BCP Medium Term Financial Plan

Key Financial Planning Assumptions

The MTFP as presented is based on several key assumptions that although they have been informed by numerous factors such as government announcements, economic forecasts, and trend analysis, are also based on professional judgement. They can be listed as follows;

1. **Government funding**

On the 25 November the Chancellor announced a one-year spending review which set out government's revenue and capital plans for the various government departments for 2021/22. Originally it had been hoped that the review would set out the government's plans for the remaining life of this parliament and in doing so provide the council with the level of certainty that it needs to conduct effective long-term financial planning. A one-year settlement was understandable due to global public health emergency, even if it does subject the council to further periods of uncertainty in being able to plan how to provide the local services upon which our local community relies.

As part of the review the government made several key announcements which are relevant to local government and the council's budget for 2021/22. Principal amongst which was the government's strategy that unitary councils could increase their council tax for 2021/22 by 4.99% made up of a basic annual referendum threshold of 1.99% plus 3% for a social care precept. The government continued to promote council tax increases via the social care precept as the main additional funding mechanism for social care. Subsequent clarification emphasised that the 3% social care precept can be spread over the two financial years 2021/22 and 2022/23.

A known risk BCP Council has held for some time is that as part the government's 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 (RSG), amounted to £3.1 million for Poole and Christchurch. The Government's stated intention was to remove these resources which would have meant the council paying across £3.1 million of its council tax and business rates resources to be redistributed nationally. The government however have provided what they described as one-off resources in the three years 2019/20, 2020/21 and 2021/22, to avoid negative RSG impacting on the council.

In addition, the government also announced that the existing new homes bonus (NHB) scheme which was originally due to cease in 2019/20 will be extended for a further year with no new legacy payments. NHB was introduced in 2011 to incentivise local authorities to encourage housing growth in their area. The government continue to explore how to incentivise housing growth and undertook a consultation on the future of the NHM between February 2021 and April 2021. BCP received NHB of £2.6 million in 2021/22 as set out below.

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Figure 1: Profile of New Homes Bonus payments

Year Payment	2019/20	2020/21	2021/22	2022/23	2023/24
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			
2021/22			£834,836		
Total Payment	**£3,788,154**	**£2,647,837**	**£2,562,848**	**£846,339**	**£ nil**

In addition, the Government continue with its Fair Funding Review (FFR) workstream which is about a wholescale reform of how Councils are funded. It will essentially propose a new "needs" assessment for each local authority, then make a deduction based on the amount of council tax that each authority could collect ("resources"), and then "dampen" the changes. Ministers are keen to implement the FFR in 2022/23 but are reluctant to make commitments about the timescale.

Alongside the FFR, the Government is also planning to make changes to the Business Rates The proposal is that there would be some form of reset and it is still possible that the local share could increase from 50% to 75% while the funding for certain existing specific grants are expected to be transferred into the need's assessment. This could include the Improved Better Care Fund, Social Care Support grant and the Public Health grant.

2. Government Covid19 – Fundamental package of financial support

Initially as part of the 2020 spending review and then later as part of the local government finance settlement received on 17 December 2020, the government set out the broad framework of their comprehensive package of support designed to assist council in addressing the impact of the global public health emergency and honour the government's commitment to provide councils with all the support necessary to cope with the pandemic. Some of the detail was subsequently released or refined as part of the final 2021/22 Local Government Finance Settlement announced in February 2021.

The broad framework of the comprehensive package of financial support included.

a) Rephasing of collection fund deficits.

b) Compensation towards local tax losses.

c) Compensation towards the impact of increasing council tax support scheme claimants.

d) Extension of the current sales, fees and charges compensation scheme into the first three months of 2021/22.

e) Tranche 5 Covid19 grant to specifically cover cost pressures caused by the pandemic in the first few months of 2021/22.

In respect of (a) above, the council is permitted to spread the cost of council tax and business rate collection fund deficits as at 31 March 2021 over three years from 2021/22 to 2023/24. The amount that can be spread relates to only the "exceptional" deficits that occurred during 2020/21 as a result of the pandemic and are based on estimates that were made in January 2021 in accordance with the relevant legislation. As part of the 2021/22 budget the estimated total spread for the council's share of collection fund deficits over three years were £8.012 million for council tax and £2.556 million for business rates.

