CABINET

Report subject	**2020/21 Budget and Medium Term Financial Plan (MTFP)**
Meeting date	12 February 2020
Status	Public Report
Executive summary	To set out for cabinet consideration and recommendation to council the proposed 2020/21 budget and council tax. The budget as presented; a) has been drafted on a base 3.99 per cent increase in council tax as adjusted in each of the predecessor areas by the application of the policy to achieve harmonisation from 1 April 2021 onwards. b) Includes provision to mitigate the deficit that is accumulating in the high needs budget of the Dedicated Schools Grant (DSG).
Recommendations	**It is RECOMMENDED that** **Cabinet RECOMMENDS to Council that;** 1) undertake a recorded vote in relation to the following items as required by the Local Authorities (Standing Orders) (England) (Amendments) Regulations 2014 which came into force on the 25 February 2014; a) A net budget of £283m, resulting in a total Council Tax Requirement of £217.1m, is set for 2020/21 based on the settlement figures published by Government in December 2019. This is based upon: i. an increase in council tax in 2020/21 which means that the BCP Unitary Charge will not increase above 3.99 per cent for any residents and individual resident charges are determined in line with the approved council tax harmonisation strategy as set out in Appendix 1a and summarised as; 1. Bournemouth's BCP Unitary charge council tax being an increase of 3.84 per cent over that levied in 2019/20. 2. Christchurch's BCP Unitary charge Council Tax being a reduction of 3.55 per cent over that levied in 2019/20. 3. Poole's BCP Unitary charge Council Tax being an increase of 3.83 per cent over that levied in 2019/20. These increases can be compared to the 3.99 per cent maximum permitted increase for 2020/21 and recognises that the Government continue to promote council tax increases via the social care precept as a funding mechanism for Social Care.

	ii. the key assumptions and provisions made in the budget as proposed, set out in paragraph 39 to 55; iii. the allocations to service areas in the budget as proposed and as set out in Appendix 2a; iv. the Capital Investment Programme (CIP) as set out in paragraphs 93 to 109 and Appendix 4; v. the use and level of all reserves to be held by the Council further to the advice of the Chief Finance Officer as set out in paragraphs 109 to 121 and Appendix 3 to this report; vi. Treasury Management Strategy (TMS) and prudential indicators as set out in paragraphs 122 to 126 and Appendix 5; vii. the Chief Officers' Pay Policy Statement for consideration and approval by the council in accordance with the provisions of the Localism Act 2011 as set out in paragraphs 128 to 129 and Appendix 7; viii. that councillor allowances for 2020/21 will be increased in line with the national salary award as discussed in paragraphs 130 to 132; b) approve the flexible use of capital receipts strategy to deliver significant resources towards the BCP Council transformation programme as set out in paragraphs 62 to 73. c) approve a £2 million 2020/21 Revenue Contribution to Capital Outlay (RCCO) to provide a minimum level of annual investment in the capital programme. d) approve to support the high needs block of the DSG by a £4 million (1.9 per cent) transfer from the schools block, and a £0.2 million (0.5 per cent) transfer of early years funding, as set out in paragraphs 74 to 86. e) approve a £1.2 million contribution to a Financial Liability Earmarked Reserve to provide a sustainable funding source to help mitigate the estimated 2020/21 deficit on the High Needs Block of the DSG. f) approve the allocation of reserves received from the disaggregation of the balance sheet of Dorset County Council with the residual Financial Planning Earmarked Reserve to further support the Financial Liability Reserve. g) note the intention, that should the Government agree to provide a specific grant to cover the accumulated deficit on the High Needs Block of the DSG, to redirect the Financial Liability Reserve to further support the Councils corporate priorities including transformation. h) that the Chief Finance Officer provides council with a schedule setting out the rate of council tax for each category of dwelling further to councillors consideration of the decision required in respect of (a) above and after taking account of the precepts to be levied by the local Police and Fire Authorities, Neighbourhood, Town and Parish Councils,

	and Chartered Trustees once these have been determined prior to the Authority meeting on the 18 February 2020.
Reason for recommendations	The council is required to set an annual balanced budget presenting how its financial resources, both income and expenditure, are to be allocated and utilised. In setting the budget for 2020/21 it is critical that councillors recognise their duty is to balance this budget in a manner which reflects not only their obligation to current taxpayers but also reflects their obligations to future taxpayers.
Portfolio Holder(s):	Cllr David Brown – Finance Portfolio Holder
Corporate Director	Julian Osgathorpe, Corporate Director for Resources
Contributors	Adam Richens, Chief Finance Officer and Service Director of Finance Dan Povey, Acting Assistant Chief Finance Officer Nicola Webb, Assistant Chief Finance Officer Matthew Filmer, Finance Manager
Wards	All Wards
Classification	For Recommendation to Council

Overview of the proposed 2020/21 Budget

1. The 2020/21 budget as presented is a responsible, sustainable budget which;

   a) harmonises council tax over the next two years, with a consistent rate being charged from April 2021 onwards.

   b) continues to work to ensure consistent standards of service are delivered by April 2021.

   c) provides for the ongoing resources needed to keep the reopened Poole public conveniences accessible to the public.

   d) delivers a further £9.4 million in annual service-based savings in addition to the £11.2 million delivered to support the 2019/20 budget, bringing the total service-based annual savings following Local Government Review (LGR) to £20.6 million. These savings preventing some of the cuts to services being implemented by other local authorities at this time.

   e) Invests £1.4 million extra per annum in Council priorities, namely;

   - £240,000 being set aside to support the climate change and ecological emergency including engagement via the citizens assembly, the environment strategy and the associated action plan development.
   - £370,000 investment in regeneration, specifically the councils capacity to deliver regeneration by creating a small team to focus on major projects.
   - £390,000 in the highway maintenance network and to address the impact of the inherited under investment across the Christchurch locality.
   - £150,000 to improve street cleaning standards across the conurbation including addressing the lack of resources available within the Christchurch locality.
   - £150,000 in arts and culture recognising the importance of taking forward the BCP Cultural Enquiry.

- £50,000 to improve site management of unauthorised encampments
- £50,000 in a community engagement strategy and by doing so ensuring that our diverse communities can shape and influence decision making in their local communities
- £12,000 contribution to events to mark VE/VJ and the Dunkirk 75 Anniversary in 2020.

f) Make a commitment to increase these provisions by a further £1.1 million in 2021/22.

g) prioritises investment in services to the most vulnerable members of our community with an extra £14 million allocated for Adults and Children services.

h) invests in our care experienced young people as part of our corporate parenting responsibilities by providing them with a council tax discount.

i) develops a strategy in respect of high needs by recognising the previous unsustainable position.

j) invests even further in regeneration to increase the number of homes built locally, to increase growth, and to boost the council's tax-base. This includes £300,000 per annum set aside to cover the anticipated costs required to secure the acquisition of the Poole power station site and £136,000 per annum to enable the council to repurpose its current short-term £3.4 million loan into a longer-term commitment to the winter gardens development.

k) develops a financial strategy to support the organisational redesign of the council, with up to £18.2 million being initially set aside from a combination of the application of a flexible use of capital receipts policy with a contribution from the Housing Revenue Account (HRA).

l) transforms the council and creates a vibrant new entity which re-imagines and creates a 21st century organisation.

m) manages the £1.1 million reduction in 2020/21 in the New Homes Bonus (NHB) allocated to the authority by Government.

n) continues to manage the £103 million annual reduction in the councils core funding from government comparing 2020/21 against 2010/11.

o) is based on £3 million in core un-ringfenced Government funding in anticipation that this will be removed from 2021/22 onwards.

p) reduces the base budget revenue contingency from one per cent of the net revenue expenditure to 0.4 per cent based on a reduction in the levels of uncertainty from the council's first year of operation and the availability of the residual Financial Resilience Reserve.

q) enables a £2 million annual contribution into the council's capital investment programme. The intention being to use some of these resources to support the implementation of the review of public conveniences and for the implementation of the parks and open spaces strategy.

r) enables a £360,000 annual contribution into the Poole Bay Beach Master Plan as part of the £3.3 million local contribution to a £36 million scheme.

s) continues to protect frontline services

Background Detail

2. Creation of two new unitary authorities, covering the geographical area of Dorset, was a strategic response to the ongoing financial challenges faced by all local authorities, particularly those upper tier authorities facing significant demand and cost increases in adults and children social care services. Cutting out duplication and lowering administration costs delivered by the

reduction from nine local authorities to two in Dorset being designed to ensure improved Value for Money (VfM) for local council taxpayers and to better enable the protection of quality front line services to our community and residents.

3. BCP Council's Corporate Strategy was adopted by council on 5 November 2020. The vision is to create vibrant communities with outstanding quality of life where everyone plays an active role. The high-level strategy sets out five council priorities and a commitment to become a modern, accessible and accountable council committed to providing effective community leadership. The priorities are:

- **Sustainable Environment** - leading our communities towards a cleaner, sustainable future that preserves our outstanding environment for generations to come
- **Dynamic Places** - supporting an innovative, successful economy in a great place to live, learn, work and visit
- **Connected Communities** - empowering our communities so everyone feels safe, engaged and included
- **Brighter Futures** - caring for our children and young people; providing a nurturing environment, high quality educations and great opportunities to grow and flourish
- **Fulfilled Lives** - helping people lead active, healthy and independent lives, adding years to life and life to years.

4. The strategy is underpinned by an agreed set of core values and delivery plans which set out how the council will achieve the priorities. These are presented to this meeting as a separate item on the agenda.

Figure 1: BCP Corporate Strategy

5. In developing this new authority and its Medium Term Financial Plan (MTFP) it is critical to not only remind ourselves of our ambition and purpose but to continue to reiterate that the national policy context of Government (austerity) funding reductions helped lead us to this point.

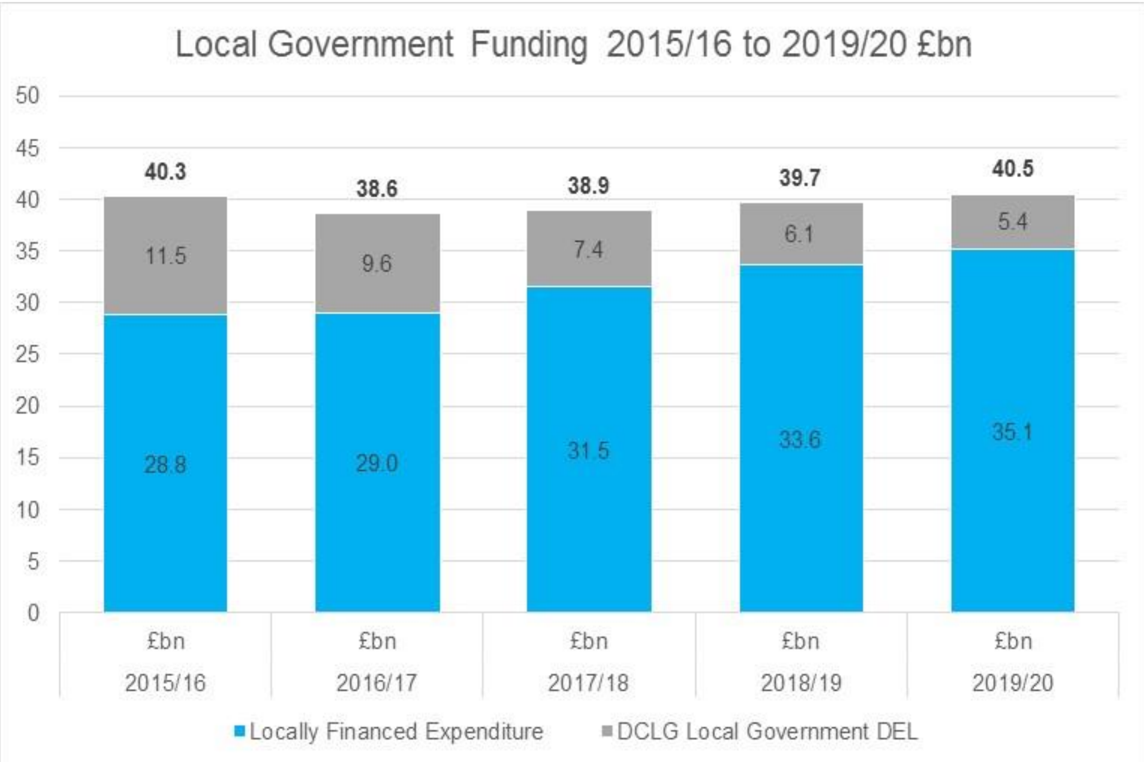
National policy context

6. In **November 2015** the Chancellor of the Exchequer published the 2015 Spending Review (SR15) and 2015 Autumn Statement. In publishing these documents his stated intent was to set out a long-term economic plan that fixed the public finances, returned the country to an annual surplus and to run a healthy economy that starts to pay down the country's debt.

7. The impact of the spending review on Local Government was that the then Department of Communities and Local Government's: Departmental Expenditure Limit (DEL) for Local Government was reduced from **£11.5 billion** in 2015/16 to **£5.4 billion** in 2019/20. This was a reduction of **£6.1 billion** or **53 per cent.**

8. However, government highlighted that their assumption was that overall local government spending would be higher in cash terms in 2019/20 compared to 2015/16 as explained further in figure 2 below;

Figure 2: Local government funding amounts as per the 2015 Spending Review



9. This assumed increase in cash spending between 2015/16 and 2019/20 was only possible from the Government's assumption that councils <u>will generate</u> the following sources of locally financed revenue;

   a) annual year on year increases in Council Tax to reflect the normal annual threshold uplifts.

b) £3.5 billion of extra support for adult social care by 2019/20 via an additional annual increase in council tax in relation to the social care precept.

c) A rebalancing of the system *(initially intended from 2018/19 onwards)* to support those authorities with social care responsibility *(the redistribution of resources via a reduction to the New Homes Bonus and the creation of an Improved Better Care Fund)*.

d) Use of capital receipts as a means of financing revenue expenditure on reform projects.

