



Shadow Authority

Bournemouth, Christchurch and Poole Shadow Executive

9

Report Subject	2019/20 Budget and Consolidated Medium Term Financial Plan (MTFP) Update
Meeting date	12 February 2019
Report author	Adam Richens Interim Chief Financial Officer BCP Shadow Authority ☎01202 451137 Bournemouth ☎01202 633183 Poole ✉ a.richens@poole.gov.uk
Contributors	Ian Milner, Strategic Director Christchurch Borough Council Dan Povey, Finance Manager Christchurch Borough Council
Status	Public
Classification	For decision
Executive summary	<p>The Shadow Authority is required to set a balanced 2019/20 budget for the operation of the new BCP Council. Budget proposals have been prepared in the context of a medium term financial plan, each of the four Delivery Boards implementation / workstream plans, and are further to the approved overarching Financial Strategy. The report highlights;</p> <ul style="list-style-type: none">• Implications of the 2019/20 Local Government Finance Settlement.• The good progress that has been made in the developing the annual budget and the key underlying assumptions and savings proposals being put forward as part of the budget proposals for 2019/20.• Work done in developing the savings and efficiency programme needed by the Council over the MTFP timeframe.• For the Shadow Executives consideration and recommendation to the Shadow Authority, the 2019/20 budget proposal and council tax.

	<p>To support Members consideration, the following documentation is enclosed;</p> <p>Appendix 1a Council tax harmonisation strategy</p> <p>Appendix 1b Schedule of council tax by area</p> <p>Appendix 2a Budget summaries</p> <p>Appendix 2b Schedule of savings and efficiencies</p> <p>Appendix 3 Reserves strategy</p> <p>Appendix 4 Capital programme (a to c – summary and detail)</p> <p>Appendix 4d Children’s Services capital programme</p> <p>Appendix 4e Non Treasury Asset Investment Strategy</p> <p>Appendix 5 Treasury management strategy</p> <p>Appendix 6 Equalities Impact Needs Assessment (EINA)</p> <p>Appendix 7 Chief officers’ pay policy statement</p> <p>Appendix 8 Schedule of the key financial decisions since 12 December 2018 Shadow Executive</p>
<p>Recommendations</p>	<p>The Executive Committee is requested to;</p> <ol style="list-style-type: none"> 1) Note the implications of the Local Government Finance Settlement for 2019/20. 2) Note the work done in developing the savings and efficiencies needed within the Medium Term Financial Plan timeframe. 3) Note the work undertaken in developing the annual budget for 2019/20 and the key underlying assumptions and savings proposals being put forward as part of the balanced, sound and robust budget proposal. <p>It is recommended that the Executive recommend to the Shadow Authority:</p> <ol style="list-style-type: none"> 4) that they 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; <ol style="list-style-type: none"> a) A net budget of £274m, resulting in a total Council Tax Requirement of £209.6m, is set for 2019/20 based on the settlement figures published by Government in January 2019. This is based upon: <ol style="list-style-type: none"> i. an increase in Council Tax in 2019/20 which means that the BCP Unitary Charge will not increase above 2.99% for any residents and individual resident charges are determined in line with the approved council tax harmonisation strategy as

