CABINET

Report subject	Covid-19 - 2020/21 Budget Monitoring Report – June 2020
Meeting date	24 June 2020
Status	Public Report
Executive summary	The report sets out the latest financial forecast for the impact of Covid-19 on the £283 million 2020/21 budget and how it is to be managed. The government has provided £22 million of emergency funding to cover projected additional costs and lost income of £52.3 million in the general fund with a resulting funding gap of £30.3 million. The report includes a range of measures introduced to reduce expenditure which is not being incurred in support of the pandemic. This includes temporary adjustments to services, continuing the vacancy freeze, bringing forward transformation savings and delaying projects. At this stage the residual gap would also need to be supported by the reprioritisation of reserves. There is still considerable uncertainty regarding the duration, impact and level of government support for the pandemic. The position will therefore need to be kept under constant review. Lobbying of Government will need to continue as it is not acceptable that the council should bear significant budget pressures as a result of the pandemic and full financial support should be provided as originally announced. If successful, this would enable us to release for their intended purposes the resources earmarked to reduce the projected funding gap. The report also reflects on the potential impact of Covid-19 on the capital programme and ring-fenced Housing Revenue Account (HRA), with the actions required to balance the account. Appendices A to C include the year end forecasts for the general fund revenue budget, medium term financial plan (MTFP) and capital programme.
Recommendations	It is RECOMMENDED that Cabinet; 1. Note the progress in the development of the budget mitigation strategy as a result of Covid-19 pressures. 2. Continue to lobby Government for additional funding to reduce the projected budget gap caused by the outbreak.

Reason for recommendations	The council has embedded sound financial and risk management protocols as well as a culture of scenario and options appraisal. This culture is needed now more than ever with the greater level of uncertainty arising from the pandemic. The scale of income loss in 2020/21 is projected to be so significant as to threaten the financial viability of the council and concerted action must be taken to reduce expenditure to rebalance the budget.
Portfolio Holder(s):	David Brown for Finance
Corporate Director	Julian Osgathorpe for Resources
Report Author	Adam Richens, Head of Finance and Section 151 Officer
Wards	Council-wide
Classification	For Decision

Background

1. In February 2020 Council agreed the annual general fund net revenue budget of £283 million, a capital programme of £106 million and the net use of reserves of only £0.5 million with council tax levels fixed for the full financial year. Budgets were also agreed for the Housing Revenue Account (HRA).
2. Cabinet on 27 May 2020 received a report which set out an initial estimate of the financial impact of the Covid-19 emergency according to three scenarios for the length of the disruption period. These figures for the general fund estimated pressures after the receipt of two tranches of government funding totalling £22 million at 5%, 11% and 26% of the net revenue budget, respectively across the three scenarios.
3. The 24 weeks scenario has been taken forward for financial planning purposes. This scenario in May had an estimated impact of a budget shortfall of £31.3 million identified. The actions planned in the development of a mitigation strategy were also included in the May report, with Cabinet requesting an early budget monitoring report is brought forward in June.
4. This June report includes an updated assessment of the financial impact in 2020/21 of Covid-19 and how the mitigation strategy has been developed to rebalance the annual budget based on the 24-week scenario. The information summarises the projected year end variances, as usually presented through the quarterly corporate budget monitoring reports.
5. As a new council, setting the budgets in the first two years has been a challenge due to the lack of complete historic data and trend information. This is now compounded by less well understood future demand pressures as the new normal and longer-term impact of Covid-19 has yet to be established.

6. In considering the council's overall financial position it must be borne in mind that BCP as well as one of the twelve largest unitary councils is also a coastal community particularly exposed to significant income reduction. In a normal year the tourism sector makes a considerable contribution to the budget, including for vital council services such as adults and children's social care. This is emphasised by the benchmarking that shows the council is in the top four of unitary councils as being supported by sales, fees, charges, trading accounts, interest & investment income. Growing our income base was a strategy to sustain services directly linked to reduced government funding and growing pressures.

7. We have continued to lobby government for further support through direct representations to the Ministry of Housing Communities and Local Government (MHCLG) with letters also sent to our local MPs, so they are able to campaign on our behalf. The council has also participated as one of the authorities approached by the Local Government Association (LGA) in undertaking a case study as part of their work to demonstrate to government the extent of the impact of the public health emergency. We cannot however assume that government will increase their financial support beyond the £22 million already provided.

8. On giving evidence to the Housing, Communities and Local Government Committee on 4 May, Cabinet Minister Robert Jenrick said Whitehall would cover the cost of anything it had asked councils to do, including protecting vulnerable children, and provision of social care and housing to support rough sleepers. However, he stressed the funding guarantee did not extend to paying for all extra costs arising from the pandemic. He added that better data was needed on councils' loss of income, including the reduction in their tax base, before the government would consider making up any shortfall. He also suggested that the government would be unlikely to pick up the loss from any investment income. This was a significant change from the original government commitment that councils will get all the resources they will need to cope with the pandemic.

9. Although the prospect of additional funding to cover all council losses is extremely remote, government could agree other measures to support councils' revenue positions without providing extra funding. These include extending the period of the flexible use of capital receipts for revenue purposes and reducing the statutory minimum revenue provision for borrowing repayments. The council will continue dialogue with government on these issues.

10. The government is continuing to listen to concerns within the care sector and recognises the important role councils play in their local communities.

