



BCP Medium Term Financial Plan

Key Financial Planning Assumptions

The MTFP as presented is based on several key assumptions that although they have been informed by numerous factors such as government announcements, economic forecasts, and trend analysis, are also based on professional judgement. They can be listed as follows; *(please note the assumptions for the Adult Social Care Directorate are shown in Appendix A1 and the Children's Directorate in Appendix A2)*

Pressures

a) Pay Award across all Council Services - £3m 2020/21

Consistent with the actual outcomes for 2018/19 and 2019/20 the MTFP includes provision for a 2% baseline increase in employee costs as part of an annual pay award settlements. Further provision in certain services has been made where they have a significant staff base on the lower spinal column points which will be impacted by the application of the National Living Wage.

The Trade Unions, Unison, GMB and Unite have requested a 10% pay rise, a one day increase in annual leave, a two-hour reduction in the working week, and a review of workplace stress and mental health.

Services are expected to manage the impact of any incremental drift in their pay base.

Budgetary provision is made for between 95% and 98% of each services employee establishment to allow for the impact of turnover and other matters on the actual costs of the service.

The assumption continues to be made that the harmonised pay and grading structure of the BCP Council be cost neutral.

b) Government Funding Reductions (including New Homes Bonus)

BCP Council received £3m in Revenue Support Grant (RSG) from the Government in 2019/20. This grant can be used to finance revenue expenditure on any council service and is set out annually in the local government finance settlement. This £3m is driven by the characteristics and activity of the Bournemouth area.

Across BCP it is estimated that this core grant funding is £105m per annum less in 2019/20 than it otherwise would have been in 2010/11.

As part the Governments funding formulae some authorities are deemed to receive more income from council tax and business rates relative to other authorities. This perceived excess amount, known as Negative Revenue Support Grant, amounted to £3m for Poole and Christchurch. The Governments stated intention was to remove these resources which would have meant BCP paying across £3m of its Council Tax and Business Rates resources to be redistributed nationally. Previously the Government provided one-off

Appendix A

resources to avoid negative RSG impacting in 2019/20. As part of the September 2019 Spending Round the Government made a further commitment to cover the cost of negative RSG for another year and to prevent it having an impact in 2020/21.

Therefore, the Council is not anticipating any further reductions to its core funding in 2020/21. In fact, due to annual indexation it is assuming this grant will increase by £0.1m. What it being assumed is funding reductions to reflect the fact that it will receive less New Homes Bonus (NHB) and Housing Benefit Administration grant in 2020/21 compared to the current 2019/20 financial year.

New Homes Bonus was introduced in 2011 to incentives local authorities to encourage housing growth in their area. BCP has achieved NHB of £3.8m in 2019/20 with the grant structured around receiving a grant for four years for each new home above a 0.4% baseline, with the value based on the average national council tax level. Previously the indication was that 2019/20 would be the final year for any new NHB allocations as the Government looked to explore how to incentivise housing growth as part of the next spending review.

The September 2019 Spending Round however set out the Government's intention to make available funding to support an additional 2020/21 allocation for new homes delivered but that this would not result in any legacy payments being made in subsequent years. Therefore, the MTFP assumes the following profile of NHB payments which equates to a £1.2m reduction in Government funding when comparing 2020/21 with 2019/20.

Year Payment	2019/20	2020/21	2021/22	2022/23
Bonus Year				
2016/17	£1,808,241			
2017/18	£251,901	£251,901		
2018/19	£881,673	£881,673	£881,673	
2019/20	£846,339	£846,339	£846,339	£846,339
2020/21		£604,092		
Total Payment	£3,788,154	£2,584,005	£1,728,012	£846,339

Alongside the reduction in NHB the Council is also anticipating a £0.2m reduction in the Housing Benefit Administration grant it receives. This reflects the historical year on year reduction to reflect the move from Housing Benefit to Universal Credit.

c) Inflationary costs

Inflation is only provided for in service budgets where it can be demonstrated that it will be needed due to either market or contract conditions. Inflation as at October 2019 was 1.5% as measured by the (CPI) Consumer Price Index (September 1.7%).