10. This spending review firmly set the government's strategic approach to increase council **tax** as the mechanism for funding local services over the period to at least 2020.

National context: government's 2019 Spending Round (SR19)

11. April 2020 was supposed to see the introduction of a new financial framework for local government with the implementation of a new fairer funding formulae and the roll out of a new 75 per cent business rates retention system. In addition, 2019 was supposed to see the announcement of a green paper on how the government considered adult social care should be funded in the future and a spending review which would set out the departmental spending limits for the next three to four financial years.

12. In response to these issues, and the urgent need to provide certainty and stability for next year, the Chancellor, Sajid Javid, announced a one-year spending round on 4 September 2019. The statement included the announcement that the long-term local Government finance reforms, including business rates retention and the review of relative needs and resources (fairer funding) have now been delayed until 2021/22. In addition, the statement did not include any indication as to when the government will publish their proposals for the future funding of adult social care other than a reference to such fundamental reforms being set out by the Prime Minister in due course.

13. SR19 did though set out a much-welcomed short-term funding boost for schools, health and social care, and policing. The concern will be that a significant proportion of this funding is being provided by a substantial increase in government borrowing which will not provide a sustainable funding source. In effect, the £15 billion of fiscal headroom that was earmarked in the spring of 2019 as a three-year Brexit contingency fund was effectively spent in supporting a one-year spending round. This headroom was as identified against the Government's previous fiscal rules of keeping the structural deficit below 2 per cent of Gross Domestic Product (GDP) in 2020/21 (the borrowing rule) and debt falling as a percentage of GDP in 2020/21 (the debt rule).

14. It should be emphasised that the spending round set out the national spending plans at a government departmental level. It did not provide individual allocations to specific local authorities. These are contained in the detailed settlement for local government. That said, it did provide valuable context and clarifications with the announcements which will impact on the council's financial position including;

a) All existing 2019/20 grants to support social care will continue.

b) The Government will provide a further £1 billion of grant funding for adults and children's social care in 2020/21.

c) Local authorities will be able to raise up to a further £500 million via a 2 per cent adult social care precept next year.

d) A basic council tax referendum limit of 1.99 per cent for 2020/21 will be set (3.99 per cent total threshold).

e) Funding to remove negative revenue support grant will continue for 2020/21.

f) An additional £700 million will be provided via the DSG to support children with special educational needs.

g) Further grants of £54 million and £24 million will be provided respectively to combat rough sleeping and homelessness and building safety.

15. The government's announcement regarding a social care precept means local councils will be left footing the bill for elderly care, years after the government promised to solve the social care crisis. A solution has been promised by successive governments since 2010.

National Context: Impact of the 2020/21 local government finance settlement

16. After the general election on the 12 December 2019, the Secretary of State for the Ministry for Housing, Communities and Local Government, Rt. Hon. Robert Jenrick MP, made a written statement to parliament on the 20 December 2019 setting out the provisional local government finance settlement for 2020/21.

17. The settlement was based on the SR19 funding levels, with individual authority allocations based upon the SR15 and subsequent funding announcements. On this basis it did not contain any surprises, however it did reiterate several points made in the December 2019 Queen's Speech. These included the fact government wants to reform social care and find a "long-term solution that will stand the test of time". It highlighted a three-point plan to address social care:

    1. An additional £1 billion for adults and children's social care in every year of this parliament. In addition, the government propose a 2 per cent council tax precept that will enable councils to access a further £500 million for adult social care for 2020/21.
    2. To urgently seek a cross-party consensus on social care, as there is on the National Health Service (NHS), and to make far-reaching changes to the way these services are financed and delivered.
    3. To ensure that nobody needing care will be forced to sell their home to pay for it.

18. Importantly, for the Council, the first point simply confirms the extra grant announced in SR19 will continue to be received in the financial years beyond 2020/21. It did not announce any new funding. For example, no further annual increases in the adult and children's social care grant were announced. There was also no indication that the Council will be able to implement a further social care council tax precept beyond next year, although that must remain a possibility.

19. A second point made in the Queen's Speech was it provided more clarity on the government's new fiscal rules, which had not previously been made explicit, namely;

    a) to have the current budget in balance no later than the third year of the forecast period. This replaces the current rule which was that the deficit could not be larger than 2 per cent of GDP.

    b) to limit public sector net investment to an average of 3 per cent of GDP.

    c) to reassess plans in the event of a pronounced rise in interest rates taking interest costs above 6 per cent of government revenue.

20. The commitment to balance the budget in the third year of the parliament indicates a much tighter fiscal policy than was pursued by the previous chancellor. The national budget deficit is currently about £45 billion (around 2 per cent of GDP) and closing this gap will require some substantial fiscal consolidation. Given that a large proportion of the public sector is protected, this does raise the risk that there is less scope for any growth in funding for local government.

21. For the avoidance of doubt the intention now appears to move to a 75 per cent retained business model from 2021/22 onwards with the key points associated with such a proposal being;

- It will be **fiscally neutral** at a national level
- It will continue to be underpinned by the **principle of redistribution of resources** based on need. The current assumption being that this principle and how such resources are distributed nationally will be reviewed further based on the results of the general election.
- The government will incorporate additional funding responsibilities including the public health grant and where relevant any residual revenue support grant (RSG).
- It will be subject to suitable transitional measures. This element will be critical as the intention is that there will also be a full reset for 2021/22 which will see the "growth" within the current business rates system up to 2020/21 transferred to baseline resources that councils can retain.

22. The final 2020/21 local government finance settlement had not been issued as at the date of this reports production. Any variance from the provision settlement will be dealt with as an amendment to the base revenue budget contingency.

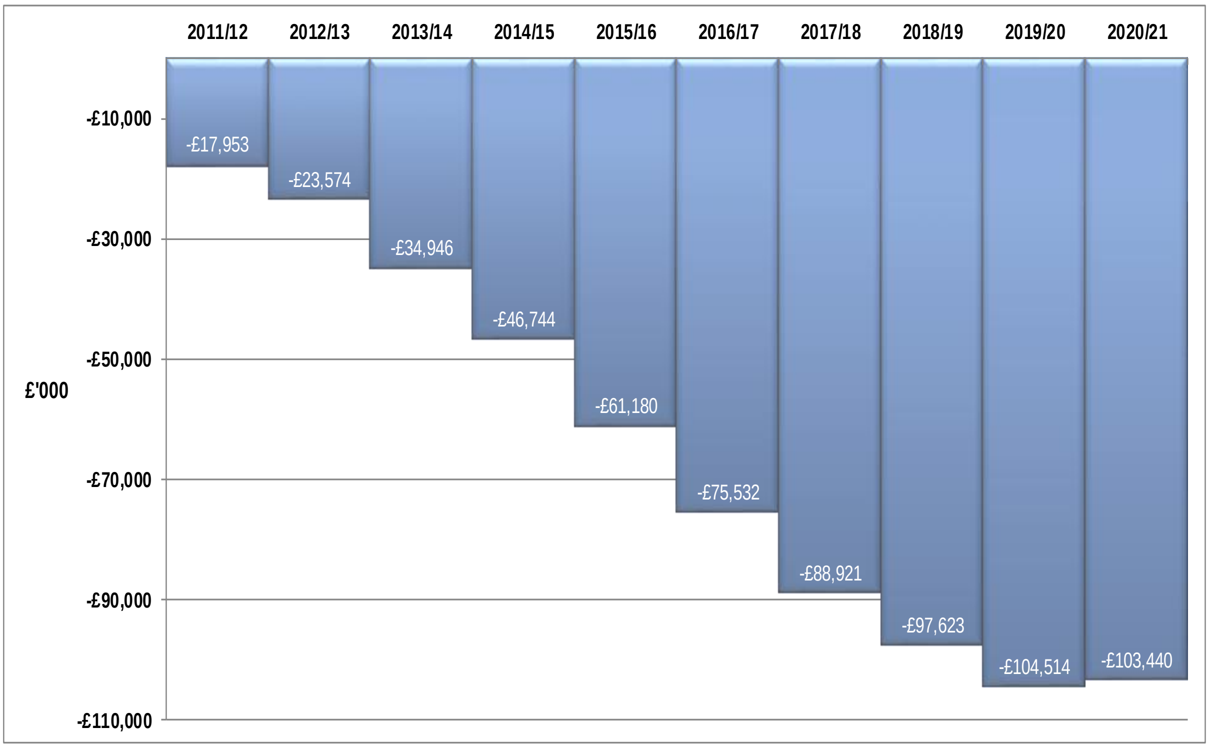
Local context

23. 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.

24. As stated previously the creation of BCP Council was a strategic response to the ongoing financial challenges faced by all the local authorities in Dorset. These challenges include the impact of the past nine years of austerity which saw protections applied to the NHS, schools, international development, defence equipment and latterly to defence and the police meaning that public spending reductions have been and will continue to be felt disproportionally by local government. This means that apart from some recent additional national protection in respect of the expenditure incurred by councils in supporting some of the most vulnerable members of our society, council budgets have been reduced significantly over most of the last decade.

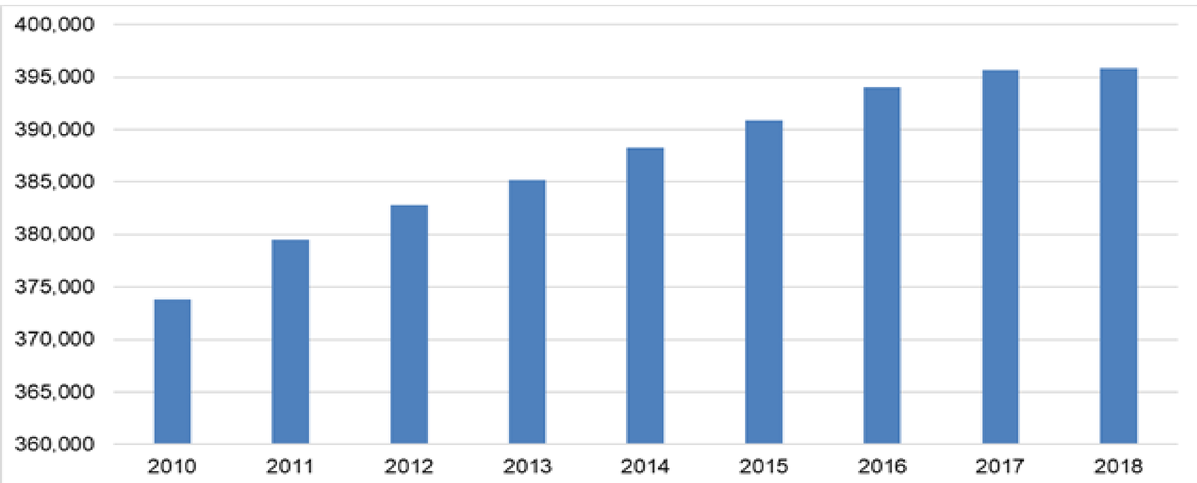
25. Locally as highlighted in figure 3 below there has been a total £103 million reduction to the council's annual core government funding comparing 2020/21 to 2010/11, as part of the government's austerity programme. To put this annual reduction into context it is more than the entire annual 2018/19 budget for the predecessor Unitary Authority of Poole. In a BCP Council context and a net 2020/21 annual budget of £283m these reductions equate to approximately 1/3 of the net budget of the council.