	<p>set out in Appendix 1a and summarised as;</p> <ol style="list-style-type: none"> 1. Bournemouth's BCP Unitary charge Council Tax being an increase of 2.4% over that levied by Bournemouth Council in 2018/19. 2. Christchurch's BCP Unitary charge Council Tax being a reduction of £8.86 from the combined Christchurch Borough Council and Dorset County Council charge in 2018/19. 3. Poole's BCP Unitary charge Council Tax being an increase of 2.99% over that levied by Poole Council in 2018/19. <ol style="list-style-type: none"> ii. the key assumptions and provisions made in the Budget as proposed, set out in paragraph 32 (a) to (i); iii. the allocations to service areas in the Budget as proposed and as set out in Appendix 2a; iv. the use and level of all reserves to be held by the Council further to the advice of the Interim Chief Finance Officer as set out in paragraphs 83 to 94 and Appendix 3 to this report; v. the Capital Programme as set out in paragraphs 56 to 82 and Appendix 4; vi. Treasury Management Strategy and Prudential Indicators as set out in paragraphs 95 to 99 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 101 to 102 and Appendix 7; viii. that BCP Member's Allowances for 2019/20 will be determined by the Shadow Authority after consideration of the independent remuneration panels report which is a separate item on this agenda; <ol style="list-style-type: none"> b) approve the flexible use of capital receipts strategy as set out in paragraph 75 (e). c) approve the BCP ICT Investment Plan as set out in paragraph 79 to be funded from the BCP 2019/20 Revenue Contribution to Capital Outlay (RCCO). d) approve to support the High Needs Block of the Dedicated Schools Grant for school funding a £2.2m (1.1%) transfer from the Schools Block, a £0.2m transfer of early years funding, and a Council Contribution of £2.4m, as set out in paragraphs 33 to 53. e) that the Interim Chief Finance Officer provides the Shadow Authority with a schedule setting out the rate of council tax for
--	--

	<p>each category of dwelling further to Members' 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 once these have been determined prior to the Shadow Authority meeting on the 21 February 2019.</p>
Reasons for recommendations	<p>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 2019/20 it is critical that Members recognise their duty is to balance this budget in a manner which reflects not only their obligation to <u>current</u> taxpayers but also reflects their obligations to <u>future</u> taxpayers.</p>

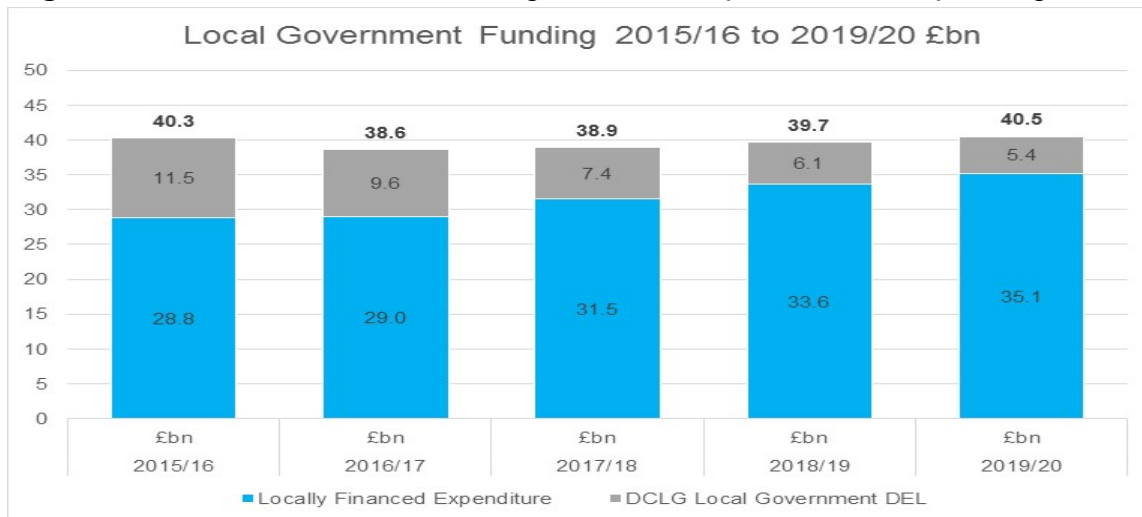
Background detail

1. 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 will ensure improved Value for Money (VfM) for local council taxpayers and better enable the protection of quality front line services to our community and residents.
2. The creation of a Unitary Authority covering Bournemouth, Christchurch and Poole (BCP) will create an iconic coastal economy as a 21st Century City by the Sea designation which stimulates growth through a global profile, which improves people's quality of life and prosperity and which is supported by modern public service delivery. We are currently working on our strategic priorities with members and will finalise them as we move into the new council, with the current drafting as follows;
 - Creating the conditions for growth and investment.
 - Supporting people to live healthy, safe and active lives.
 - Protecting and enhancing our outstanding natural environment.
 - Promoting cohesion and providing opportunities for everyone to reach their potential.
 - Valuing our heritage and understanding its contribution to our future.
 - Providing effective public services people need.
3. 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

