget by 31 March 2021 will undermine the financial health and future viability of BCP Council. To put this amount into context the totality of the Councils unearmarked reserve currently amount to £15.4m.

19. In making their annual value for money (VfM) judgement the External Auditors expectation is that any deficits on the DSG are capable of being covered by the Councils reserves.

20. Clearly the Schools Forum and Council need as a priority to agree a coherent strategic recovery plan which sets out the steps now actively being taken to enable budgets to be set which robustly demonstrate costs can be contained within the funding made available by Government. Consideration also needs to be given to lobbying Government that any deficits on the DSG should be held centrally not locally.

Treasury Public Works Loan Board (PWLB) Interest Rate

21. On Wednesday 9th October the Treasury informed Local Authority Chief Finance Officers that it was sharply increasing the interest rate on new loans from the public works loan board. The unexpected move saw the 0.8 percentage point interest rate margin over gilt rates more than double to 1.8 percentage points over. This change was cited as a reaction to record low interest rates and a rapid increase in levels of borrowing generally by local authorities with Government concern that this will be linked to commercial investments designed to produce a financial return to invest in services.
22. The increase will have a real impact on the Councils Capital Investment Programme (CIP) moving forward specifically the viability of any housing, regeneration and infrastructure projects due to be financed by prudential borrowing.

Earmarked Reserves

23. As part of the approved process for the development of the 2020/21 budget the Chief Finance Officer is required to undertake a fundamental review of earmarked reserves to determine the extent to which further resources might be released to better support the Council's priorities and key financial risks.
24. **Appendix B** attached presents the detail of this review and reflects the ongoing workstream to ensure consistency in the way inherited resources are presented.
25. At this stage it is proposed to create an additional £3m earmarked reserve to meet the costs of redundancies not covered by the initial £1.5m set aside as part of the initial Local Government Review (LGR) budget to enable the successful transition to BCP from the four predecessor councils. It will be a requirement of these resources that they can only be used in situations where an ongoing saving has been captured as part of the annual budget setting process. These resources have been created from reserves which are no longer needed for the original purpose together with an allocation from the Financial Planning Earmarked Reserve.

Local Council Tax Support Scheme

26. No changes are proposed to the Local Council Tax Support Scheme for 2020/21.
27. Ongoing consideration is being given to potentially consulting during spring/summer 2020 on a fundamentally revised scheme for 2021/22. Potential changes could include;
- amending the scheme to a banded scheme which means constant minor changes to income levels do not lead to regular small changes to entitlement.
 - Changing the maximum level of Council Tax support from the current 80%. In all likelihood any change to entitlement would increase the maximum level of support.

28. Final proposals in this regard will be set out in the February 2020 Budget report and the proposal to ensure a harmonisation rate of Council Tax is achieved from April 2021 onwards.

Council Tax Discount – Care Experienced Young People

29. BCP Council has corporate parenting responsibilities for approximately 350 care leavers between the age of 18 and up to the age of 25. In embracing this role, the Council will continue to secure the best outcomes for our children in care and care experienced young people. Assisting young people financially and promoting independence is no more than any parent would strive to do for their child.

30. BCP Corporate Parenting Board considered the range of pressures that care experienced young people face when they start to live independently for the first time and as they transition into adulthood. Of particular concern for young people is budgeting, debt and managing on their own.

31. **Appendix C** sets out the detail of a proposed scheme which will enable the Council to deliver a discretionary Council Tax discount for BCP care experienced young people between the ages of 18 and up to the age of 25 from April 2020 onwards. The discount will be delivered by the Council exercising its powers under section 13A of the Local Government Finance Act of 1992. The appendix also includes a detailed definition of eligible young people however for the avoidance it only relates to young people that either BCP Council or the relevant preceding authorities looked after. In cases where the preceding council was Dorset County Council only those young people who were ordinary resident in Christchurch.