The Government have announced plans to lift the four-year freeze on working age benefits meaning the Universal Credit will rise by 1.7% from April 2020.

d) Pension Fund – Tri-annual revaluation impact - £1.3m 2020/21

BCP Council is a member of the Dorset Local Government Pension Scheme administered by Dorset Council. The funds actuary Barnett Waddingham is required to revalue the fund every three years (tri-annual revaluation) to determine both the value

Appendix A

of its assets and liabilities and the contributions rates for each employer in the fund. The fund has been revalued as at April 2019 with the impact as follows;

Local Authority	31 March 2019 Funding level	31 March 2016 Funding level
Bournemouth Council		79%
Christchurch Council		88%
Dorset Council		80%
Poole		86%
BCP Council	92%	82%

As at 31 March 2019 BCP Council has a funding deficit of £86.6m with a resulting funding level of 92%. This improvement is a combination of the good asset performance of the fund with a slowdown in mortality improvement, negated to some extent by an assumption of higher future inflation and a lower discount rate compared to the 2016 valuation.

The Medium Term Financial Plan as approved in February 2019 allowed for a continuation of the 15.6% primary rate and an increase in the annual back-funding lump sum contribution by £1.3m in 2020/21 and £0.7m in both 2021/22 and 2022/23.

Negotiations continue with the pension fund actuary to agree the primary rate and back funding contributions that the Council will actually be required to make over the next three years.

Additional Resources, Savings, and Efficiencies

e) Council Tax Harmonisation Strategy

The current financial planning assumption is based around a Council Tax Harmonisation strategy designed to ensure consistent levels of tax are charged across the conurbation from April 2021 onwards (2021/22 financial year).

At its core this strategy is underpinned by a 2.99% assumed increase as adjusted for the impact of the precept for Chartered Trustees in 2020/21. The proposed changes in each town would be as follows;

Appendix A

BCP Council – Council Tax Harmonisation Strategy					
2020/21 Financial Year					
<ul style="list-style-type: none">- Poole and Bournemouth = 2019/20 charges plus 2.99%, as adjusted for the impact of the Chartered Trustees precept.- Christchurch = 4.5% reduction which is to a level of tax consistent with the 2021/22 estimate for Poole.					
2021/22 Financial Year					
<ul style="list-style-type: none">- Poole = 2020/21 charge plus 2.99%- Bournemouth = 2020/21 charge plus 0.76% which would mean harmonisation with Poole and Christchurch.- Christchurch - Frozen from 2020/21. This is on the basis that their 2020/21 rate is equivalent to that proposed for Poole in 2021/22.					
Harmonised Council Tax achieved in 2021/22					
	2019/20	2020/21	<i>Increase</i>	2021/22	<i>Increase</i>
Christchurch	1,598.30	1,526.81	-4.47%	1,526.81	<i>frozen</i>
Bournemouth	1,473.40	1,515.35	2.85%	1,526.81	0.76%
Poole	1,441.53	1,482.48	2.84%	1,526.81	2.99%

The intent in harmonising Council Tax over the first three years of the new BCP Council is to better align with the period that is required to deliver consistent levels of service.

The September 2019 Spending Round has given the Council the ability to reconsider its current planning assumption as the Government announced that the council tax referendum threshold will be 4% for 2020/21, made up of a 2% core increase and a 2% adult social care precept. Such a move is consistent with the strategic approach taken by Government in the 2015 Spending Review which was to increase council tax as a mechanism for funding local services and within this the use of the adult social care precept as a means of asserting national direction on how such resources are applied.

In line with Government policy each of the predecessor authorities applied the maximum increase before the referendum threshold, which included the maximum use of the adult social care precept when made available, in each of the years since the last Spending Review (from 2016/17 onwards). In addition, Bournemouth, Dorset and Poole who were given the option of applying a 6% social care precept over two or over three years chose to apply it over the shorter two-year time horizon. This was seen by all three Councils as the best mechanism for protecting services to the most vulnerable in our community.

If BCP were to choose to increase Council Tax based around a 3.99% increase in 2020/21 this would generate £2.1m in additional revenue over that already assumed. The Council can continually reflect and challenge itself on its strategy prior to formally setting the 2020/21 Council Tax as part of next year's Budget report to Council on the 18 February 2020.