Figure 3: Cumulative per annum reductions in the core government funding of Bournemouth, Christchurch and Poole compared to 2010/11 (£000's)



26. The council's finances therefore remain under immense pressure but not only due to the reductions in government funding. Cost increases through such factors as the living wage (6.2 per cent increase in 2020/21) as well as the relentless increase in demand for council services, particularly those related to vulnerable adults and children, also play a significant role. This unprecedented increase in demand for Council services can be partially attributed to the **5.9 per cent** increase in the conurbations population already experienced over the period of austerity, as set out in figure 4 below;

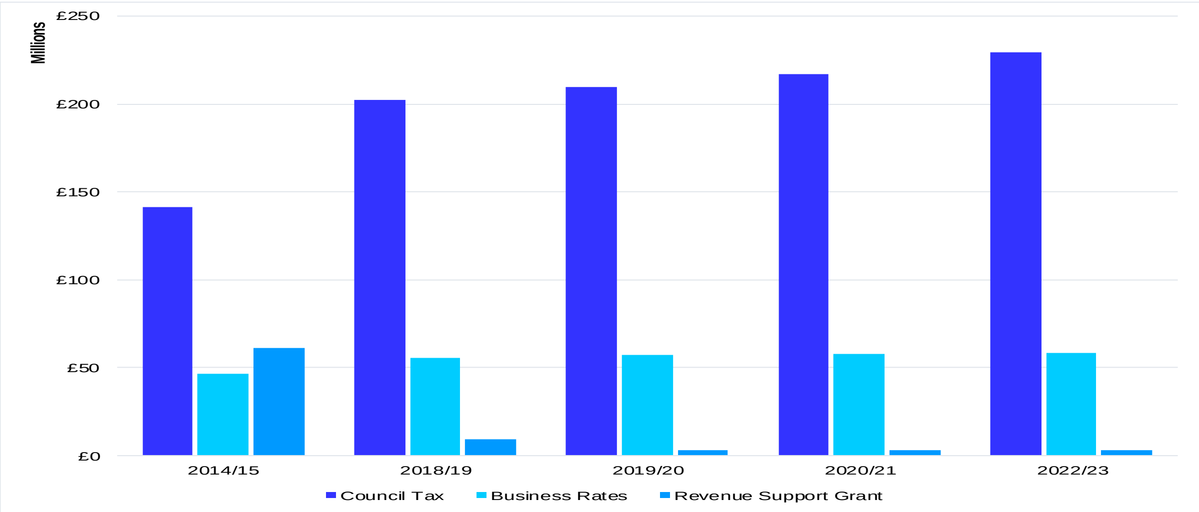
Figure 4: Increase in the population of BCP Council between 2010 and 2018



Source: Population Estimates Unit, Office of National Statistics 2019

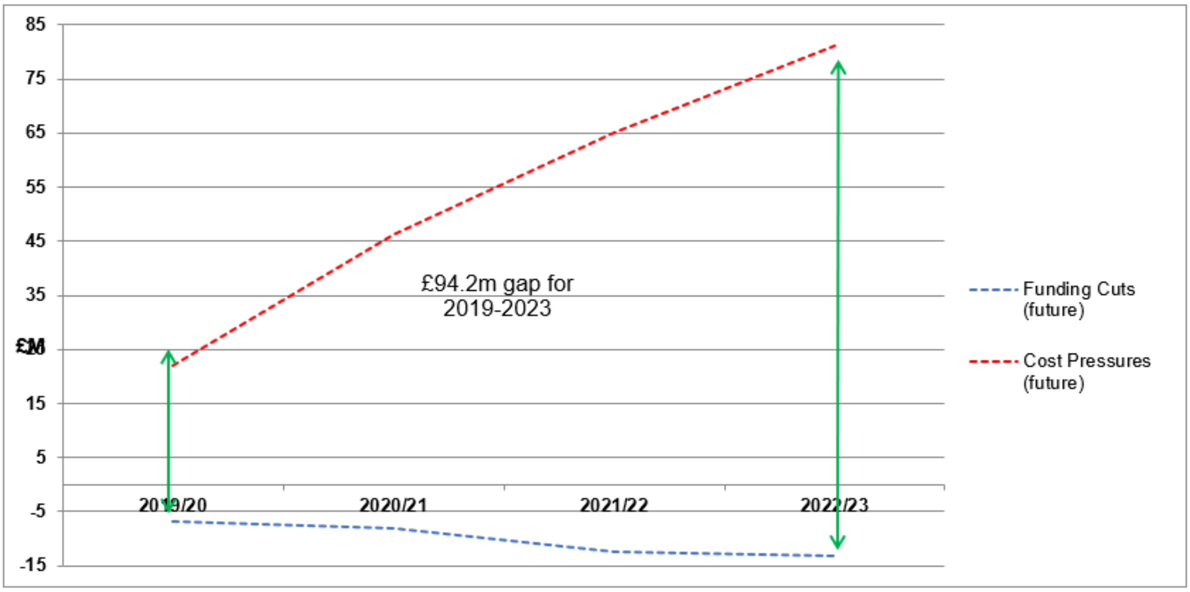
27. As a result, by 2021 apart from certain specific service grants the council will be reliant on the money and other income (net of fees, charges and asset purchase strategy income) it raises locally to pay for most local services, be that council tax or the amount of local business rates it is permitted to retain. Figure 5 below highlights the anticipated changing pattern of council funding.

Figure 5: Changing pattern of council funding



28. This presents the council with an unprecedented challenge as not only is core un-ringfenced government funding being completely removed from April 2021, but both nationally and locally, demand and associated costs continues to grow for council services, particularly those for vulnerable older people and vulnerable children. The council continues to prioritise these services as it has a legal duty to safeguard both vulnerable adults and children. Figure 6 highlights the combined impact of cost pressures with the complete withdrawal of government core funding.

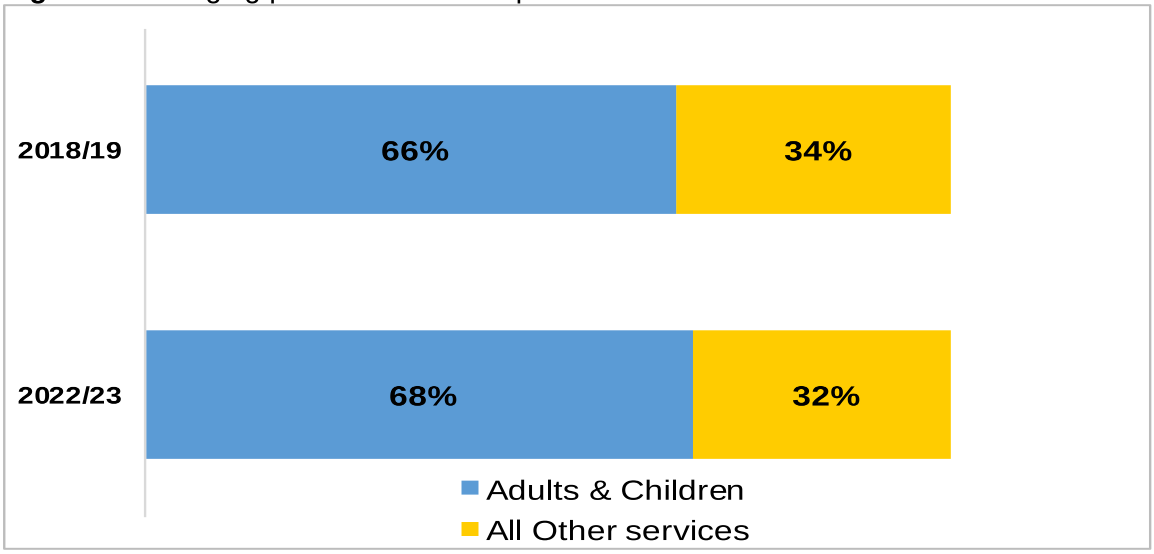
Figure 6: Impact of cost pressures and reductions in government funding



29. Further loss of funding, coupled with increasing demand for services, means the Council must make further savings of approximately £64 million over the next three years. This will make it even harder to balance the council's budget, deliver universal services *(such as refuse and recycling collections, libraries, parks and open spaces)* and meet core duties such as protecting vulnerable children and older people.

30. The action that will be necessary to address the complete removal of core government funding, when coupled with the increasing demand and costs associated with adults' and children's services, will continue to see a reprofile of council spend as set out in figure 7 below.

Figure 7: Changing pattern of council spend



Local context: 2019/20 in-year financial position

31. In-year budget monitoring reports throughout 2019/20 have highlighted the additional financial pressures the council has identified and faced in its first nine month of operation. These pressures are being managed from the additional resources (£2.5 million revenue budget contingency and £6.5 million service specific Financial Resilience earmarked reserves) set aside to manage the additional level of uncertainty in this first year of operation. A report which produces a forecast for the year based on activity between 1 April 2019 and 31 December 2019 appears as a separate item on the agenda for the 12 February 2020 cabinet meeting.

32. The monitoring suggests that the major areas of cost pressure include demand for the provision of adult social care, the increased cost of adult residential placements, a spike on expensive children in care (CiC) placements, higher number of inherited CiC cases from the Christchurch area, a growth in the number and cost of pupils eligible for special educational needs (SEN) transport, with a reduction in income from cremations largely due to the opening of a new private facility.

33. As at the end of December 2019 the council had a forecast overspend position of £5.3 million in services which is being met by the £2.5 million base revenue contingency and £2.8 million from the service specific financial resilience reserves. In setting its budget for 2020/21 BCP Council will need to reflect of the adequacy on any contingency and resilience reserves alongside the fact that it only has experience of operating as a single entity for ¾ of a financial year.

34. In addition, the there is also a significant pressure in the DSG as a result of increased demand for high needs services associated with a growing caseload of pupils with special educational needs as well as fee increases from independent special schools. The consequences of this pressure are reflected upon later in the report.

Local Context: Financial Strategy

35. At the meetings of the cabinet on the 12 June 2019, 9 October 2019, 20 December 2019 high level consolidated MTFP information has been presented based on the work to date to deliver a balanced, sound, robust and sustainable budget for 2020/21.
36. 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 included 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.

37. As part of the stage four process cabinet members, in liaison with the relevant corporate directors, have been undertaking work to determine the efficiencies that could contribute to the savings requirement. The main area has consistently been focused on the reduction of the consolidated staff base of the council. Such opportunities are mainly from a combination of avoiding duplication in the cost of management, through economies of scale in service delivery, and particularly in front line services own, back office and support functions.

38. Figure 8 below sets out the budget for 2020/21 and 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, these are reflected in Appendix 2a.

Figure 8: General Fund - Budget 2020/21 and MTFP 2020 to 2023

19/20 £m	Additional Investment into Services	20/21 £m	21/22 £m	22/23 £m	Total £m
6.9	Adult Social Care – growth in demand and cost increases.	11.0	8.2	7.9	**27.1**
2.9	Pay award - allocated to be allocated to services	3.0	2.9	2.9	**8.8**
6.9	Government Funding reductions	1.1	4.3	0.8	**6.2**
1.3	Children's Services – demand and cost increases	3.0	1.9	1.1	**6.0**
1.3	Environment and Communities - inc price inflation contract related	3.2	0.6	0.6	**4.4**
1.1	Regeneration and Economy - including price inflation	2.0	0.5	1.0	**3.5**
0	Central Items - potential additional 0.75% Pay Award	0.9	0.9	1.1	**2.9**
0.7	Minimum Revenue Provision inc Holes Bay / Interest payable	0.6	1.3	0.0	**1.9**
1.1	Corporate Services – including Microsoft licence costs.	0.8	0.6	0.5	**1.9**
0.0	Corporate Priorities	1.4	1.1	0.0	**2.5**
0.0	Investment related to the high needs deficit	1.2	0.0	0.0	**1.2**
1.1	Revenue Contribution to Capital	1.1	0.0	0.0	**1.1**
1.8	Pension Fund – tri-annual revaluation impact	(1.7)	1.0	1.0	**0.3**
0.1	Public Health – grant contribution to service reduced	0.0	0.0	0.0	**0.0**
1.7	Adult Social Care - winter pressures	0.0	0.0	0.0	**0.0**
2	Contingency	(1.3)	0.0	0.0	**(1.3)**
0.0	Interest Payable	(1.1)	(0.1)	0.0	**(1.2)**
28.9	**Total Additional Investment into Services**	**25.2**	**23.2**	**16.9**	**65.3**
	Cumulative Investment into Services	**25.2**	**48.4**	**65.3**	

19/20 £m	Additional Resources	20/21 £m	21/22 £m	22/23 £m	Total £m
(3.9)	Council Tax – Income	(6.0)	(3.5)	(6.8)	**(16.3)**
(2.7)	Council Tax - Tax base Increases	(1.7)	(1.0)	(1.2)	**(3.9)**
(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)	(1.1)	(1.1)	**(3.2)**
(0.6)	Collection Fund – Surplus Distribution	(1.2)	1.4	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)	0.0	0.0	**(6.7)**
(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	(3.2)	(1.4)	(0.8)	**(5.4)**
(1.6)	Children's Services – services savings & efficiencies	(1.0)	(0.2)	0.0	**(1.2)**
0.0	Environment and Community - services savings & efficiencies	(2.2)	(0.1)	0.0	**(2.3)**
(4.3)	Regeneration and Economy - services savings & efficiencies	(2.1)	0.0	(0.1)	**(2.2)**
(3.1)	Corporate Services – services savings & efficiencies	(0.9)	0.0	0.0	**(0.9)**
(28.9)	**Total annual extra resource & savings**	**(25.2)**	**(5.9)**	**(10.0)**	**(41.1)**
	Cumulative extra resources & savings	**(25.2)**	**(31.1)**	**(41.1)**	

Annual – Net Funding Gap	**0.0**	**17.3**	**6.9**	**24.2**
Cumulative MTFP – Net Funding Gap	**0.0**	**17.3**	**24.2**	

39. The proposed 2020/21 budget and 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;

Additional investment into services

40. **Investment in adult social care - £11 million 2020/21**

The MTFP makes provision for an additional £27 million investment in adult social care services over the 3-year period to March 2023. This pressure is a combination of;

a) assumptions around inflationary pressures within the care market. These pressures mainly relate to increases for providers in staffing costs where a significant driver will be the consequential impact of increases in the national living wage.

b) pricing growth for residential care costs due to market conditions and the increased complexity of service users, where costs for residential care for people over 65 years have risen between 6 per cent to 10 per cent per annum in recent years.

c) demographic growth within the Learning Disability client group.

d) demographic growth in demand for care packages for people with long-term conditions including those to support the NHS urgent and emergency care system as well as preventing delayed discharges from hospital.

On the 31 December 2019 the Government published their response to the Low Pay Commission's recommendation on the national minimum (NMW) and national living (NLW) wages, which they accepted. The NLW will be raised to 60 per cent of the median earnings from 1 April 2020. This means a rise from £8.21 to £8.72, or 6.2 per cent which as a key cost driver for the cost of care services has been factored into the funding pressures as set out.

It had been anticipated that the green paper on social care funding would provide a sustainable funding source for adult social care moving forward. SR19 and subsequent Queen's Speech set out that the Government intend to provide the detail of these fundamental reforms in due course.