11. On 18 May BCP was allocated £6.1 million from the national £600 million ring-fenced primarily for infection control in care homes. Funding has been provided based on the total number of care home beds (4,724 in BCP) and will be paid to councils in two equal instalments. Guidance from the Department of Health & Social Care includes that three quarters of the first tranche is passed directly to care homes. The remaining 25% councils can allocate based on need, including to domiciliary care. Care homes can receive allocations from the second tranche only if they comply with specific measures which will be set out by Government. There is also a new requirement for the council to produce at speed a local care home resilience plan in consultation with partners.

12. The government published the country's recovery strategy on 11 May with this closely followed with a suite of guidance on how to prepare. This includes how to

make workplaces secure and how to manage urban spaces. On 24 May a £50m Reopening High Streets Safely Fund was announced to provide councils with additional funding to support business communities prepare for the reopening of retail when the scientific advice allows. As part of our local approach, we will need to create safe and welcoming spaces for local shops and businesses, including information for businesses and the public, and also street markings and signage. The Fund is allocated on a per capita basis, with BCP to receive £0.35 million.

13. In the light of the emerging financial impact of the pandemic and our expectations of central government, Cabinet members and officers held budget meetings during April and May to develop the mitigation strategy to ensure the 2020/21 budget remains in balance. The outcome is a flexible plan that can be refined should additional government funding be received, or pressures be less than currently projected. Should the estimated pressures be greater, in the absence of further funding from government, additional management action to reduce costs may be necessary.

14. The council's corporate plan and transformation strategy are being refreshed alongside the review of the budget. The budget cannot be considered in isolation with the transformation programme key to delivering the scale of savings now needed this year and over the medium term financial planning (MTFP) period.

15. A separate report on the Cabinet agenda for June considers the transformation programme in more detail with it underpinning much of the ongoing budget work to achieve further savings over the MTFP period.

16. Since March 2020 all non-essential expenditure and new and significant Covid-19 related costs with an element of discretion, were approved by the council's Corporate Incident Management (CIMT) Board. This Board was set up to make rapid decisions using delegated emergency powers. A small number of these decisions included significant Covid-19 expenditure to be met from the £22 million emergency fund and do not need further approval. The main item approved was the commitment to support additional payments to the care market for the period up to the end of July. Also approved was central purchase of supplies of Personal Protective Equipment (PPE) and to incur additional costs in ensuring the safe re-opening of services to the public.

17. Demand-led pressures and new duties directed by government, such as measures to reduce homelessness during the pandemic and to set up a facility for excess deaths, have not needed specific approval and are also included in the projected outturn variances.

Summary of Covid-19 Impact on the 2020/21 Revenue Budget

18. The table below provides a summary of the estimated revenue impact as at June 2020 and recommended mitigation measures.

Figure 1: Summary Revenue Budget Impact at June 2020

At May £millions	Covid-19 Pressures 2020/21 Based on a 24 Week Scenario	At June £ millions
9.4	Adults & Public Health	8.0
1.8	Children's	1.8
4.9	Environment and Community	5.4
21.8	Regeneration and Economy	20.9
1.4	Resources	2.2
2.1	Investments	2.1
11.9	Funding - Council Tax / Business Rates	11.9
53.3	**Total Pressure**	**52.3**
(22.0)	Government Covid19 - Emergency Funding	(22.0)
31.3	**Net Covid-19 Pressure**	**30.3**
	Directorate savings	
	Employee cost base	(3.3)
	Expenditure cost base	(10.1)
	Net Budget Gap	**16.9**
	Potential earmarking of central resources:	
	Project review – capital	(2.8)
	Potential use of the base revenue budget contingency	(1,1)
	Potential use of earmarked reserves	(10.7)
	Potential use of unearmarked reserves (to be restored in 2021/22)	(2.3)
	Total Residual Funding Gap	**0**

19. The estimated net pressures have reduced from £31.3 million in the May report to £30.3 million in June.

20. The above mitigation strategy has prioritised permanent savings from transformation and service alignment as this will also ensure progress towards balancing the budget for next year. There are also savings where costs have naturally declined through the pandemic or where a short-term only impact is considered deliverable.

21. Directorate savings include deferring until next year uncommitted expenditure on specific Member priorities and these will be the first budgets restored should the financial position improve to the extent that the council no longer needs to draw down on reserves to balance the annual position.

22. By supplementing savings with the potential use of £2.3 million of residual unearmarked reserves and re-designation of £10.7 million of earmarked reserves, the strategy allows for the high degree of uncertainty that remains for the overall impact. It avoids cutting too deeply into service provision at this early stage in the disruption period and financial year. The recent good weather in May and easing of the lockdown in June may mean the pressures will reduce. However, there may be further periods of lockdown later in the year that will impact on our income streams and cost projections.