Any difference between the estimated deficit as at January 2021 and the outturn position as at 31 March 2021 will be paid or received in full during 2022/23, as the phasing estimates cannot be amended retrospectively. These amounts will be confirmed as part of the January 2022 statutory calculations relating to the collection fund. The deficit position for council tax and business rates improved between the January estimate and March outturn and so the council will receive the difference as a one-off receipt in 2022/23 to compensate for overpaying against the estimated deficit over three years. The precise amount that the council is due to receive will depend on the calculations set out in the January 2022 collection fund estimates.

In respect of (b), the council will receive compensation in 2020/21 relating to council tax and business rate income losses, based on 75% of relevant losses that occurred due to the pandemic. As part pf the 2021/22 budget the council calculated the amounts due under the local tax loss support scheme, based on estimated data as at January 2021, and has budgeted to phase this income over the same three year period as the collection fund deficits.

Based on the January 2021 estimate, the council has budgeted for a total council tax compensation grant of £1.290 million over three years. The outturn calculation is that £1.089 million will be received. The difference of £0.2 million has been allocated to reserves as part of the 2020/21 outturn position in order that there is no detrimental effect on budgets over the next three years.

The full details of the business rate compensation scheme were not known when the grant calculations were made in January 2021. Unlike the council tax scheme, the business rate compensation was expected to include increases to provisions for appeals and bad debts, but this was not the case in the final scheme announced in March. Therefore, the budgeted business rate grant of £1.773 million over three years will reduce to £0.126 million. The difference of £1.647 million has been allocated to reserves as part of the 2020/21 outturn position in order that there is no detrimental effect on budgets over the next three years.

The 2021/22 budget included £3.833 million un-ringfenced funding relating to increased local council tax support scheme costs as a result of the pandemic, (c) above. This grant is included in the general fund for 2021/22 to help offset the financial impact of the reduction in the taxbase for 2021/22 caused by a 13.5% increase in the cost of working age claimants. Since the budget was set this amount has been confirmed by the government.

As part of the 2021/22 budget, the Council assumed £1.6m income from the extension of the sales, fees, and charges compensation scheme until the 30 June 2021, (d) above. Therefore, the services are not assuming that extra income generated from these sources during this period will improve the Council overall financial position as it is likely that any increases will be matched by corresponding reductions in the grant receivable.

In respect of (e) the Council was allocated £9.893m in unringfenced tranche 5 covid19 grant funding which as part of the Councils 2021/22 budget just over £1m was allocated to support specific costs around personal protective equipment and homelessness. Since the budget was approved in February 2021 the amount remaining available for allocation has changed in reflection of amounts allocated to 2021 resort management/summer resilience and clarification as to the amounts chargeable to other government funding streams such as the Contain Outbreak Management Fund.

Appendix C

Figure 2: 2021/22 Covid19 Grant (Tranche 5)

	Original Budget 21/22 £000s	Previous Estimate £000s	Latest Estimate £000s
Tranche 5 Grant Allocation	**(9,893)**	**(9,893)**	**(9,893)**
Allocated to 2021/22 Budgeted costs	1,030	1,030	350
Resort Management (January 2021)	-	1,060	309
Summer Resilience	-	-	884
Unallocated Resources	**(8,863)**	**(7,803)**	**(8,350)**

It is worth referencing that Directors of Adult Social Care received a letter from the DHSC on the 21st of January in which the Department stated, "they anticipate that a large proportion of this funding will be needed to fund additional pressures on adult social care services." Although not ringfenced the DHSC letter referred to using this resource for increased insurance premia and the loss of income due to reduced occupancy in care homes.

3. Pay award

Local government agreed pay awards for 2018/19, 2019/20 and 2020/21 were 2%, 2% and 2.75% respectively.

The budget for 2021/22 made no provision for a pay increase in 2021/22. This position reflected the recent big falls in wages amid lower pay for furloughed employees, reduced bonus in the wider economy and the likely impact of rising unemployment in a recessionary economy.