It should also be noted that a Mental Capacity (Amendment) Bill has replaced the Deprivation of Liberty Safeguards (DoLS) with a scheme known as the Liberty Protection Safeguards (LPS) with the target date for implementation being October 2020. These arrangements describe the procedures when it is necessary to deprive a resident in a range of settings of their liberty as they lack capacity to consent to their care to keep them safe. It is anticipated nationally and locally, that the new provisions will require additional resources from councils to implement. No provision for these costs has yet been made and the risk associated with this issue will need to be reflected in a combination of the 2020/21 base revenue budget contingency and the associated reserves risk assessment.

41. **Investment in children's services** (including social care) **- £3 million 2020/21**

Total service pressures assumed with the children's directorate budget over the three-year period up to March 2023 amounts to £6 million. The most significant and notable of these can be listed as;

- a higher number of children in care cases inherited for the Christchurch conurbation than anticipated.
- a general increase in the cost of children in care. Setting aside the extra Christchurch cases brought forward under the previous bullet point the number of children in care is steady. However, the cost has increased due to the complexity of some cases.

- rebase of the budget for the business support arrangements assisting front line operational teams.
- an increase in numbers of special educational needs pupils by implication leads to an increase in the cost of school transport to the council in reflection of their entitlement.
- a combination of a general increase in the numbers of pupils entitled to support with home to school transport with a higher than originally anticipated cohort for Christchurch.
- Rebasing and realignment of fostering fees and allowances.
- Investment in a school early intervention programme.

As a priority area for council investment, provision has also been made for the estimated £110,000 impact of introducing a council tax discount to BCP care experienced young people up to the age of 25. There are two fundamental elements to this approach. The first relates to BCP care experienced young people 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 be treated as a payment to the relevant local authority and will be processed by the children's services directorate at an estimated cost of £25,000.

42. **Investment into an earmarked reserve to balance the high needs deficit**

The 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.

The BCP budget for 2019/20 identified a £4.8 million 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 £2.2 million (1.1 per cent) transfer from the schools block and a £0.2 million transfer of early years funding. This left a residual £2.4 million which BCP Council agreed to contribute from its limited reserves. 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 existed moving forward.

The council's budget monitoring report for the third quarter in 2019/20 indicates that there is a £2.7 million projected in-year deficit on the high needs budget. This is reduced to a £1.9 million deficit on the DSG once account is taken of other additional allocations and underspends. The current projection is that BCP will have a £5.5 million 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

£1.9m BCP 2019/20 forecast deficit *(net of other DSG adjustments)*.

£5.5m BCP DSG projected deficit 31 March 2020 to be carried forward

In respect of high needs, based on a £49.9 million forecast spend and £42.9 million of forecast government funding the current projection is a £7 million funding gap for 2020/21. It should be stressed that this includes an additional £3.6 million allocated as BCP's share of the extra £700 million additional funding for 2020/21 announced by the government in late 2019. It should also be noted that the expenditure forecast is after allowing for the success of planned actions in progress. These include creating additional high needs places in local mainstream and special schools. The reduction in forecast spend since the December MTFP cabinet report of £2.5 million is the result of a further review of local authority processes and the system-wide environment as well as developed plans to create more special needs places.

Work with the BCP Schools Forum has identified that they do not support a contribution from early years of £0.2 million and the full £4 million requested from schools. This would reduce the funding gap to £2.8 million. The school's contribution is comprised of £2.2 million from scaling back the national funding formula (NFF) allocations by 1.1 per cent overall with £1.8 million available from surplus NFF funding (due to various technical adjustments and changing data) as well as surplus growth funding. The council has applied to the Secretary of State for his support for the £4 million contribution from schools.

If approved, this would leave an accumulated deficit of £8.3 million (£5.5 million plus £2.8 million) held on the council's balance sheet as at the 31 March 2021. It should be noted that there are significant risks in achieving this level, including the approval of the Secretary of State for the school transfers, realising savings of £2.5 million and growth pressures not exceeding those projected.

To mitigate the real danger this presents to the council's financial health the council needs to identify resources to protect its future financial sustainability. To do this the budget as proposed directs both the unearmarked reserves it is due to receive from the disaggregation of the balance sheet of Dorset County Council, the previous BCP Financial Planning Reserve, and a £0.7 million allocation from the Financial Resilience Reserves, to establish a £7.1 million Financial Liability Earmarked Reserve. This reserve would then be supplemented by a £1.2 million base budget contribution from the council in 2020/21 to bring the Financial Liability Reserve balance as at 31 March 2021 to £8.3 million.

In regards to high needs budgets a consultation document was issued in late 2019 by the Department for Education setting out their view that the DSG is a ring-fenced specific grant separate from the general funding of local authorities, and that any deficit an authority may have on its DSG account is expected to be carried forward and is not required to be covered by the authority's general reserves.

In addition, the consultation document also set out the Governments view that they anticipate the extra money given in SR19 should be enough to enable most councils to balance their DSG. They also specified their expectation that ultimately schools should meet any deficit on the DSG even though as it currently stands a council needs the consent of the school's forum to carry forward any amounts into future years and if this is not forthcoming the Secretary of State.

Ultimately ambiguity remains. The council continues statutorily to retain the liability in its accounts of any accumulated or future deficit on the DSG. Government believe they are adequately funding the service and there can be little expectation that any future settlement for schools will better enable them to cover these deficits as well as the in-year pressure that the high needs budget would exert on them.

The long-held view of council Chief Finance Officers and External Auditors is that councils should be able to cover the accumulated deficit on its DSG from its unearmarked reserves. As BCP Council's deficit grows via both the in-year position and the projected position for next year it is reasonable and prudent to set aside funds outlined above to mitigate this deficit, especially as there is a risk that the deficit could be as high as £12.5 million (£5.5 million and £7 million).

It is though proposed that the approach be kept under constant review and should in the future the Government issue a specific grant to cover the councils accumulated DSG deficit then at that stage consideration be given to redirecting the Financial Liability Reserve in further support the council's corporate priorities including transformation.

A delegation from the DfE Special Educational Needs Team and the Education Skills and Funding Agency are due to visit in March 2020. Their intent is to support the council develop its high needs budget strategic recovery plan. The opportunity will be taken to encourage the government to make clear who they believe will realistically fund the deficits on the DSG.

43. **Investment in Environment and Communities - £3.2 million 2020/21**

The proposed budget for 2020/21 makes provision for an £3.2 million additional investment into environment and communities. Predominately this relates to a significant increase in the price the council is required to pay to dispose of recycling material. Six years ago, the predecessor councils would have been receiving income for the recycling material it collected. Twelve months ago, it would have cost approximately £35 per tonne to dispose of the same quality of material. Today the council is having to pay £60 per tonne to dispose of this recycling material which means it must provide an extra £1 million per annum to cover this changing profile of cost. In addition, there are several further pressures including;

- A reduction in the income forecast to be generated from both the Bournemouth and Poole crematorium. This is largely due to the opening of another new private crematorium just outside the BCP conurbation with a new private chapel within Christchurch. A revised business case for the service will be presented to cabinet later in the year.

- As of the 1 January 2020 the Dutch government imposed a 32 euro per tonne tax on all imported waste which has been converted into fuel. This by implication is likely to lead to an increase in the cost to the council of the black bin waste which via its contractors is transported to the Netherlands.

- Additional investment in the repairs and maintenance costs of the operational properties owned or leased by the Council.

- Costs associated with the recycling collection operation in Bournemouth.

- Increased costs associated with disposing of waste and recyclable material from our Household Waste Recycling Centres (HWRC).

The council will receive £1.456 million in Flexible Homelessness Support Grant and Homeless Reduction Grant in 2020/21 which it will use to further prevent and reduce homelessness next year across the conurbation. These allocations are £141,000 more than in the current 2019/20 financial year. Consideration will be given to how these resources can best be deployed to support the service objectives.

In addition, the council has been successful in its bid and has been awarded £1.401 million in 2020/21 Rough Sleeping Initiative funding. These resources will be used to enhance existing services delivered by the council and our many partners, that connect people with the right support to move them swiftly away from the streets into sustainable and appropriate housing. This funding will secure staffing to deliver “Housing First”, additional psychological support services for rough sleeping, delivery of the “Somewhere Safe to Stay” accommodation model and support for “Sleepsafe” services. The award compares to the £1.311 million received from the Rough Sleeping Initiative (RSI) and Rapid Rehousing Pathway (RRP) across the area in 2019/20.

44. **Investment in Regeneration and Economy - £2 million 2020/21**

An amount of £2 million has been set-a-side as part of the budget for 2020/21 to support increasing cost pressures specifically associated with regeneration and economy. Generally, this relates to the impact of inflation alongside the implications of developing the Cotlands Road car park via the Bournemouth Development Company. In addition, provision has been made for;

- The increase in the cost of concessionary fares to the council most significantly due to the impact of creating price consistency across the conurbation.

- A requirement to set aside an annual repayment of debt associated with the repurposing of the £3.4 million loan in respect of the winter gardens as set out elsewhere on this cabinet’s agenda.

45. **Pay Award across all council services - £3 million 2020/21**

Consistent with the actual outcomes for 2018/19 and 2019/20 the MTFP includes provision for a 2 per cent baseline increase in employee costs as part of an annual pay award settlements. Additional provision has also been made;

a) as a corporate item, for an additional 0.75 per cent increase in 2020/21. This extra provision reflects that further to strong wage inflation the growing expectation that the pay award will be slightly higher next year with now over a third of all Councils anticipating increases between 2.5 per cent and 3.15 per cent.

b) in certain services which have a significant staff base on the lower spinal column points as these grades will be impacted by the application of the National Living Wage.

The Trade Unions, Unison, GMB and Unite have requested a 10 per cent 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.

Budgetary provision is made for between 95 per cent and 98 per cent of each services employee establishment to allow for the impact of turnover and other matters on the actual costs of the service. Services are expected to manage the impact of any incremental drift in their pay base.

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

46. **Government funding reductions** (including New Homes Bonus)

BCP Council received £3 million 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 £3 million is driven by the characteristics and activity of the Bournemouth area.

Across BCP it is estimated that this core grant funding is £103 million less in 2020/21 than the annual award it otherwise would have received 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 £3 million for Poole and Christchurch. The Governments stated intention was to remove these resources which would have meant BCP paying across £3 million of its council tax and business rates resources to be redistributed nationally. Previously the government provided one-off resources to avoid negative RSG impacting in 2019/20. As part of SR19 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 £0.1 million.

New Homes Bonus (NHB) was introduced in 2011 to incentives local authorities to encourage housing growth in their area. BCP has achieved NHB of £3.8 million in 2019/20 with the grant structured around receiving a grant for four years for each new home above a 0.4 per cent 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.

SR19 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 £1.1 million reduction in Government funding when comparing 2020/21 with 2019/20.

Figure 9: Profile of New Homes Bonus payments

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		£667,924		
Total Payment	**£3,788,154**	**£2,647,837**	**£1,728,012**	**£846,339**

Alongside the reduction in NHB the Council is also anticipating a £0.2 million 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.

47. **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 December 2019 was 1.3 per cent as measured by the (CPI) Consumer Price Index (September 1.7 per cent).

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

Additional resources, savings, and efficiencies

48. **Adults and children's social care grant**

As part of SR19 the government set out plans to enable local authorities to access £1 billion of new funding by way of an additional adults and children's social grant in 2020/21. This funding is intended to support local authorities meet rising demand and recognises the vital role that social care plays in supporting the most vulnerable in our society.

The technical consultation document issued by MHCLG in October 2019 confirmed an adults and children's social care grant to BCP of £9.6 million in 2020/21 of which £6.6 million will be new funding. It also confirmed that this grant will not be ringfenced, and that there will be no conditions or reporting requirements attached or requirements around how much should be spent on either adult or children's social care. In line with the December 2019 Queens Speech it has been assumed this funding will continue in future years.

49. **Council tax harmonisation strategy**

The proposed budget is based around a council tax harmonisation strategy designed to ensure consistent levels of tax are charged across the conurbation from 1 April 2021 onwards (2021/22 financial year).