23. A summary of the revenue budget variances to reflect the changes summarised in the above table is included below.

Figure 2: General Fund – Summary – Projected Outturn as at 31 March 2021

	Approved Resources £m	Covid-19 Pressures £m	Mitigation £m	Projected Outturn £m	Projected Variance £m
Service Budgets					
Adult Social Care & Public Health	111.1	8.0	(4.2)	114.8	3.8
Children's Services	61.9	1.8	(0.8)	62.9	1.0
Environmental & Community	51.6	5.4	(3.0)	53.8	2.4
Regeneration & Economy	6.7	20.9	(3.8)	23.8	17.1
Resources	33.0	2.2	(1.3)	33.3	0.9
Furlough of staff			(0.3)	(0.3)	(0.3)
Total Service Position	**264.3**	**38.3**	**(13.4)**	**289.2**	**24.9**
Corporate Budgets					
Investment Property Income	(6.7)	2.1		(4.6)	2.1
Pensions (back funding)	5.6			5.6	
Repayment of debt (MRP)	10.6			10.6	
Other Corporate Items	1.3			1.3	
Interest on borrowings	1.8			1.8	
Treasury Income	0.3			0.3	
Revenue Contribution to Capital	2.8			2.8	
Transfer to Reserves	2.0			2.0	
Council Tax /NDR Reserve		11.9		11.9	11.9
Total Corporate Budgets	**17.7**	**14.0**	**0**	**31.7**	**14.0**
Covid-19 Grant	**0**	**(22.0)**	**0**	**(22.0)**	**(22.0)**
Total Budget ex Contingency	**282.0**	**30.3**	**(13.4)**	**298.9**	**16.9**
Potential funding:					
Use of base revenue contingency	1.1		(1.1)	0	(1.1)
Release from capital projects			(2.8)	(2.8)	(2.8)
Financial resilience reserve			(10.7)	(10.7)	(10.7)
Unearmarked reserves			(2.3)	(2,3)	(2.3)
Net Budget	**283.1**	**30.3**	**(30.3))**	**283.1**	**0**

24. A more detailed view of the projected outturn is included in Appendix A1.

Estimated Net Pressures from Covid-19 at June 2020 - £30.3 million

25. The financial impact of Covid-19 has been updated and refined since the 27 May report. The previous estimates have been updated to include:

   a. More robust evidence of new service costs, for example the extent of the budget needed for PPE has grown within resources directorate. In contrast, the pressure from excess deaths management has reduced within environment and communities as the new facility has been used less than expected.

   b. Emerging trends of normal service usage. This includes reduced pressures from lost carparking income within regeneration and economy. However, for many services and particularly those of a more seasonal nature, it is difficult to predict the impact over the main summer period and then later in the year. There is expected to be a significant change in people's habits following the outbreak and some may prove to be longer-term in nature.

c. Further government announcements, including an uplift in funding for public health, with pressures now removed.

d. Reassessment of post pandemic costs, for example in the adult social care residential care market.

26. The updated detail of estimated pressures in budget risk areas as a result of Covid-19 is included in Appendix A2.

27. The pressures are being kept under review with changes expected, including any costs of measures to safely reopen services to the public should the new grant not be sufficient.

28. The analysis in Appendix A2 also includes estimated pressures for the 16 weeks and 52 weeks scenarios with the periods to be modelled kept under review as different scenarios may become relevant as the year unfolds.

Business Rates

29. The Covid-19 estimated impact for business rates remains unchanged for this financial year from that assumed in May. This estimate recognises that the council is now predicting not to collect £88 million of the £151 million in business rates it budgeted to collect for 2020/21. Of this, £78 million relates to the one-year business rates holiday that the government has offered to businesses in the retail, hospitality and leisure sectors for which the government will give the council a compensatory specific grant. In respect of the difference, the council's maximum exposure is £7.3 million which represents the level of the safety net which under regulation sets the threshold below which specific government support kicks in. The week 24 scenario takes account of 50% of the safety net level.

30. The collection of business rates is reported to government through a well-established process at key points in the accounting cycle. The case continues to be made nationally to government that they should as a minimum compensate councils for their losses compared with 2020/21 budgets this year, setting aside the normal safety net mechanism which only limits losses.

31. A government announcement was made on 6 May cancelling the planned business rates revaluation for 2021. A property's business rates bill is based on a precise estimate of the premises' rental value with calculations according to specific valuation methods. Rateable values are regularly updated by government but there will now be changing circumstances as a result of the coronavirus pandemic.

32. The fundamental review of business rates, which was announced in the Budget in March 2020, is continuing with a planned call for evidence still going ahead later this year.

33. The key aims of the government review are reducing the overall burden on businesses, improving the current business rates system, and considering more fundamental changes in the medium-to-long term. The impact of Covid-19 must now open a much wider range of options, including replacing it with an alternative business tax.

Implementation of Mitigation / Funding Strategy

34. The mitigation strategy presented to Cabinet in May provided a general approach to securing budget savings and proposals have been developed at pace across all directorates. A summary of this work is detailed in the following paragraphs.

35. Officers under delegated powers can agree budget savings, and particularly those relating to general operational efficiencies, from services being closed for periods of time or are otherwise under £0.5 million in seeking to manage their budget pressures. The mitigation strategy included in this report does not include any changes to service levels requiring the formal agreement of Cabinet or Council at this time. Mitigation measures outside service revenue budgets remain contingent should the pressures be realised as currently forecast, with formal decisions to be made at a later date should this be necessary.

Transformation

36. Significant progress was made in March to bring forward some transformation spend in preparing for the lockdown. This enabled more of the workforce to work effectively from home. The planned roll out of Microsoft Teams is continuing as planned, with staff embracing new ways of working. The refresh of the transformation programme has built on this experience with it being able to facilitate the delivery of savings at greater pace than previously envisaged.

37. The high-level business case presented to Cabinet in November 2019 identified that the council's organisation design project, which was facilitated by KPMG, could potentially deliver up to £43.9 million of gross annual savings by year 4 based on an investment of £29.5 million. The profile of these savings was assumed to accumulate as £7.8 million in year 1 growing to £16.5 million in year 2, £36.9 million in year 3 and £43.9 million in year 4. Based on the extension of the project to a £38 million programme, the quantum leap forward in different ways of working as a consequence of the Covid-19 public health emergency and the need to accelerate the pace at which we generate savings and efficiencies, it is proposed to adopt a £15 million savings target for 2021/22. This is net of an estimated £1.5m of ongoing savings put in place in 2020/21 to help manage the in-year financial position.