32. Such a discretionary discount would also be in line with the recommendations of the Children's Society. They have campaigned based on research which found many care leavers fell into a pattern of debt when transitioning to adulthood with reasons for this including the lack of a family support network.

33. The estimated cost of this new Council Tax discount is £110,000 per annum and will be made up of two fundamental elements. The discount offered to BCP Care Experienced Young People up to the age of 25 who live within the conurbation which as a Council Tax discount will reduce the amount raised in Council Tax revenue and is estimated at £85,000. The second element is the amount offered to BCP Care Experienced Young People who reside at an address in the Dorset Council or New Forest District Council Area. This element will need to be treated as a payment to the relevant Local Authority and will be processed by the Children's Services Directorate as an estimated cost of £25,000.

34. Offering this discount is being treated as a Council priority for funding through the process supporting the 2020/21 Budget.

Consultation

35. In isolation, the matters raised in this report do not require any formal consultation. The necessary additional resources, savings and efficiencies required to balance the budget over the next three years will each need to be reviewed to determine the extent to which they may require consultation. Consideration will also need to be given to the relevant period, stakeholder groups and method of consultation.
36. This report considers current and future financial sustainability. Any consequential saving and efficiency plans that are developed will each need to be stress tested to determine the extent to which alternative options exist.
37. Appendix A includes consideration of the implications of alternative Council Tax strategies considered and rejected.

Summary of financial implications

38. The financial implications of the MTFP and Budget work now in hand are as outlined within the report.

Summary of legal implications

39. 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. 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.

Summary of human resources implications

40. There are no direct human resource implications of this report. However, the MTFP and Budget will have a direct impact on the level of services delivered by the Council, the mechanisms by which those services are delivered and the associated staffing establishment.

Summary of environmental impact

41. Consideration will be given as part of the Budget for 2020/21 of ways in which BCP Council could be made more environmentally-friendly and how it could act as an environmental ambassador towards others.

Summary of public health implications

42. None specifically related to this report.

Summary of equality implications

43. A full Equalities Impact and Needs Assessment (EINA) will be undertaken as part of the final February report to Members as part of the annual budget process to

identify the overall equality impacts in respect of the nine protected characteristics:

- a) age;
- b) disability;
- c) gender reassignment;
- d) marriage / civil partnership;
- e) pregnancy/maternity;
- f) race;
- g) religion & belief;
- h) sex;
- i) sexual orientation.

44. Officers are required to identify any EINA implications of any specific priorities or savings which they bring forward as part of their budget proposals and these are then used to inform the Council's final Budget decisions.

Summary of risk assessment

45. A key element of the reorganisation of local government in Dorset was the opportunity to best protect public services as central government continues to reduce the core funding it provides local councils.

46. This report and the outlined actions will form part of the mitigation strategy associated with the risks to the delivery of the Council's objectives due to the level of available resources.

47. Uncertainty associated with the Government's financial planning framework, be that due to the national spending review or new model of funding local government, will continue to be a key risk as will possible variations to base assumptions such as the demand for council services or their cost.

Background papers

The 2019/20 Budget and Consolidated MTFP Update for Bournemouth, Christchurch and Poole Council which was approved by the BCP Shadow Authority on the 12 February 2019 can be found at;

<https://modern.gov.bcpshadowauthority.com/ieListDocuments.aspx?CId=136&MId=123&Ver=4>

BCP Cabinet - 12 June 2019 - Medium Term Financial Plan Update Report

<https://democracy.bcpCouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=3718&Ver=4>

BCP Cabinet – 9 October 2019 - Medium Term Financial Plan Update Report

<https://democracy.bcpCouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=3722&Ver=4>

Appendices

Appendix A Key Financial Planning Assumptions – General

Appendix A1 Key Financial Planning Assumptions – Adult Social Care Directorate

Appendix A2 Key Financial Planning Assumptions – Children’s Directorate

Appendix B Schedule of Earmarked Reserves

Appendix C Council Tax Discount policy for Care Experienced Young People up to the age of 25