At its core this strategy is underpinned by a 3.99 per cent 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;

Figure 10: Proposed council tax harmonisation strategy

2020/21 Financial Year
- **Poole and Bournemouth = 2019/20 charges plus 3.99%, as adjusted for the impact of the Chartered Trustees precept.**
- **Christchurch = 3.5% reduction which is to a level of tax consistent with the 2021/22 estimate for Poole.**

2021/22 Financial Year
- **Poole = 2020/21 charge plus 2.99%**
- **Bournemouth = 2020/21 charge plus 0.76% which would mean harmonisation with Poole and Christchurch.**
- **Christchurch - Frozen for 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	*Increase*	2021/22	*Increase*
Christchurch	1,598.30	1,541.57	*-3.55%*	1,541.57	*frozen*
Bournemouth	1,473.40	1,530.00	*3.84%*	1,541.57	*0.76%*
Poole	1,441.53	1,496.81	*3.83%*	1,541.57	*2.99%*

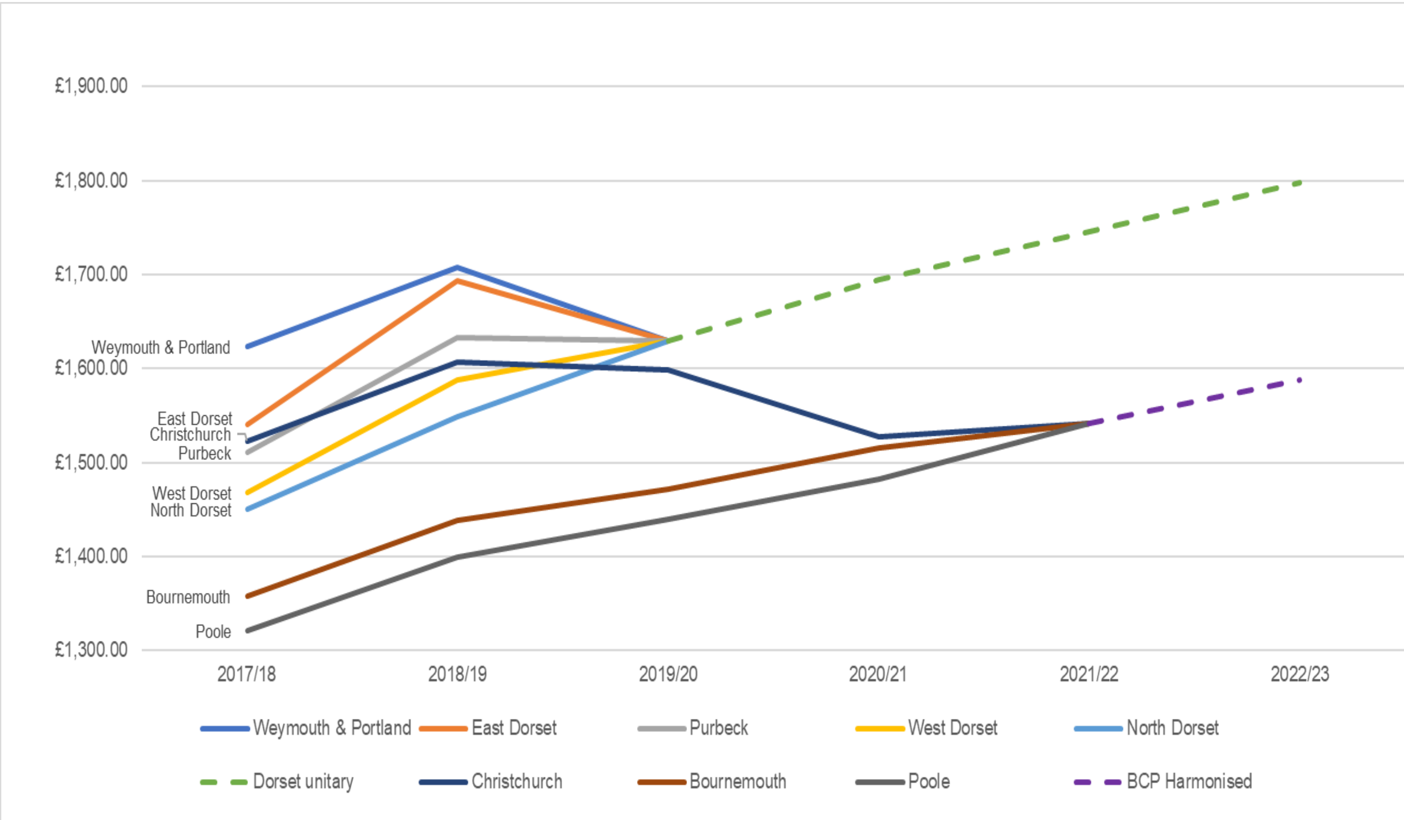
- Please note the above table excludes the impact of the separate Chartered Trustee council tax charge in Poole and Bournemouth which will be applied from 2020/21 onwards.

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

As part of SR19 the government announced that the council tax referendum threshold will be 3.99 per cent for 2020/21, made up of a 1.99 per cent core increase and a 2 per cent adult social care precept. Such a move was consistent with the strategic approach taken by Government in SR15 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 per cent 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. The following graph sets out the projected council tax levels charged within Dorset assuming the rates from 2021/22 increase by an assumed 2.99 per cent referendum threshold.

Figure 11: Dorset Councils – Historic and Projected Council Tax Levels



Alternative council tax harmonisation strategies considered and rejected.

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

The proposal which underpins the budget is consistent with the first of these options. This approach, although over a longer time-horizon, 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. The 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 Authority's 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 per cent announced for 2019/20 and as a matter of prudence 1.99 per cent for future years in line with the amount previously used by Government. The Shadow Authority's 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 per cent increase. The resultant increase in Poole would be 3.83 per cent, Christchurch's Council Tax would be frozen, and Bournemouth's increase would be 3.12 per cent. This update on the approved strategy of the Shadow Authority would mean that harmonisation would now be reached in 2023/24.

Compared to the proposal underpinning the budget as set out, option A would generate £2.5 million and option B £0.5 million 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 6.53 per cent in 2020/21 which would be a 2.54 per cent increase above the level the government deem to be excessive (the 3.99 per cent referendum threshold).
- 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.

50. **2020/21 Local Council Tax Support scheme**

Cabinet in December 2019 agreed there would be no change to the Local Council Tax Support scheme (LTCS) between 2019/20 and 2020/21. It was however agreed that ongoing consideration be given to potentially consulting during the spring/summer on a revised scheme for 2021/22 onwards.

51. **Tax base and collection fund surpluses**.

The council tax, tax base growth reflects the projected increase from the growth in residential property numbers over those previously assumed as adjusted for assumed changes caused by fluctuations in the numbers of claimants entitled to discounts or claiming LCTSS relief. This uplift is estimated at 0.86 per cent in 2020/21 with further 0.5 per cent increases assumed in future years.

In addition, the budget has been impacted by a £1.4 million one-off distribution of a council tax (collection fund) surplus. This reflects the actual surplus of council tax revenue generated in 2018/19 with an estimate of the amount which will be generated in 2019/20.

52. **Pension Fund – Tri-annual revaluation impact - £1.6 million surplus 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 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;

Figure 12: BCP Pension Fund – funding levels

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 £86.6 million with a resulting funding level of 92 per cent. 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.

Via negotiations with the pension fund actuary the following profile of primary rate and back-funding contributions over the next three years has been agreed;

Figure 13: BCP Pension Fund contributions agreed with the Actuary

	2019/20	2020/21	2021/22	2022/23
Ongoing (primary) rate	15.6%	16.2%	16.8%	17.4%
Back-funding (secondary) rate	£9.428m	£5.887m	£6.101m	£6.324m

Generally, the increase on the ongoing rate is offset by the reduction in the back-funding element. However, the agreement to taper the ongoing rate increases over three years, and the fact that the back-funding element was budgeted for centrally as opposed to the ongoing rate being budgeted for in services which means small elements of it will be recharged to capital, grants etc. all combine to create a saving valued at £1.6 million when comparing 2020/21 with 2019/20. This saving is reduced over the three-year period due to the impact of the taper arrangement.

53. **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 Council baseline finance settlement and actual levels of business rates income achieved.

This position will be kept under review considering the announced move to a 75 per cent retained business rates model from 2021/22.

On the 12 December 2019 Councils nationally won a lengthy battle with NHS foundation trusts who argued they should be treated as charities and be given 80 per cent relief on their business rates bills. Councils would have had to issue rate refunds of up to six years at an estimated cost of around £1.5 billion if they had lost. The judge refused leave to appeal, but there is still the opportunity for the foundation trusts to appeal directly to the Court of Appeal. The timing of this announcement means that any consequential impact on the council's business rates appeal provision will now work its way through into the 2021/22 budget setting process when hopefully the case is finally closed.

54. **Assumed savings and efficiencies**

Figure 8 identifies that £25 million of additional resources, savings and efficiencies have been identified in establishing a robust budget for 2020/21. Clearly council tax resources, and the additional adult and children's social care government grant make a significant contribution. However so does the contribution from each of the five directorates from the implication of the approved financial strategy. This includes £9.4 million in savings from staffing, operational arrangements, from common and consistent charging policies flowing from the creation of the new Council following LGR and from transformation.

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 councillor approval. A detailed schedule of these assumed savings is presented as appendix 2b. Most of these savings have been subject to the consideration of the Overview and Scrutiny Board at its meeting on the 14 January 2020. Figure 14 below sets out an analysis of the £20.6 million service-based savings and efficiencies for 2019/20 (£11.2 million) and 2020/21 (£9.4 million);

Figure 14: Analysis of service-based savings (shown on an incremental basis)

	2019/20 £m	2020/21 £m	Total £m
Staffing and organisation	5.3	2.9	8.2
Transformation		1.0	1.0
Democratic Representation	0.5		0.5
External Audit	0.2		0.2
Service Efficiencies			
- Adult Social Care	2.0	2.0	4.0
- Children Services	0.2	0.1	0.3
- Place Theme	0.7		0.7
- Regeneration & Economy		0.5	0.5
- Environment & Communities		0.2	0.2
- Corporate Services	0.7	0.3	1.0
Commercial Opportunities	0.7	0.3	1.0
Fees and Charge	0.9	2.1	3.0
Total	**11.2**	**9.4**	**20.6**

These total savings can be compared to the £14.2 million (£9.2 million net) that Local Partnerships stated could be realised in BCP Council in their August 2016 financial model associated with LGR in Dorset. Across the two new unitary Councils the savings total was £27.8 million gross or £18.1 million net, which was after allowance had been made for savings from joint working prior to the 1 April 2019.

The savings in staffing and organisation are generally from reducing the cost of management, avoiding duplication through economies of scale in front line services own back office and support functions. These savings mean the Council can avoid some the significant cuts in services being implemented by other local authorities at this time.

Council tax would need to increase by over an additional 4 per cent compared to the proposal that underpins this budget to cover the £9.4 million of savings.

55. **Better care fund**

Introduced in 2013 the Better Care Fund (BCF) is a single budget shared between the NHS and upper tier authorities to help them work more closely to try and shift resources into social care and community settings. The fund was designed to allocate NHS resources to adult social care in order to support more people at home, reduce delays in discharges from hospital and to prevent avoidable hospital admissions. It requires Clinical Commissioning Groups (CCGs) and local authorities in every area to pool budgets and agree integrated spending plans on how they will use their BCF allocations.

The two new Unitary Authorities for Bournemouth, Christchurch and Poole and Dorset agreed with the Dorset Clinical Commissioning Group (DCCG) to split the previous pan Dorset Better Care Fund in two separate pooled budgets for the two new Health & Wellbeing Boards.

The 2019/20 BCP Better Care Fund allocation was £58.8 million. The DCCG will contribute approximately £40.2 million of which £10.9 million is passed to the BCP Council to support the delivery of adult social care services.

The BCP Council contribution is approximately £18.6 million and includes base budget resources (£2.5 million), the Disabled Facilities Grant (£3.1 million), the Improved Better Care Fund (£11.3 million) and the Winter Pressures money for 2019/20 (£1.7 million).

SR19 reiterated the governments commitment to the integration of health and social care. In support they confirmed that the Better Care Fund (BCF), Improved Better Care Fund (iBCF) and Winter Pressures money will continue into 2020/21. They also announced that the NHS contribution to adult social care through the BCF will increase by 3.4 per cent in real terms. As the NHS work with local government on plans for enhanced and improved primary and community services, the expectation is they should also be working with the council on the continued integration as well as alignment to wider local government service issues such as housing. The 2020/21 budget assumes an extra BCF allocation to BCP Council of £597,000 of which £468,000 will be applied to inflationary pressures and pay award to the services funded through the BCF allocation.

Disaggregation of the Balance Sheet of Dorset County Council (DCC)

56. As part of the work to create the two new Unitary Authorities in Dorset both new Council's local government review programmes approved a set of principles to be applied to enable the disaggregation of the assets and liabilities of Dorset County Council. Confirmation of the acceptance of these principles was provided directly to the Ministry of Housing, Communities and Local Government (MHCLG).

57. Following Deloitte's signing of the Dorset County Councils accounts at the end of July 2019, work commenced to apportion their certified assets and liabilities between the two new Councils. The priority work stream was the disaggregation of debt. All the actual external debt held by Dorset County Council will novate to the new Dorset Area (DA) Unitary. However, BCP Council is required to compensate the DA for Christchurch's share of that debt. This will be done by using a model recommended by the Local Government Association (LGA) known as the Cheshire model as it was used on the disaggregation of Cheshire County Council. The outcome is that BCP Council will inherit approximately 7.75 per cent of the debt of DCC which amounts to £24.3 million.

58. The budget for 2020/21 assumes that the debt disaggregated to BCP Council will be funded by short term borrowing over three years. The Council will therefore not be committed to long term borrowing at this point, thus allowing for the most cost-efficient method of funding the debt to be identified.

59. The position on debt is also underpinned by agreement and a detailed schedule of those assets which will directly transfer to BCP Council.

60. After resolving the debt position work was required to ensure a fair and reasonable apportionment of the 180 specific earmarked reserves, and 170 unapplied capital grants of DCC. This work has now been completed and the reserves and capital sections of this this report updated as necessary.

61. In respect of this work stream there are two outstanding areas still to be agreed. These relate to the treatment of corporate ICT infrastructure and business systems assets and also the basis for disaggregating some specific capital grants. The work carried out to date and areas still to be agreed are currently being reviewed by the LGA.

Transformation Funding Strategy - Flexible use of capital receipts – Efficiency Statement

62. In a Local Government Reorganisation (LGR) update report to Cabinet in July 2019 it was acknowledged that phase one (creating BCP Council) had been completed and phase two (delivering senior staffing structures and business functionality for April 2019) was materially complete. In support of these phases the predecessor Councils and BCP Council itself set aside £9.1 million to fund the associated programme and transition costs which have now been fully committed. These costs supported the Council in delivering the £11.2 million of annual service-based savings included in the BCP revenue budget for 2019/20 which were additional to the £1.3 million of additional resources identified on the disaggregation of the Dorset County Council 2018/19 Budget.

63. A Medium-Term Financial Plan Update report to Cabinet in December 2019 arranged for the £9.1 million to be supplemented by a further £3 million specifically set aside in an earmarked reserve to cover the cost of redundancies not met by the £1.5 million provided for as part of the original allocation. A condition of the use of the additional amount being that it can only be used in situations where the ongoing saving is captured as part of the annual budget process.