38. A report which presents the £38 million transformation budget for Council approval is set out as a separate item on the June Cabinet agenda. It also requests Cabinet and Council approval for the pre-requisite funding strategy.

Employee cost base savings £3.3 million

39. Employees have been furloughed in services that during the emergency were closed, and they were unable to be redeployed to Covid-19 work and whose costs are normally funded by income that has been lost. The claim submitted for costs is for March and April. It is assumed the claim will also apply to May as venues have remained closed. The total to the end of May is assumed at an estimated £0.3 million.

40. The forecast allows for a full year vacancy freeze, except in specific circumstances. Posts currently filled by existing agency staff have been reviewed with savings possible from reprioritising work.

41. The vacancy freeze for 2020/21 applies to 80.39 full time equivalent posts out of a total establishment of 4,126.2. This equates to 1.95% of establishment posts.

42. Some posts will be removed from the budget permanently, as a result of a review of all services, including those resulting from the reset after lockdown noted below.

Expenditure cost base savings £10.1 million

43. Services that due to Covid-19 have been dormant or operated at a reduced level will have a level of savings without specific management action being required.
44. Some transformation savings have been realised early from different ways of working during the lockdown period with these already now embedded and expected to continue. Examples include reduced printing and staff travel. Partners and other organisations have also increased their use of virtual meetings during this period with this set to reduce permanently our need to travel for meetings, networking events and training courses.
45. Specific budgets can be saved for one year only to help manage the immediate budget shortfall. This includes, for example, delaying some planned developments until next year and cancelling the air festival. Opportunities have also been taken to reduce annual contributions to provisions where these are still considered to be adequate due to reduced activity, for example for insurances.

Reset services

46. In May the Council implemented a corporate programme to look at how services can be reset for business as usual activity after the lockdown restrictions end. Not all services can be put back the way they were, and we have instead looked to understand what the changes have been in our communities and how we now need to support them. The programme includes placing significant emphasis on supporting our residents and businesses to recover and come to terms with a new normal.
47. The forecast outturn includes an estimate within service areas of the impact of the reset programme. Through project governance, the programme will support the achievement of the strategic and tactical change. It will also oversee service level activity to deliver the change necessary through structured and consistent action plans.

Reimagined estates strategy

48. The estates transformation programme is being updated to include the impact of the extensive shift to home working, with the new culture becoming embedded at a pace not previously envisaged. Repairs and maintenance budgets for the existing estate have been reduced with only emergency health and safety works being undertaken for buildings without a long-term future use for the council. This approach has also enabled a specific building maintenance reserve to be released.
49. The review included how current buildings could be repurposed to further reduce estate maintenance. This included transferring the Bournemouth Learning Centre back into the school estate for conversion into special school provision as part of the high needs action plan. Additional local places reduce reliance on higher cost non-state provision funded from the Dedicated Schools Grant (DSG) but also keep children closer to their communities.
50. Overall, the review has saved £0.3 million of revenue costs for the current year.

Base budget reviews

51. A detailed review has been undertaken of the outstanding work programme established through the base budget reviews last year, to determine the feasibility of

early implementation in support of the current financial challenge. This work will continue as part of the MTFP process and budget setting for 2021/22

Project review

52. A fundamental review of all projects (revenue and capital) has taken place to determine the extent to which they can be deferred, cancelled or refinanced with consideration of the financial impact alongside that on the community.
53. The savings included for 2020/21 include any current year revenue contributions that can be stopped along with the release back into the revenue account of prior year contributions to current capital schemes.
54. The review of projects included whether funding could be reprioritised to support either the revenue funding gap or the transformation agenda.
55. Within the expenditure cost base savings in Figure 1 and the directorate level mitigations in Figure 2 is the delay until next year of member priorities totalling £1.1 million. Delayed allocations include for community engagement, climate change, tackling unauthorised encampments, additional street cleansing and highways maintenance, regeneration and culture. Restoration of these budgets will take priority if the financial position improves.
56. The review of capital projects has identified the potential to refinance two schemes to release revenue contributions to capital totalling £2.8 million. The schemes are going ahead as planned but with different funding sources, if needed, as follows:
    a. Canford Cliffs seafront development project could use prudential borrowing to replace £1.2 million of earlier revenue contributions. There would be additional borrowing costs of £74,000 from 2022/23.
    b. Heart of Poole could release £1.6m already committed by Council to help subsidise the final approved scheme. This recognises that work remains ongoing to develop a revised Master Plan.
57. In addition, the review of projects has supported the funding strategy of the transformation programme as presented elsewhere on this Cabinet agenda.

Summary of Directorate Savings

58. Senior officers scrutinised savings proposals in consultation with cabinet members with only those considered achievable this year taken forward at this stage. The following paragraphs summarise the savings within each directorate with further details included in Appendix A3.

Adult Social Care – savings of £4.2 million

59. Temporary savings of £1.5 million are included from accelerating the implementation of a strengths-based and enhanced approach to review processes for domiciliary care and direct payments. This will reduce the proportion of people being admitted to residential care whilst increasing the proportion of people being supported in their own homes.
60. The base budget review of care budgets and those not fully utilised due to Covid-19 such as mileage and training provide savings of £1.3m, with some being permanent reductions. Some vacant posts will not be filled this year saving £1 million with some taken out of the establishment permanently.

61. Permanent savings include £0.2 million of efficiencies in relation to care services provided by Tricuro, the council's trading company in partnership with Dorset Council. In addition, £0.2 million is included from bringing forward service re-structuring and the consistent application of eligibility criteria across the BCP Council area.