Alternative Council Tax Harmonisation Strategies considered and rejected.

In respect of the legislation which supported the creation of BCP the Secretary of State was keen to strike the right balance between ensuring council tax payers do not

Appendix A

experience a large increase in bills and not allowing residents in any one part of the area to be concerned that they are effectively contributing more to the cost of services than others in the area. Therefore, BCP are permitted to consider either;

1. harmonising over a maximum of seven years with a fully equalised council tax to be set by the start of year eight at the latest (2026/27).
2. harmonising at the average council tax across the area in any year prior to 2026/27.

The regulations also permitted BCP to apply the annual referendum principles in any year before harmonisation to either the average council tax across the whole area, or to the council tax in each predecessor area. This means that for 2020/21 BCP could set a £1,535.62 harmonised band D rate of council tax which is the £1,476.70 average for 2019/20 council tax plus 3.99%.

The strategy currently being used for financial planning purposes is consistent with the first of these options. This approach was also the one used as the basis for the strategy adopted by the Shadow Authority when it approved the Council Tax levels for 2019/20 at its meeting in February 2019. This Shadow Authority strategy can be articulated as;

- a) no Borough's council tax levels will rise at a rate exceeding the Government's referendum limits; and
- b) that the amount charged in Christchurch is frozen and or reduced until the new harmonised rate is applied

The financial models supporting the Shadow Authorities budget proposals clearly set out the assumption that the harmonisation strategy was based at its centre on increases in Council Tax in line with the maximum Government referendum limit. This was deemed to be the 2.99% announced for 2019/20 and as a matter of prudence 1.99% for future years in line with the amount previously used by Government. The Shadow Authorities approach also assumed the level of council tax in Christchurch was frozen until the year of harmonisation. At this stage the Government had made no announcement of future Adult Social Care precepts lifting the annual referendum limit as a means of providing funding to protect Social Care.

Therefore, the two following alternatives have been considered and rejected;

A. Alternative Average based on a harmonised rate of Council Tax for 2020/21 of £1,535.62.

B. Shadow Authority basis which would mean a 2020/21 Council Tax based on a 3.99% increase. The resultant increase in Poole would be 3.83%, Christchurch's Council Tax would be frozen, and Bournemouth's increase would be 3.12%. This update on the approved strategy of the Shadow Authority would mean that harmonisation would now be reached in 2023/24.

Compared to the current base case 2.99% council tax increase being used to underpin the latest reiteration of the budget for 2020/21 and MTFP, therefore the current approach being used for financial planning purposes only, option A would generate £4.6m and option B £2.6m more in revenue in 2020/21.

These approaches have been rejected on the basis that;

- option A would mean residents in Poole facing large increases in their bills. Poole's Council Tax would increase by 6.52% in 2020/21 which would be a 2.53% increase above the level the Government deem to be excessive (the 3.99% referendum threshold).

Appendix A

- option B would mean residents being concerned they are effectively contributing more to the cost of the council services than others in the area for a period considered excessive. Harmonisation under this option would be achieved by the fifth year of the new Council which is two additional years beyond that currently being assumed for financial planning purposes.

f) Business Rates

Our current financial planning assumption is for business rates resources to increase annually by the Consumer Price Index (CPI). This reflects the parameters set out by the chancellor in his October 2018 Budget Statement and the narrowing of the gap between the Governments assessment of the BCP baseline finance settlement and actual levels of business rates income achieved.

This position will be kept under review in light of the announced move to a 75% Retained Business Rates model from 2021/22.

g) Assumed Savings and Efficiencies

As part of the process for setting a balanced budget for 2020/21 outline savings and efficiency plans which total £7.4m have been developed. It should be stressed that some of these savings have been assumed for financial planning purposes only as they will remain subject to public and staff consultation and subsequent member approval. In line with the process for setting the 2019/20 budget a detailed schedule of these assumed savings proposals will be included as part of the final budget report.

The 2020/21 financial strategy will require services to continue to review the deliverability of the assumed savings and develop options for additional saving proposals for consideration.