64. Phase three related to the designing and building of the new local authority by taking the opportunity to fundamentally transform and provide improved services to residents while also identifying and releasing savings and efficiencies.

65. The outcome of the organisational design work by KPMG was presented to Cabinet in November 2018 with the intent now to present a delivery plan for the BCP Transformation Programme, underpinned by the adoption and implementation of the new operating model, in April 2020.

66. As part of SR15, the Government announced that to support local authorities to deliver more efficient and sustainable services it would allow local authorities to spend up to 100 per cent of their fixed asset receipts on the revenue costs of service reform and transformation. Guidance on the use of this flexibility stipulated that the flexibility applied to the three financial years to end March 2019. However, this was extended for a further three years to March 2022 as part of the 2018/19 Local Government Finance Settlement.

67. The guidance makes it clear that local authorities cannot borrow to finance the revenue costs of service reforms. Local authorities can only use capital receipts from the disposal of property, plant and equipment assets received in the years the flexibility is offered. Local authorities may not use any existing stock of capital receipts to finance the revenue costs of reforming their services. Set up and implementation costs of any new processes or arrangements that will generate future ongoing savings and/or transform service delivery to reduce or improve the quality of service delivery in future years can be classified as qualifying expenditure. The ongoing revenue costs of such processes or arrangements cannot be classified as qualifying expenditure. In addition, the guidance issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003 specifies that;

    - The key determining criteria to use when deciding whether expenditure can be funded by the new capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's net service expenditure.
    - In using the flexibility, the Council will have due regard to the requirements of the Prudential Code, the CIPFA Local Authority Accounting Code of Practice and the current edition of the Treasury Management in Public Services Code of Practice

68. The Organisational development report to cabinet in November 2019 identified the following potential net financial benefits to the authority set out as the efficiency statement required by the pre-requisite legislation;

Figure 15: KPMG analysis potential annual benefits from new organisational design

Programme of Change	Estimated Benefits (£m)	
	Low	High
Customer Contact	(7.9)	(11.6)
Service Redesign	(3.4)	(5.1)
Enabling Functions	(3.9)	(5.8)
Third Party Spend	(10.7)	(19.8)
Cost Recovery	(0.8)	(1.5)
Total Benefits	**(26.8)**	**(43.9)**
Ongoing Implementation Costs	4.8	7.1
Net Total Benefits	**(22.0)**	**(36.8)**

69. To achieve this level of benefit the report identified that the Council needed to spend between £20.5 million and £29.5 million on associated one-off revenue and capital costs with this budget report beginning the process of positioning the council's financial resources to deliver the necessary investment.

70. The proposal is that the Council under the flexible use of capital receipts approach uses any such resources generated over the next two financial years to support its investment in transformation. Currently this includes the receipts generated from the following asset sales;

- Southbourne Coast Road Surface Car Park
- Former Broadwaters Care Home site, Wick Lane
- Former depot site, Cambridge Road
- Former private car park, Upper Terrace Road
- Bargates site (corner of Barrack Road and Fairmile)
- Templeman House (site of care home formerly occupied by Care South)
- BCP Councils share of Dorset County Council Assets Held for Sale

71. It is estimated that the sale of these assets over the next two years should generate at least £16.2 million, however clearly there is the potential for additional receipts from asset sales where the process has not yet commenced. In addition, as the new organisation design will impact on the council including both General Fund and Housing Revenue Account (HRA) services it is proposed that each of the neighbourhood HRAs contribute £1 million to these costs on the proviso they also benefit from the savings. The report in April will further consider the extent to which some of the costs of change will be of a capital nature so could potentially be supported by a prudential borrowing business case.

72. Ultimately the value and timing of the resources generated will impact on the scale and scheduling of the organisation's transformation.

73. The guidance requires the approach is approved by council and that the Ministry of Housing, Communities and Local Government are duly notified (via capitalreceiptsflexibility@communities.gsi.gov.uk) so they can keep track of the planned use of this flexibility for national purposes.

Schools Forum

74. Schools forum is a statutory body of the council and must be consulted on all school funding budget allocations. It also has a range of decision-making powers regarding the level of budgets held centrally and whether any funding provided for mainstream schools can be transferred to other budget areas.
75. The BCP Schools Forum has a complement of twenty-four members with representation from all categories of schools. A total of three meetings were held over the autumn and early January, with recommendations and decisions made for the BCP budget regarding school funding through the ring-fenced DSG.

Dedicated Schools Grant (DSG)

76. The gross DSG of £275 million provides funding for mainstream schools for pre 16 pupils, private, voluntary and independent nursery providers, a small range of central school services (for example, school admissions) and specialist provision for children and young people with high needs. High needs budgets include 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. Academies are funded from the gross DSG allocation but with amounts subsequently recouped by the DfE to enable the budget share for pre 16 pupils to be paid directly by the Education & Skills Funding Agency (ESFA).

77. The DSG is allocated to the Council through four funding blocks, each with its own national formula methodology; Early Years, Mainstream Schools, High Needs and Central School Services. Distribution to Councils linked to historic allocations has now largely ended, with some funding protection mechanisms in place to reflect that expenditure patterns once well-established cannot be changed quickly.

Early years block

78. The Department for Education (DfE) introduced a national formula in 2017/18 to fund Local Authorities for the free education childcare entitlements for 2 and 3 & 4 year olds. This provided a significant increase in funding for the legacy councils in the first year of a static 3-year funding rate. An increase of £0.08 per hour of provision (less than 2 per cent) is applicable for all local authorities in 2020/21. Thus funding, largely for allocation to schools with nursery classes and providers in the private, voluntary and independents sector, has been eroded in real terms and particularly by the national living wage increases in recent years.

79. BCP Council is proposing to transfer £0.2 million (1 per cent) of the early years funding to support pupils with high needs. Unlike the schools block a funding transfer from early years is a council decision. The transfer was not recommended by the schools forum at their January 2020 meeting.

80. The level of funding retained for central budgets relating to the free entitlements have been agreed by the Schools Forum. Together with the amount transferred to high needs the amount proposed to be centrally retained is a total of 2 per cent, less than the 5 per cent maximum allowed.

81. A consultation took place with all providers in December and early January 2020 regarding how the formula is to be updated for the new funding level. The outcome of this was considered by the schools forum in January. A separate paper on the meeting agenda for a council decision includes the recommendation from this meeting

Schools block

82. The national funding formula (NFF) for mainstream schools funding provided a £9.3 million (4.7 per cent) increase for 2020/21 due to updated formula values and school data (October 2018 school census). A further £2.6 million (1.3 per cent) has been provided through growing pupil numbers from the October 2019 school census in final allocations.

83. Consultation was undertaken with all schools in December and early January2020 regarding the mainstream school formula for 2020/21 with options regarding varying levels of funding transfer to high needs. The schools forum received the outcome of this consultation in January. A separate paper on this meeting agenda includes proposals for council decisions regarding the mainstream schools formula.

High needs block

84. The high needs block is considered within the pressures/investment section above. The funding shortfall continues to be a national problem with the LGA report (Have we reached a 'tipping Point'?) still relevant despite the increase in funding for 2020/21. The trends in spending for children and young people with SEND have continued ahead of funding levels. The education environment has changed little with the report's main conclusion that "**Local Authorities have all the responsibility for maintaining high needs expenditure within budget, and yet have almost no hard levers within which to effect this**" still valid.

85. The DSG regulations allow schools forum to approve a transfer of mainstream school funding of up to 0.5 per cent in 2020/21. A higher level requires the approval of the DfE. A transfer to high needs of £4 million (1.9 per cent) was considered by the schools forum with only £1.8 million approved. The transfer amount above £1 million also requires DfE approval. A request for the full £4 million has been submitted to the DfE with their response awaited.

86. This report recommends the transfer from schools funding of £4 million and early years funding of £0.2 million to limit the growing deficit, balancing the financial needs of the council, schools and early years providers.

Central school services block

87. The funding is provided through a national formula for on-going functions with BCP receiving less funding than 2019/20 as funding is reducing by 2.5 per cent per year. Historic commitments are funded at only 80 per cent of the previous year budget with the DfE signalling these reductions will continue. Funding supports specific central services for all schools and the DSG system as a whole. The schools forum has agreed the budgets are set at the level of funding.

Maintained schools

88. BCP will continue to have 16 schools plus the Christchurch learning centre to maintain at April 2020. Funding to continue statutory services for maintained schools is to be provided from central retention of maintained school budget shares through agreement of maintained schools representatives at schools forum. This retention totalling £200,000 was not agreed at the January 2020 meeting with an equally split vote for and against the council's proposal for 2020/21. An equal vote does not constitute agreement with the DfE approached for a decision (as previously needed by legacy Poole for 2018/19 with a successful outcome). The retention was fully voted against by the BCP shadow schools forum in 2019/20 but the DfE agreed to override and funding was retained as planned to continue our support for this group of schools. The response from the DfE for 2020/21 is currently awaited.

Academies

89. Academies are independent organisations, their funding and expenditure is not contained within the council's budget.

Education & Skills Funding Agency (ESFA)

90. Funding for mainstream post 16 pupils is provided by the ESFA and is passported directly to schools. This budget remains estimated as the ESFA will not provide the detail of allocations until later in the year.

Schools pupil premium

91. The school pupil premium is provided by the DfE and is passported to schools. It is allocated according to the number of pupils eligible for free school meals (FSM) from low income criteria, Children in Care (CiC) or adopted, and of forces personnel. The funding values have not increased since 2017/18.

Capital Strategy

92. As part of providing vital services to our local community, the council is required to invest in, and maintain, a portfolio of land, property and other assets such as;

    - Highway infrastructure such as roads, footways and bridges.
    - Schools and Adult Education centres.
    - Parks and Open Spaces including the seafront and coastline.
    - Vehicles, Plant and Equipment.
    - Administrative offices.
    - Approximately 9,620 council homes.

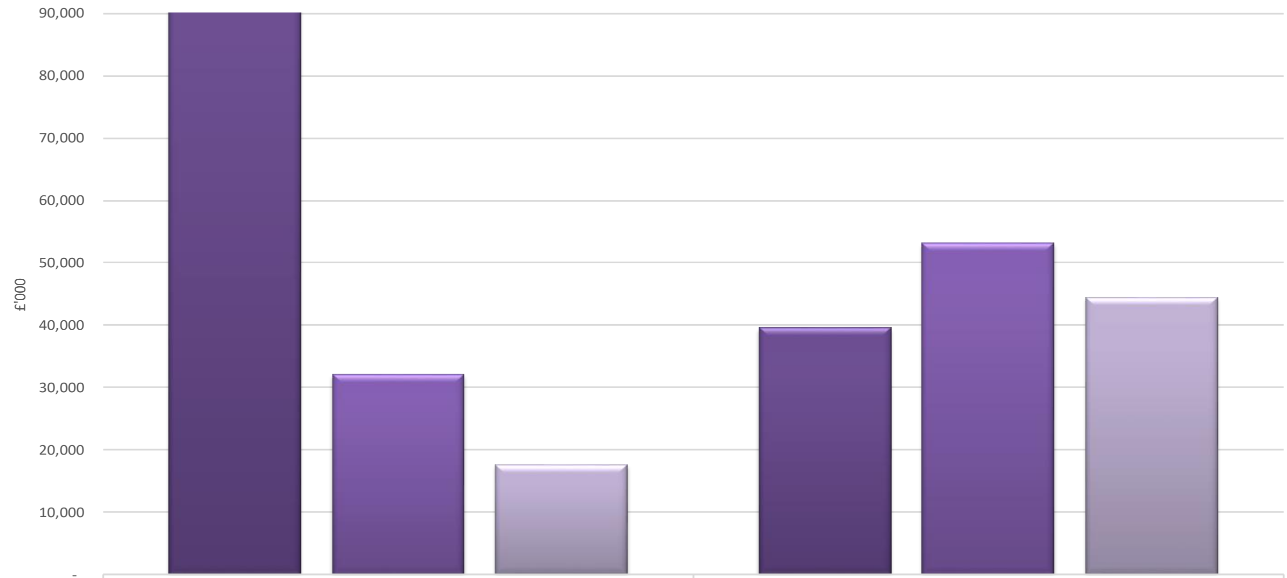
    The Council's capital investment programme sets out the resources that it has agreed to spend on such assets and in doing so driving local economic growth and supporting the delivery of council services.

Capital Investment Programme (CIP): 2020/21 to 2022/23

93. BCP's portfolio of planned capital investment to 2023 consists of £155 million General Fund spend on assets & infrastructure and £137 million Housing Revenue Account (HRA) spend on local housing provision. This represents a combined capital investment of £292 million over a three-year period, as summarised in Figure 9 below. The programme does not include projects undertaken by the Bournemouth Development Company (BDC), for example the Winter Gardens which are approved, monitored and reported outside of the Council's General Fund Capital Investment Programme. In addition, the Council's approach to non-treasury asset investments (commercial property investments) is outlined in the Asset Investment Strategy, separate to the CIP, with an update due to be presented to cabinet in March 2020.

94. It is also important to recognise that the CIP for both the General Fund and HRA are early estimates of capital spend in 2020/21, based predominantly on capital schemes already identified / approved. As in previous years both capital programmes will evolve throughout 2020/21 as new capital projects are approved, budget estimates are revised, and budgets are 'reprofiled' to reflect latest project delivery timelines. The budgets will also be updated to include 'slippage' in current approved capital budgets identified at 31 March 2020.