Children – Savings of £0.8 million

62. The review has highlighted temporarily saving across services of £0.2 million. Also included is the return of a partnership reserve £0.1 million (to be agreed by partner) as a one off saving this year.

63. Permanent savings of £0.3 million are included for staff restructures across the three service areas and commissioning savings of £0.2 million.

Environment and Community – savings of £3.0 million

64. The review of community budgets for temporarily savings due to Covid 19 can provide £0.1 million. Permanent savings relating to service restructures vacant posts and other budget reductions total £0.3 million.

65. Savings within the environment budgets include £0.6 million from the potential to delay to 2021/22 the spend on member priorities relating to climate change, street cleansing, unauthorised encampments and highways maintenance. The review of all other budgets can save £0.8 million. Included are temporary savings to recognise a level of underspending due to Covid-19 and service decisions to reduce grass cutting. Permanent savings are included from increased income from cess pit emptying and bringing forward the early harmonisation of charging polices across the area for replacement bins. Other permanent savings include deleting some vacant posts and rebalancing two collection rounds to improve efficiency

66. The review of housing budgets has provided £1.2 million of savings from temporarily reductions in spending due to Covid-19 and suspension for one year of the contribution to the rent deposit bad debt provision. There are also savings from staffing changes and reduced back fill of vacancies, some of which will be permanent.

67. The £0.3 million saving from rebalancing the solar panel budget for HRA stock reflects current activity and will be treated as permanent.

Regeneration and Economy – savings of £3.8 million

68. At the present time, almost all savings identified from the regeneration and economy review are temporary with only a small contribution to the MTFP.

69. Destination and culture have projected temporary savings arising from the outbreak period at £1.3 million. Cancellation of the air festival will save £0.3 million and plans for a new outdoor event could provide new income of £0.1 million. The delay until next year spend on culture as part of Members' priorities will save £0.15 million, with vacant posts and other budgets providing a further £0.1 million.

70. Development have identified £0.3m in savings from leaving vacancies unfilled and reduced spend as a result of the outbreak, and £0.3 million from delaying Member priorities.

71. Growth & infrastructure are projecting savings from reduced spend as a result of the outbreak of £0.7 million and unfilled vacancies of £0.5 million.

Resources - savings of £1.3 million

72. Temporary savings of £0.4 million can be made by a one-year holiday from making contributions to the insurance and election reserves (at £0.2 million each). Other temporary savings include £0.3 million from unfilled vacancies.

73. A review of supplies and services across the directorate has identified £0.5 million of savings with some that can be included permanently. A further permanent saving is the removal of the unused budget of £0.1 million supplementing the local council tax support scheme.

Review of Reserves & Contingencies

74. Earmarked reserves have been set aside for specific purposes and these were reconsidered in the light of the new financial environment and need to fund the transformation programme which is fundamental to delivering savings at scale.

75. The review has recommended that £10.7 million of reserves could be re-designated to support the revenue funding gap (notionally into a new Covid-19 financial resilience earmarked reserve). Details are included in Appendix A4.

76. These reserves will be held for their original purpose until it becomes clear that they will not be needed to support the revenue budget. However, no expenditure is to be incurred without the approval of the corporate management board.

77. Significant re-designated reserves are as follows:
    - £3.0 million from the business rates reserve
    - £2.5 million from the voluntary MRP reserve
    - £1.7 million from the general financial resilience reserve

78. Also included are numerous smaller service specific reserves, for example for property maintenance due to a planned change in pace for the transformation programme.

79. Included in the £10.7 million potential release of reserves is the recommendation to reduce the level of the current £15.4 million of unearmarked reserves by £1.2 million to the lowest end of the recommended range at 5%. Although risks have clearly grown this level is still considered adequate given the level of reserves allocated to the transformation programme and on the basis that these will not all be committed in this first year. There will be time to adjust this programme if necessary.

80. It is not recommended that the council reduces its unearmarked reserves below the potential £11.9 million remaining after the £2.3 million has been applied. The budgeted level of £14.2 million which represents 5% of the council's net budget will need to be restored in the medium term. This is on the basis that;
    - The May Finance Update Report recommended as part of a sensitivity analysis approach that we should plan for a 10% variance on the £30 million net current funding gap. Unearmarked reserves would be applied in the first instance under such a scenario as that is their purpose but future year budgets need also to be protected.
    - A significant amount of uncertainty still exists in respect of both the short term and longer-term impacts of Covid-19.

- A significant amount of risk remains regarding the operation of BCP Council especially as this will be only its second year of operation.

81. This means that the potential use of £2.3 million in 2020/21 would add to the pressures in the MTFP for 2021/22 as they need to be built back up again at the earliest opportunity.

82. Also included is the potential release of the base budget revenue contingency of £1.1 million as its key purpose is to provide mitigation for unforeseen events, such as the Covid-19 emergency.

83. The resources separately released to support the transformation programme is largely comprised of the £10.3 million financial liability earmarked reserve held to counterbalance the Dedicated School Grant accumulated deficit forecast for the end of April 2021. This adjustment is based on CIPFA guidance on the preparation of 2019/20 financial statements which stipulates that from the 1 April 2020 such reserve can only be held with the express authorisation of the Secretary of State. Our external auditors has confirmed his support in the approach being proposed in 2020/21.

Work in Progress

84. Work is continuing to refine and identify new savings proposals that could impact on this year and reduce the need to call on contingencies and reserves and prevent further delay in the start of some projects.