The position also accords with the announcement by the Chancellor of a public sector pay freeze as part of his November 2020 spending review in which he emphasised that in order to protect jobs and ensure fairness, pay rises in the public sector will be restrained and targeted in 2021/22. That said, it should be borne in mind that this has no formal bearing on the decisions around any annual local government pay increase as these are developed through negotiations with the trade unions. The 2021/22 base revenue budget contingency considered the risk associated with this assumption and specifically the likelihood of a £250 increase for employees earning less than £24,000 which was also a feature of the spending review.

UNISON, GMB and Unite have lodged their 2021 pay claim for local government employees which seeks a substantial increase with a minimum of 10% for all staff, a shorter working week, additional annual leave, alongside other changes to terms and conditions.

On the 17 May 2021 the National Local Government Employers organisation made an offer to the unions of a pay increase of 1.50% from 1 April 2021. The current estimate is that the Council will have a pressure of £0.9m in 2021/22 after considering the resources specifically set aside as a contingency. The pressure will be reflected upon in the first budget monitoring report for 2021/22 and the latest MTFP Update however it should be noted the Unions rejected the offer.

The MTFP currently assumes annual pay awards from 2022/23 of 2% per annum.

In addition, budgetary provision is made for between 95% and 98% of each service’s 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 council continues to have a workstream working to deliver a harmonised pay and grading structure with the current work plan indicating that the new structure will become effective from January 2022. The ongoing assumption continues to be made that this new pay and grading structure for BCP Council will be cost neutral.

4. **Pension Fund**

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 was last revalued as at April 2019 with the impact as follows;

Figure 6: 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%. The improvement was 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.

As part of the process agreement was reached with the pension fund actuary in respect of the profile of primary rate and back-funding contributions over the three-year period which are then fixed until the next tri-annual revaluation. This approach offers a degree of protection to the council in respect of the consequences of the pandemic as any impact will be deferred until the 2023/24 financial year. That said, it should also be recognised that recent changes in legislation state that the actuary can now request an employer changes their contribution rates/levels between formal valuation dates although this ability has not yet been used.

Figure 7: 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, in respect of the 2019 revaluation, the increase on the ongoing rate was offset by the reduction in the back-funding element although it should be acknowledged that agreement was reached with the actuary to taper the ongoing rate increases over the three year period.

5. **Exit payment cap and redundancy costs**

The Restriction of Public Exit Payments Regulations 2020 came into force on 4 November 2020. This limited the value of exit payments, resulting from redundancy or efficiency of the service retirements for members over the age of 55, made by the council to £95,000.

In a surprise move in February 2021, HM Treasury published a Treasury direction which disapplied these regulations and issued guidance on how exit payments which were capped during the period when it was in force should be handled. It appears that after an extensive review of the cap it became clear that there was a risk that it may have unintended consequences which were out of line with the Government's original policy intent.

In a renewed commitment to meet the original policy objective fairly and effectively the Government have requested all redundancy payments, pension strain costs and other special payments made as a consequence of termination of employment or loss of office from 2014/15. The intent is to collate and publish the information centrally which will be additional to it being included in the Councils Annual Statement of Accounts.

The council's average redundancy cost per full time equivalent since its inception is £xx,xxx.

The transformation programme budget makes provision for £12.9 million in redundancy costs in reflection of the anticipated reduction in the staffing establishment of the next few years.

6. **Inflationary costs**

Inflation is only provided for in service directorate budgets where it can be demonstrated that it will be needed due to either market or contract conditions. Inflation as at April 2021 was 1.5% as measured by the (CPI) Consumer Price Index (September 2020 which was applied to many annual uplifts was 0.5%).

The government inflation target is 2% on an annual basis.

7. Defra Waste Consultations

At this stage the MTFP makes no provision in respect of the second round of Defra waste consultations which are underway. The outcomes are expected to be legalised in the Environment Bill later in 2021. Measures aim to reach 65% recycling rate by 2035, the main areas of potential change are associated with the following:

- Consistency in collections are designed to align waste services across England and are likely to be required from 2023/24.
- Deposit Return Scheme.
- Extender Producer Responsibility (EPR) for Packaging.
  Under the EPR scheme, local authorities will receive payments from the Scheme Administrator for the necessary costs of managing packaging waste in an efficient and effective way, net of any material value received. The Scheme Administrator will have oversight over these payments and will need to ensure it is fair for both local authorities and producers.