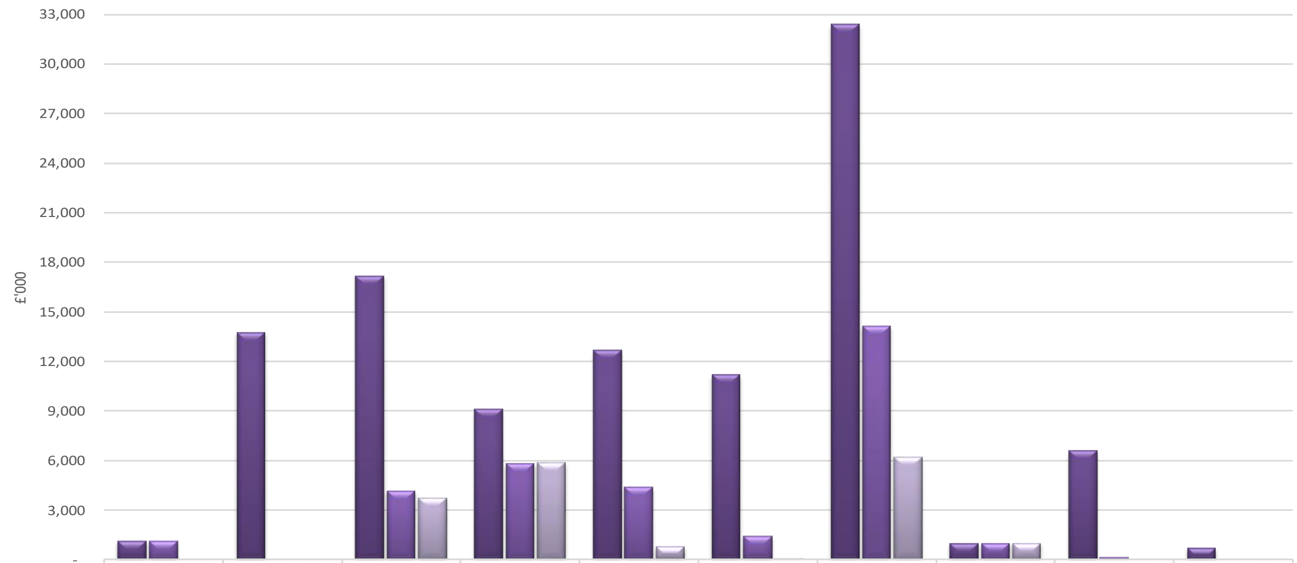
Figure 16: General Fund and HRA £292m capital spend 2020/21 to 2022/23



	General Fund £155m	HRA £137m
2020/21	105,685	39,532
2021/22	32,119	53,191
2022/23	17,602	44,446

95. **General Fund - CIP (£155m):** Appendix 4 provides an itemised listing of capital budgets included within the CIP. The CIP is further supported by a separate report for the Local Transport Plan (2020/21 to 2022/23) (separate Council agenda item). An itemised listing of fleet vehicles to be procured via approved capital resources in the CIP was considered and approved separately by Cabinet in January 2020. Figure 17 below provides an overview of current capital budget by Council theme.

Figure 17: BCP Capital Investment Programme (CIP) spend 2020/21 to 2022/23



	Adult Social Care	Children's Services	Growth & Infrastructure - Highways	Growth & Infrastructure - Coastal Protection	Economic Regeneration & Commercial Assets	Destination & Culture	Housing & Communities	Hard Facilities Management	Environment (waste, fleet, parks & open spaces)	Resources (Finance, ICT, Corporate Estates)
2020/21	1,127	13,754	17,169	9,091	12,654	11,175	32,414	997	6,598	706
2021/22	1,127	-	4,155	5,807	4,380	1,392	14,137	997	123	-
2022/23	-	-	3,725	5,869	756	70	6,185	997	-	-

96. The following assumptions underpin the CIP 2020/21 to 2022/23:

- Capital schemes are only included within the CIP once funding has been identified.
- CIP includes indicative values for Local Transport Plan (LTP) and Better Care Fund government grant awards 2020/21 and 2021/22. These are based on 2019/20 government grant allocations and will be revised, if necessary, once formal funding announcements are made (expected quarter four 2019/20).
- Revenue funding for capital spend has been included within the CIP, where revenue 'base budgets' have allowed for this funding contribution.
- Repayment of all prudential borrowing within the CIP is fully funded from revenue budgets.
- Work is ongoing to ensure availability of Community Infrastructure Levy (CIL) and s106 developer contributions to support the CIP.
- Unspent approved capital budget from 2019/20 (amounts already reprofiled and final slippage to be identified at 31 March 2020) have been / will be included as CIP budget 2020/21.
- Any new capital projects not already included within the CIP will require separate approval in line with BCP Financial Regulations.

97. Significant capital projects already included within the CIP include:

Adults services

- Annual investment of £1 million in the shared Integrated Community Equipment Store (ICES), to better facilitate care within the home. This is funded from the government's Better Care Fund grant and is based on indicative BCP estimate of likely grant funding in 2020/21 and 2021/22.
- Potential additional investment in the council's adults and children's case management system is incorporated within the wider transformation agenda and is not duplicated within the CIP.

Children's services

- Hillbourne school – remodelling of existing school site to provide a new school building and provision of over 100 new homes.
- Expansion of Carter Community School to ensure sufficiency of secondary school places over the medium term, this is the subject of a separate report on Council agenda.
- Grant funded special education needs and disability (SEND) capital schemes for children with special educational needs.
- The government will announce new Basic Need Grant funding allocations for places needed for September 2022 in the Spring of 2020.
- A children's capital strategy paper will be brought forward in due course to consider how best to apply finite children's capital resources across medium term priorities including pressures arising from the DSG high needs block.

Growth & Infrastructure – highways and bridges

- Major highways improvement projects, in partnership with the Dorset Local Enterprise Partnership (DLEP), including Blackwater Junction improvement works, Wessex Fields and Port of Poole (Townside Access) improvements. The CIP also includes £1.5 million DLEP funded works for Wallisdown Connectivity - Boundary Road, subject to formal approval of grant funding by DLEP Board in January / February 2020.

- Continued investment in structural and routine maintenance of BCP wide highways and bridges, funded from BCP estimates of LTP grant funding 2020/21 to 2022/23.
- The Council is committed to promoting more environmentally sustainable means of travel across the conurbation. The council's final business case for government grant funding from the Transforming Cities Fund (TCF) was submitted in November 2019, with the outcome expected in February / March 2020. If successful, the bid will generate a significant increase in capital funding for sustainable transport scheme delivery over three years from April 2020 to April 2023. In anticipation, the council has also identified £1.3 million of complementary LTP funded highways projects (within CIP 2020/21) which will represent the council's local contribution towards TCF.

Growth & Infrastructure – coastal protection

- Protecting BCP's coastline including investment in the next phase of BCP's Poole Bay Beach Management Plan.

Economic regeneration

- The council remains committed to the ongoing regeneration of its town centres. The CIP includes approved resource for significant capital projects including the Heart of Poole, Christchurch Town Centre, and Lansdowne (public realm and digitalisation) in Bournemouth.
- The CIP also includes £1.2 million planned spend on Poole High Street – Heritage Action Zone, subject to final confirmation of £0.6 million external grant funding.
- The council continues to work closely with BH Live to develop a long-term strategy for the Bournemouth International Centre (BIC).

Destination & Culture

- Implementation of BCP Seafront Development Strategy – including Canford Cliffs development, Durley Chine Enterprise Innovation Hub, Mudeford Beach House Cafe and new capital schemes arising from seafront feasibility option studies currently underway.
- Investment in Upton Country Park – Discovery Project, utilising up to £1.4 million National Lottery Heritage Grant funding (announced January 2020) to deliver a new range of capital works, activities, educational projects and new visitor welcome centre. A further report outlining full details of the project will be brought to Council in due course.
- Investment in BCP's heritage assets – including Highcliffe Castle and Poole Museum in partnership with the Heritage Lottery Fund.

Housing & Community

- Completion of the Council's new 46-unit housing development at the St Stephen's site.
- Investment in new temporary housing accommodation in Bournemouth to aid homelessness prevention.
- Princess Road and Prince of Wales Road site development – to include a new 20-bed family hostel and 34 new private rented sector housing.
- Investment in disabled facilities home adaptations – funded from estimates of Better Care Fund government grant allocations 2020/21 to 2021/22.

- Planned investment on new housing development within Poole with a separate report to be brought to Council in due course.

Hard facilities management

- BCP has inherited a large civic estate from preceding Councils. The CIP includes £1 million per annum of revenue funded capital spend for building maintenance. Ongoing estate management requirements will be informed by the results of the Council's transformation agenda

Environmental services (parks, open spaces and waste operations)

- New investment in frontline services' fleet operations – as approved by Cabinet in January 2020.
- Investment in parks and open spaces (including completion of a significant programme of investment in Poole Park).

Resources

- Investment in ICT infrastructure plan will be informed by the results of the Council's transformation agenda.

98. Outside the budgeted capital programme, the Council will also continue to encourage, support and enable strategically important private or public investments that benefit the conurbation including investments by the local universities, Bournemouth and Poole College, Port of Poole, Bournemouth Airport, Academies and local employers.

Core Principles

99. In determining its capital strategy Council have previously endorsed the following principles;

a) use of additional borrowing to deliver schemes funded by previously issued government supported borrowing permissions

b) use of prudential borrowing when supported by a business case in accordance with the Council's 'Invest to Save Framework' (which provides a framework through which to assess risk associated with projects), and determined in conjunction with the setting of the prudential indicators approved by the Council in accordance with the prudential code of practice

c) no scheme can commence which relies on government grant or external funding or capital receipts until such time as the council has complete assurance the funding will be received or in the case of capital receipts that they have actually been received

d) resources will not be earmarked to meet all the identified and lifecycle programme maintenance requirements of each individual council owned or leased asset. Such requirements will be considerably more than the cash limited corporate maintenance resources identified as available

e) Any capital resources that do become available will be prioritised towards:

   - the council's commitments under its flexible use of capital receipts strategies
   - schemes which require a local contribution to lever in capital grants or external capital contributions
   - schemes which enable delivery of the savings assumed within the MTFP
   - schemes which enable the Council to exploit its assets
   - schemes which protect key infrastructure
   - schemes considered a corporate priority.

f) To support any future ambitions or key infrastructure developments and to mitigate the underlying risks within its capital investment programme, the Council will consider new financial approaches which will undoubtedly require an acceptance of higher than standard levels of risk. Such risk will be carefully considered especially bearing in mind the scale of the Council's budget, the size of its revenue MTFP funding gap and the increasing use of prudential borrowing as a source of funding.

Capital grants supporting the capital investment programme

100. As highlighted above and as a core principle, external grant income is only included within the programme if it has been formally approved or secured. That said, the programme does include estimates of capital grants, where supported by government notifications of indicative allocations (e.g. local transport plan, basic need grant for school expansions, disabled facilities grant). These amounts are expected to be formally confirmed by the end of the current financial year, and the capital programme adjusted if required.

101. Looking ahead BCP Council will continue to pursue new external grant funding opportunities. Notable examples include the potential for significant new capital grant income from the Transforming Cities Fund and from Homes England.

Capital Investment Programme funding

102. Figure 18 summarises capital resources currently earmarked to finance the capital programme. These include government grants, capital reserves, Community Infrastructure Levy (CIL) and other developer contributions, capital receipts and prudential borrowing. Broadly speaking, over the three years of the programme the CIP is 53% funded from external sources (grants and third-party contributions including CIL and s106 developer contributions) and 47% from Council sources (capital reserves, capital receipts, prudential borrowing).

103. Most of the capital resource required for programme delivery has either been received or secured, or (in the case of prudential borrowing), the revenue cost has been factored into the base revenue budget or MTFP.

Figure 18: Financing BCP General Fund Capital Assets & Infrastructure

	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
BCP - Capital Investment Programme	**105,685**	**32,119**	**17,602**	**155,405**
Government Grant	51,970	14,215	9,126	75,311
Third Party Receipts	505	141	0	646
CIL / s106	4,003	2,874	0	6,877
External Funding Sources	**56,478**	**17,230**	**9,126**	**82,834**
Earmarked Reserves	2,192	528	538	3,258
Capital Receipts	4,650	495	0	5,145
Capital Fund (Revenue Funding for Capital)	7,203	1,917	997	10,116
Prudential & Supported Borrowing	35,162	11,949	6,941	54,051
BCP Funding Sources	**49,206**	**14,889**	**8,476**	**72,571**
Total funding requirement	**105,685**	**32,119**	**17,602**	**155,405**

Council approval: 2020/21 capital investment programme

104. The Council's constitution requires formal Council approval of each capital project before it can commence. In line with this, Council endorsement is sought for the £106 million capital programme budget and associated funding for 2020/21 (year 1 of total 3-year CIP budget of £155 million), as attached in Appendix 4. This includes council approval to accept new National Heritage Lottery Grant funding of up to £1.3 million for Upton Country Park (awarded January 2020). It also includes advance approval to accept £0.6 million Heritage Action Zone Grant (for Poole High Street investment) and £1.8 million Dorset Local Enterprise Partnership (DLEP) funding for Wallisdown – Boundary Road roundabout works in anticipation of formal grant award.

105. In endorsing this budget, councillors should be aware that it is likely to change during 2020/21 as new schemes are approved, new funding sources identified, and capital schemes are potentially revised in line with new Council-wide priorities. Councillors are also reminded that, in line with the financial regulations, there will be an opportunity for further scrutiny of significant capital schemes as they are developed.