85. Other means to mitigate income losses are being explored. This includes notifying the council's property insurers of the intention to pursue business interruption claims for premises where revenue is generated and has been lost by Covid-19 emergency measures. In line with the Financial Conduct Agency (FCA) announcement on 15 May 2020, unsuccessful claims can be notified directly to them by 20 May with the intention to take forward a High Court test case to resolve some key contractual uncertainties and provide clarity to policyholders and insurers. This would not prevent the council either negotiating an individual settlement or going through arbitration, complaints or court proceeding processes in the future. The result of the test case will be binding and provide persuasive guidance for the interpretation of similar policy wordings and claims.

Medium Term Financial Plan (MTFP)

86. The Council's MTFP, covering the period 2021/22 to 2022/23, has been updated using the outputs from the review of the 2020/21 budget. This work will continue and is likely to be an iterative process as the extent of the pandemic and its effects on the council's budgets become clearer. During the current financial year the financial effects of the new normal and the resetting of council services will become established and the MTFP will be updated accordingly.

87. Appendix B includes the latest MTFP in comparison to the February 2020 budget report which estimated a funding deficit of £17.3 million in 2021/22 and £6.9 million in 2022/23. The annual deficit has increased to £32.3 million for 2021/22 and reduces to £5.1 million for 2022/23.

88. Appendix B shows the MTFP in absolute terms, while the table below shows an incremental summary of the changes.

Figure 3: Incremental Changes to the Medium Term Financial Plan

	2021/22 £m	2022/23 £m
Position as per February 2020 Budget Report	17.3	6.9
Additional Costs:		
Transformation – revenue implications	3.5	0.5
Winter Gardens – additional £7.6m member loan	0.1	
Reduced Income:		
Council tax income	9.5	
Business rates income	4.8	
Winter Gardens – remove current car park income	0.7	
Bereavement Services – income pressures	0.5	
Contribution to Unearmarked Reserves	2.3	(2.3)
Mitigation Savings Identified:		
Permanent expenditure cost base savings	(4.9)	
Permanent employee cost base savings	(1.5)	
Position as per June 2020 Budget Report	**32.3**	**5.1**

89. Adjustments that relate directly to the Covid-19 pandemic budget review are as follows:

Council Tax and Business Rates

90. Council tax yield has been reduced by £9.5 million in total using similar assumptions to those used in the 24-week scenario for the 2020/21 budget. This comprises an estimated £5.1 million reduction in yield based on 5% for 24 weeks, an increase in the bad debt provision of £3.4 million based on 1.5% of the yield, and the removal of £1.0 million growth in tax base that was previously forecast.

91. Business rates income has been reduced by £4.8 million in total using similar assumptions to those used in the 24-week scenario for the 2020/21 budget. Of this reduction, £3.7 million relates to the difference between the current budgeted income and a position halfway to the safety net, which is the point at which the government guarantees business rate income will not fall below. Also included is the removal of £1.1 million growth that was previously forecast.

92. The estimates for council tax and business rates will be further refined as more data becomes available regarding actual amounts collected. At the time of writing only direct debit data for April and May was available to inform modelling. A further complication is that the true collection rate for 2020/21 will not be known until the end of the financial year due to the potential re-profiling of payments for council tax and business rate payers.

Contribution to Unearmarked Reserves

93. The pressure for 2021/22 includes a £2.3 million contribution to unearmarked reserves to bring them back up to the minimum balance of £14.2 million which represents 5% of the net budget. This is a one off pressure that is removed for 2022/23.

Mitigation Savings

94. Expenditure cost base savings totalling £10.1 million have been identified to mitigate the effects of Covid-19 in 2020/21, and of these £4.9 million are identified as being permanent savings that could be reflected in the MTFP.

95. Similarly, of the £3.3m employee cost base mitigation savings for 2020/21, £1.5 million were identified as being permanent savings that could be reflected in the MTFP.

96. Other adjustments have been made to the MTFP that reflect additional pressures identified since the February 2020 Budget Report. For 2021/22 these include:

    a. £3.5 million revenue implications of the transformation programme which is the subject of a separate report on the agenda today;

    b. £0.8 million revenue implications of decisions previously made regarding the funding of the Winter Gardens capital scheme;

    c. £0.5 million income pressure identified for bereavement services due to private sector competition.

Capital Programme

97. The capital programme has been updated to release revenue funding to support the transformation programme and emerging budget shortfall. Appendix A5 itemises capital projects that have either been removed or have had revised funding models constructed in order to release revenue funding as contribution towards 2020/21 budget and transformation programme.

98. The revised capital programme is summarised below. The original budget approved in February 2020 has been updated to include new projects approved since, re-profiled capital budget from 2019/20 (draft until the accounts have been completed), and reductions arising from the proposals contained in the transformation report on the agenda. A full listing of capital projects in the capital investment programme is provided in Appendix C.

Figure 4 – Summary Capital Investment Programme 2020/21 – 2022/23

	Original Budget 2020/21 £'000	Planned Programme 2020/21 £'000	Planned Programme 2021/22 £'000	Planned Programme 2022/23 £'000	Total 2020 to 2023 £'000
Adult Social Care (Integrated Community Equipment)	1,127	1,597	1,127	0	**2,724**
Children's Services (inc additional spend from Children's Capital Strategy)	13,754	18,262	0	0	**18,262**
Growth & Infrastructure - Highways (inc £79m Transforming Cities Fund £3m Pothole Grant, as well as **indicative** DfT Local Transport Plan and Pothole Grant funding 2022/23 & 2023/24)	8,750	16,947	40,543	44,118	**101,609**
Growth & Infrastructure - DLEP (BiG Programme highways projects)	8,419	7,457	430	0	**7,887**
Growth & Infrastructure - Coastal Protection (inc Poole Bay beach management)	9,091	9,693	5,807	5,869	**21,369**
Economic Regeneration & Commercial Assets (inc town centre regeneration)	12,654	12,150	3,630	756	**16,536**
Destination & Culture (inc seafront development)	11,175	13,150	1,392	70	**14,612**
Housing & Communities (inc major housing development)	32,414	34,982	14,137	6,185	**55,304**
Hard Facilities Management (corporate estates)	997	607	518	518	**1,643**
Environment (waste, fleet, parks & open spaces)	6,598	12,331	123	0	**12,454**
Resources (ICT investment excluding Transformation Programme)	706	1,644	0	0	**1,644**
Capital Investment Planned	**105,685**	**128,819**	**67,708**	**57,516**	**254,043**

99. The update to the capital programme reflects some adjustments to grants received and DELP grant allocations. These are not Covid-19 related and will be brought for Member approval in the next quarterly budget monitoring report as is established procedure.

100. Key changes to original budget for 2020/21 include:

- Children's Services – approval of new government grant funded capital projects as part of the Children's Capital Strategy (approved by Council in May 2020).
- Growth & Infrastructure – inclusion of transforming cities fund (TCF) government grant funding and new DfT pothole grant funding allocation. Further information on planned TCF spend will be brought for consideration in due course.
- Economic Regeneration – new smart places financial model development project added to the programme, funded by the Dorset Local Enterprise Partnership (DLEP). Lansdowne business district planned spend for 2020/21 reduced in consultation with the DLEP.
- Destination & Culture – reprofiling of unspent approved capital resource from 2019/20 to 2020/21. This includes Canford Cliffs promenade development (including beach huts), now funded entirely from prudential borrowing (see Appendix B)
- Housing & Communities – inclusion of new s106 funded capital projects
- Environment – reprofiling of unspent fleet replacement approved resource from 2019/20 into 2020/21
- Resources – reprofiling of unspent capital budget for BCP Investment Plan into 2020/21. This spend is in addition to ICT spend included within the council's transformation programme.

101. It is inevitable that there will be some degree of delay in delivering the 2020/21 capital investment programme as a result of Covid 19. It is also possible that budgets for new schemes that are yet to commence could increase as a result of current market conditions. This position will be monitored throughout the year.

102. The table below summarised how the capital programme is financed.

Figure 5 – Capital Investment Programme Funding 2020/21 – 2022/23

	Original Budget 2020/21 £'000	Planned Programme 2020/21 £'000	Planned Programme 2021/22 £'000	Planned Programme 2022/23 £'000	Total 2020 to 2023 £'000
Government Grant	51,925	63,388	51,055	49,519	**163,962**
Third Party Receipts	505	817	109	0	**927**
s106	3,051	4,439	2,874	0	**7,313**
CIL	626	1,479	0	0	**1,479**
External Funding Contributions	**56,107**	**70,123**	**54,038**	**49,519**	
Housing HRA Capital Receipt	4,650	4,650	0	0	**4,650**
Corporate Revenue Funding for Capital (in year)	1,019	518	518	518	**1,554**
Capital Fund (historic Revenue Funding for Capital)	6,184	7,820	180	0	**8,000**
Capital Receipts	0	4	495	0	**499**
Capital - Earmarked Reserves	2,038	2,271	528	538	**3,337**
Revenue - Earmarked Reserves	154	1,378	0	0	**1,378**
PRU Borrowing	35,533	42,054	11,949	6,941	**60,944**
BCP Funding Requirement	**49,578**	**58,695**	**13,670**	**7,997**	
Capital Investment Funding	**105,685**	**128,818**	**67,708**	**57,516**	**254,043**

103. It is important to stress that the capital investment programme is predominantly funded from ringfenced external contributions (government grants, s106 contributions and community infrastructure levy) and prudential borrowing (see table below). The annual costs of prudential borrowing repayments have been factored in the medium term financial plan.

104. Any new capital schemes funded from prudential borrowing that are brought forward for approval during 2020/21 will be evaluated using the council's approved invest to save framework. It is likely that, as a result of Covid 19, schemes that would have been rated as "low risk" will now be regarded as "medium risk" (i.e. carry a higher risk premium). This is in response to increased uncertainty over future income generating potential as a result of Covid 19 and future market conditions.

105. The council will seek to reduce the cost of prudential borrowing by utilising non-Public Works Loan Board sources wherever possible – including loans from the council's own cash investment balances (known as internal borrowing), loans from other local authorities and also potential use of the government's local infrastructure rate for eligible projects.

106. Members are asked to note that a further paper on the council's longer-term BCP Sustainable Fleet Replacement Strategy will be brought for consideration in July 2020. This strategy will request the approval of additional capital expenditure, to be funded from prudential borrowing. It is likely that annual repayment of this new borrowing will result in additional revenue pressure from 2022/23 onwards. Fleet replacement is not currently classified as expenditure eligible for lower cost local infrastructure rate borrowing.

Housing Revenue Account

107. HRA revenue budgets are likely to be adversely impacted by an increase in number of void properties leading to lower levels of rent charges raised. This is expected to be in the region of £0.3million across both neighbourhoods for 2020/21. This will be partly offset by a reduction in the amount of capital charges payable as delays in progressing new build projects due to the Covid-19 lockdown results in a delay in the requirement for borrowing and associated charges. Any changes to the revenue forecast will be reflected in either an adjustment to the Revenue Contribution to Capital, or a call on HRA Reserves, within the HRA ringfence.