106. **Capital Contingency –** In recognition of the exposure to risks in the capital investment programme it is proposed that a capital contingency is maintained - i.e. a finite, unallocated capital resource that is available to fund future capital schemes. The contingency is intended to cover the following potential risks:

   a) the need to provide resources to fund any unforeseen demands including those of an urgent or unavoidable nature

   b) Providing a potential source of funding for the council's local share of government supported schemes

   c) Safeguarding against the risk associated with the final cost that will need to be borne to deliver the numerous schemes included in the capital programme with each individual scheme at different stages in their delivery and with different levels of specific project contingency

   d) Providing a means of potential funding for any schemes which the council would want to undertake to support its key ambitions and priorities

   e) Potential dilapidation costs on buildings leased from third parties.

107. Allocations from the capital contingency will be made based on approved business cases, which demonstrate a clear need for use of contingency funds. The Council aims to maintain an annual underlying capital contingency of around £2 million, through which to fund such projects. Based on current estimates of unutilised capital fund balances less approved allocations in the CIP 2020/21 to 2022/23, the council has over allocated its capital contingency by £0.4 million. In order to reach a position where the council maintains a prudent level of unallocated capital contingency, it is proposed the council makes an annual revenue funding for capital contribution of £2 million. Councillors are reminded that this annual contribution will be in addition to annual revenue contributions of £360,000 for Poole Bay Beach Management and £997,000 for disabled adaptations work, backlog maintenance and BH Live asset maintenance already included within the MTFP. Examples of capital expenditure which might be met from the capital contingency include fleet replacement, fire safety, depot maintenance and additional investment in the corporate estate, special educational needs and disability sufficiency, pupil place planning, key infrastructure investments such as Bournemouth pier, Poole bridge and cliff stabilisation and the implementation of the review of public conveniences and the implementation of the parks and open spaces strategy.

108. The Council's capital contingency has historically been supported by the implementation of a Corporate Asset Management plan. This will require a review of all assets to determine those which could be disposed of where they do not effectively contribute to the delivery of the Councils business; where they do not support the community; where they do not assist the regeneration objectives or where they do not provide value for money.

Reserves

109. In setting the budget the s151 officer is required under section 25 of the Local Government Act 2003 to report on **the robustness of the budget** and the **adequacy of reserves** supporting the budget. The requirement on the s151 officer is to ensure that the **budget recommended to council is balanced** (i.e. expenditure matches income), is robust and therefore deliverable and has an adequate level of reserves. The s151 officer is required to ensure that the council's approved budget addresses these three issues. The level of reserves needed will vary year on year according to circumstances and the adequate level of reserves should be informed by a robust risk assessment process. This detail is provided in Appendix 3 to this report.

110. Councils generally hold two main forms of reserves;

a) **Unearmarked Reserves:** are set aside to help manage the risk to the council's financial standing in the event of extraordinary or otherwise unforeseen events and to mitigate the underlying operational risk associated with the operation of the council and the management of service expenditure, income and the council's funding.

b) **Earmarked Reserves:** are set aside for specific purposes including those held in support of various partnerships, reserves designed to help deliver the challenges in the Medium Term Financial Plan, key major projects of the council and several reserves the council is required to hold in line with statute or its own governance requirements.

111. The council should also remain mindful that relatively minor changes or shifts in key planning assumptions may have a significant impact on the council's financial position as highlighted in figure 19 below;

	Impact on level of net expenditure or council tax requirement £000's
Looked after child (high cost - residential) – per child	312
Looked after child (medium cost – independent fostering) –per child	73
Intensive homecare package for a disabled person	131
Vulnerable adults (learning disability – residential < 65)	160
Older person's supported residential care	37 *average* 104 *higher end*
Increase in the £7.7m cost of the concessionary fare scheme to the Council	£77k per 1% increase in journey numbers

112. The Chief Financial Officer, in providing advice to council on the level of reserves required to support the budgeted position, has been mindful of both the need to safeguard the organisation against the risk of future economic exposure and financial shocks whilst also ensuring monies are not held up unnecessarily in reserves.

113. It may be worth emphasising that reserves should not be seen in a short-term context. They should be placed in the context of the long-term funding cuts, service pressures and service delivery problems that the council may face. It is, however, legitimate for the council to call on reserves to mitigate short term pressures, smooth out the impact of extraordinary one- off demands such as government grant reductions, to meet the cost of unforeseen events and to enable any necessary structural budget adjustments to be implemented in a measured and planned way.

114. The Chartered Institute of Public Finance and Accountancy (CIPFA) have carried out some benchmarking on the level of reserves held by unitary authorities and identified that they tend to maintain unearmarked reserves between 5 per cent and 10 per cent of net revenue expenditure. For BCP this would mean maintaining such reserves at between £14.2 million and £28.3 million.

115. Having considered all matters and the known business requirements of BCP Council in 2020/21, the Chief Financial Officer is of the view **that it is appropriate to set the level of unearmarked reserves at £15.4 million for the 2020/21 budget** which is approximately 5.4 per cent of the proposed net budget requirement for the year**.**

116. The position will be kept under review throughout the remainder of 2019/20 to ensure the in-year position responds and reflects any new or changing risks as they emerge during the residual element of the current financial year.

117. Holding of unearmarked reserve at the lower end of the CIPFA recommend range is supported by the inclusion within the budget of a revenue base budget contingency. That said, this contingency has been reduced from 1 per cent of net revenue expenditure (£2.7 million) in 2019/20 to 0.4 per cent (£1.2 million) in 2020/21 in reflection of a reduction in the levels of uncertainty from the Councils first year of operation and the projection of the availability of residual Financial Resilience Reserves in 2020/21.

118. In regard to earmarked reserves, it is estimated that their level will be reduced from £52 million as at the 31 March 2019 to £33 million as 31 March 2020. The budget proposal indicates that they will be generally held around this level with the estimate for the 31 March 2021 currently £32 million.

119. In assessing the adequacy of the Council's reserves a key determinant will be the historic and future projected deficits on the DSG with specific reference to the high needs budget. This is explored in more detail earlier in this report at paragraph 43. The critical aspect is that the projected deficit of £8.3 million on the high needs budget as at the 31 March 2021 must be held against the councils £15.4 million of unearmarked reserves. This will present a perilous position for the financial health of the council unless, as proposed and set out in the report, resources are set-a-side in an earmarked reserve (the Financial Liability reserve) to act as a counterweight against this forecast and potential liability. Including a degree of these resources as a contribution from the base revenue budget of the council will also deliver a more sustainable position should as expected the high needs budget pressure continue into future years.

120. The budget as proposed is also premised on the assumption that any changes between the provisional 2020/21 Local Government Finance settlement, issued in December 2019, and the

final settlement due in early February 2020, will be addressed as a movement either to or from the Financial Resilience earmarked reserve.

121. In proposing the reserves strategy as set out in Appendix 3, the Chief Financial Officer has been mindful of the need to;

a) Balance both the requirement to safeguard the organisation against the risk of future financial exposure whilst also ensuring resources are not held unnecessarily in reserves and;

b) Identify opportunities for the council to re-direct available resources to support the delivery of key corporate priorities in 2020/21.

Treasury Management Strategy

122. The council's Treasury Management Strategy (TMS) is subject to regular review and was last reported to the Audit & Governance Committee for monitoring and update purposes in January 2020. The council is required to set its prudential indicators in the context of the overall strategy on an annual basis. The treasury strategy, practices and prudential indicators for 2020/21 are set out in Appendix 4 for approval by council.

123. A significant element of the TMS is the council's approach to balancing the risks associated with its need to borrow, namely;

a) *Credit Risk:* Which is the risk associated with an institution failing and the council's investment being reduced due to bank bail-in arrangements. An approach to managing this risk is to use internal balances before undertaking external borrowing which will also provide a better return for the council as the cost of borrowing exceeds any value the council could earn on these internal balances.

b) *Interest Rate Risk:* This is the exposure to interest rate movements on its borrowing and investments. The council is susceptible to upward movements in long term rates given the amount of borrowing still required over the next 5 to 10 years. At this stage the council anticipates long term interest rates remaining low for the foreseeable future but has structured several trigger points which would require reconsideration of such borrowing.

c) *Re-financing Risk:* Focuses on managing the exposure to replacing current financial instruments (borrowings) as and when they mature.

d) *Liquidity Risk:* This aims to ensure the council has enough cash available as and when needed.

124. The strategy is significantly influenced by the requirements of the devolved system of council housing (HRA) finance. This includes the operation of a two-pool approach to debt management with the debt of the HRA *(council house tenant account)* and that of the General Fund *(council taxpayers account)* separated. All external debt will be taken out by reference to the relevant pool although it should be noted that there will still be flexibility to transfer debt between the two if required.

125. The strategy is also required to set out the council's approach to the repayment of debt referred to as the minimum revenue provision (MRP). In this regard the council's approached is

- a 2% straight line method for all supported borrowing capital expenditure incurred prior to 2016/17.

- the asset life method for all unsupported borrowing capital expenditure incurred prior to 2016/17. An average 25-year life will be used.

- a realignment of MRP charged to the accounts to recognise excess sums made between 2004 and 2016. Total MRP after applying the realignment will not be less than zero in any financial year.
- A 4% written down balance method on capital expenditure incurred from 2016/17 onwards.
- An asset life basis applied to capital expenditure schemes which are in excess of £10m or for strategically important scheme which the S151 deems appropriate to apply the asset life basis as well.

126. The budget as set out incorporates the assets and liabilities of Bournemouth, Christchurch and Poole as well as a proportion of those held by Dorset County Council on behalf of the residents of Christchurch.

Housing Revenue Account (HRA)

127. A report on the HRA and rent setting is included as a separate item on the agenda for this meeting and should be considered alongside this report to councillors in setting the budget for 2020/21.

Chief Officers' Pay Policy Statement

128. Further to the provisions of the Localism Act 2011, the council is required to publish its local Chief Officers' Pay Policy on an annual basis for consideration by council before 31 March each year.

129. The council's pay policy has been duly prepared by the Human Resources and Organisational Development service and is attached as Appendix 7 to this report to ensure the council is able to consider it this year in accordance with the statutory timetable as prescribed by government.

Scheme of councillor allowances

130. The council is required to adopt an annual scheme of councillor allowances as specified under the Local Authorities (Members' Allowances) (England) Regulations 2003. This references the following in respect of annual updating "The Scheme will be updated each year on 1 April, in line with any amendment to the Employees' National Salary Award."

131. As part of the proposed budget, provision has been made for a total cost of £1.334 million in 2020/21. This reflects that the budget for 2019/20 did not include a full year cost due to the impact of the May 2019 local election and the fact that certain allowances only became payable once the relevant councillors had been elected to lead roles. As required by the scheme recognition is also made for costs to increase in line with the annual local government pay-award estimated at 2 per cent.

132. The Independent Remuneration Panel is undertaking an interim review of councillor allowances and will be reporting to council on the 18 February 2020. Should the Panel recommend, and council agree, any amendment to the allowances which increases or decreases the provision required compared to that included in the proposed budget, will need to be processed an adjustment to the base revenue budget contingency.

Consultation

133. Under Section 65 of the Local Government Finance Act 1992, councils have a statutory duty to consult with representatives of business rate payers on its proposed expenditure for the following year. Business leaders across Bournemouth, Christchurch and Poole were invited to

attend a presentation held on 4 February 2020 on the budget for 2020/21 and Medium Term Financial Plan from the BCP Cabinet and the Chief Financial Officer.

134. 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.

Alternative options

135. Section 49 of this report includes consideration of alternative Council Tax harmonisation strategy considered and rejected. There will however be numerous potential permutations.

Summary of finance and resourcing implications

136. As set out in the report.

Summary of legal implications

137. 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.

138. As part of this final budget paper the Chief Financial Officer is required to make a report to the authority which deals with the robustness of the estimates and the adequacy (or otherwise) of the council's reserves.

Summary of human resources implications

139. There are no direct human resource implications of this report. However, the 2020/21 budget and MTFP 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

140. Consideration has been given as part of this 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.

141. As outlined earlier in this report this budget proposes a £240 thousand annual commitment in support of climate change and the ecological emergency.

Summary of public health implications

142. None specifically related to this report.

Summary of equalities and diversity impact

143. An EINA has been undertaken in respect of the budget as proposed 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.

144. The full EINA is included as Appendix 6 to this report.

Summary of risk assessment

145. 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 to local authorities and both the demand for, and cost of, local services continue to rise.

146. 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.

147. Uncertainty associated with the government's financial planning framework, be that due to lack of a three-year national spending review or the delay in the new model of funding local government, will continue to be a key risk, as will possible variations to base assumptions due to demand or cost factors.

Background papers

148. 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://moderngov.bcpshadowauthority.com/ieListDocuments.aspx?CId=136&MId=123&Ver=4

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

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

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

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

151. BCP Cabinet – 20 December 2019 Medium Term Financial Plan Update Report

https://democracy.bcpcouncil.gov.uk/mgChooseDocPack.aspx?ID=4171

152. All these reports were subject to the overview and scrutiny arrangements established to support consideration of all the reports presented to cabinet by the Overview and Scrutiny Board which included a presentation on the 4 December 2019 with an open invite to all councillors.

Appendices

153. Appendix 1a Council Tax harmonisation strategy

Appendix 1b Schedule of Council Tax by area

Appendix 2a Budget summaries

Appendix 2b Schedule of savings and efficiencies

Appendix 3 Reserves Strategy

Appendix 4 Capital Investment Programme detail

Appendix 5 Treasury Management Strategy

Appendix 6 Equalities Impact Needs Assessment (EINA)

Appendix 7 Chief Officers' Pay Policy Statement