108. HRA capital budgets will be more substantially impacted by Covid-19 as the lockdown has impacted planned works to people's homes where access has not been available. Planned maintenance programmes will be reduced by approximately £1m across both neighbourhoods and this unused budget will remain in HRA reserves. Additionally, there have been significant delays in some of the major capital projects planned for this year. These projects will be rephased with £9m of slippage into future years. This slippage results in lower borrowing requirement for the HRA in 2020/21 as reserves will be used to fund the capital programme.

109. Carry forwards of unused capital budgets in 2020/21 will be included as usual in the annual Budget setting paper for approval.

Next Steps

110. The process of refreshing the MTFP will build on this work with a further update planned for Cabinet in the autumn.

111. Monthly reporting to government of Covid-19 pressures is on-going and this will evidence to MHCLG the financial scale of the emergency for the sector as a whole.

112. Government lobbing will continue directly and supported by the LGA. The overall context for BCP, our estimated impact from Covid-19 pressures and proposed mitigation strategy has been discussed with the LGA as part of their case study work to support their conversations with government on behalf of all councils.

Options Appraisal

113. The 27 May Cabinet report included the budget implications of 3 scenarios based on periods of disruption of 16, 24 and 52 weeks. The projected outturn is based on the assumption of a 24-week disruption and recovery period. The budget will need to be continually reviewed, with potentially further recovery measures taken, should this assumption prove to be unreliable.

114. In establishing the revised savings proposals, a range of options were considered by Cabinet across directorate areas. These were assessed with due regard to the impact on residents, consultation requirements and speed and deliverability of proposals over a relatively short timeframe. A priority was given to transformation savings that can be delivered early to improve the council's overall efficiency and those that will remain in place for future years.

Summary of financial implications

115. This is a financial report with budget implications a key feature of the above paragraphs.

Summary of legal implications

116. The recommendation in this report are to ensure the council remains financially viable over 2020/21 with an improved prospect of balancing future year budgets.

Summary of human resources implications

117. A reduction in establishment costs has been implemented through vacancy management, limiting the use of agency workers to key roles, and furloughing staff using the national Covid-19 scheme. Some job roles will change permanently through earlier than planned service transformation with some risk of redundancies. The Equality Impact Assessment (EIA) has commented on actions needed to safeguard specific demographics or characteristics, for example age and gender. Consultation with staff groups will be undertaken as necessary before changes are made.

Summary of sustainability impact

118. Different ways of working will reduce staff travel and require a smaller estate with lower pollution and energy consumption.

Summary of public health implications

119. The health and wellbeing of residents should be protected by the recommendations in this report. The council is seeking to maintain appropriate services for the vulnerable as well as improve the sustainability of services important for the wellbeing of all residents.

120. Any rationalisation of the estate will need to consider the impact of future periods of social distancing measures, for example in the establishment of any hot-desking areas.

121. The projected outturn includes a significant allowance for PPE to protect staff and residents to ensure compliance with all guidance to be issued by Public Health England over time.

Summary of equality implications

122. An equality impact assessment has been undertaken in considering the mitigation strategy developed to manage the emerging budget shortfall. The assessment recognises that by redirecting resource and capacity to respond to the Covid-19 pandemic, the council has already taken a number mitigating actions around protected groups through its community resilience work. Equality of access and how to reach hard to access groups has been a key part of the response.

123. Several of the savings relate to deferring Member 2020/21 budget priorities. These were new projects or initiatives that hadn't started. They are not services being withdrawn or reduced and had not been in place as a result of any known equality issues that specifically needed to be addressed. No one group will be negatively impacted by them not going forward in year.

124. In considering any in year service director restructures, whilst there is no evidence of negative impacts at this stage, consideration will need to be given to the aggregate impact of proposals across the authority on individual staff groups.

125. There is a proposal to remove the small budget supplementing the local council tax support scheme that is unused. The scheme still exists as part of the council tax collection fund arrangements and all applications for the support fund will continue to be processed and assessed on their merits without change.

126. Overall, the assessment has not identified any specific negative equality impacts. However, an assessment of the potential cumulative impact of the separate proposals should be continued throughout the reset and recovery process and reflected through subsequent MTFP update reports

Summary of risk assessment

127. There is significant uncertainty in the length and depth of impact from the Covid-19 emergency. Three scenarios were considered initially in April and May with the 24 - week financial impact of Covid-19 taken forward for financial planning purposes to ensure 2020/21 budget remains in balance. The impact has been considered as extending over 24 weeks regardless of the length of the initial period as there may be further periods of disruption later in the year.

128. Further actions may be needed during the year if the financial impact grows beyond that currently estimated.

Background papers

129. 2020/21 Budget and MTFP report to February 2020 Council

https://democracy.bcpcouncil.gov.uk/ieListDocuments.aspx?CId=285&MId=3726&Ver=4

130. Finance Update Report to 27 May Cabinet

http://ced-pri-cms-02.ced.local/documents/s17294/BCP%20Council%20Finance%20Update.pdf?LO=1

Appendices

131.	Appendix A1	Summary projected outturn 2020/21
132.	Appendix A2	Budget risk areas as a result of Covid-19
133.	Appendix A3	New savings proposals in mitigation strategy
134.	Appendix A4	Review of reserves
135.	Appendix A5	Review of revenue and capital projects
136.	Appendix B	Updated medium term financial plan
137.	Appendix C	Revised capital programme 2020/21