4. In **November 2015** the Chancellor of the Exchequer published the 2015 Spending Review 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 can run a healthy economy that starts to pay down the Country's debt.
5. 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 **£11.5bn** in 2015/16 to **£5.4bn** in 2019/20. This is a reduction of **£6.1bn** or **53%**.
6. However Government highlighted that they were assuming that overall Local Government spending would be higher in cash terms in 2019/20 compared to 2015/16 as explained further in figure 1 below;

Figure 1: Local Government Funding amounts as per the 2015 Spending Review



7. This assumed increase in cash spending between 2015/16 and 2019/20 was only possible from the Government's assumption that Councils will generate the following sources of locally financed revenue;
 - a) annual year on year increases in Council Tax to reflect the normal annual threshold uplifts.
 - b) £3.5bn 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 & the creation of an Improved Better Care Fund*).
 - d) Use of capital receipts as a means of financing revenue expenditure on reform projects.

8. 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 2018 Budget Statement

9. In October 2018, the Chancellor, Philip Hammond, introduced his Budget 2018 to the House of Commons in which he promised that the **era of austerity is finally coming to an end but that fiscal discipline will remain**. He also signalled that his March 2019 Budget statement might need to be upgraded to a full Budget depending on the progress made around the United Kingdoms exit of the European Union.
10. In respect of Local Government the Budget Statement made two significant statements. The first was in respect of a number of spending pledges which evident that the Government has listened to some of the requests for additional funding for local services who are under pressure. The second was in regards to the control totals for the next spending review period which it is assumed will cover the four year period 2020/21 to 2023/24.
11. Taking the last of these first, in June 2018 the Government set out plans to invest an extra £80bn over five years or up to £20.5bn per annum in the National Health Service (NHS). Budget 2018 did not include any detailed evidence of exactly how this commitment will be financed but it did show total government spending for the period 2020/21 to 2023/24 split between the NHS and all other departments. This indicates that resources across the rest of government departments will increase in cash terms by 8.4% over the period 2020/21 to 2023/24 which is roughly in line with the increases in the Consumer Price Index (CPI) for the period set by the Office Budget Responsibility (OBR). This suggests that outside of the NHS, all other departments combined will not see any real terms increase in their funding with some doing better and some worse than this averaged position. This correlates with our current financial planning assumption of a cash freeze for local government over the Spending Review 2019 (SR19) period with business rates resources increasing by CPI.
12. As stated the Chancellor also announced a number of additional public spending measures relating to 2018/19 and 2019/20. These included;
 - Confirmation that the **£240m** of additional Winter Pressures funding announced in October for 2018/19 will also be provided for 2019/20. The BCP share of these resources is £1.7m with the requirement that it is applied in line with the expectations of the local Clinical Commission Group (CCG) and not in mitigation of the financial pressure faced by the Council.
 - A further **£410m** of funding in 2019/20 for adults and children's social care with the Budget stating that where necessary, local councils should use this funding to ensure adult social care pressures do not create additional demand on the NHS. Local councils can also use it to improve their social care offer for older people, people with disabilities and children. This will provide £3m for BCP to support social care services as part of its budget for 2019/20.

- It also provided some additional 2018/19 grant resources in the form of £0.3m for the Disabled Facilities Grant (£55m nationally) and £1.7m to tackle potholes, repair damaged roads and invest in keeping bridges open (£420m nationally).

National Context:

Impact of the 2019/20 Local Government Finance Settlement

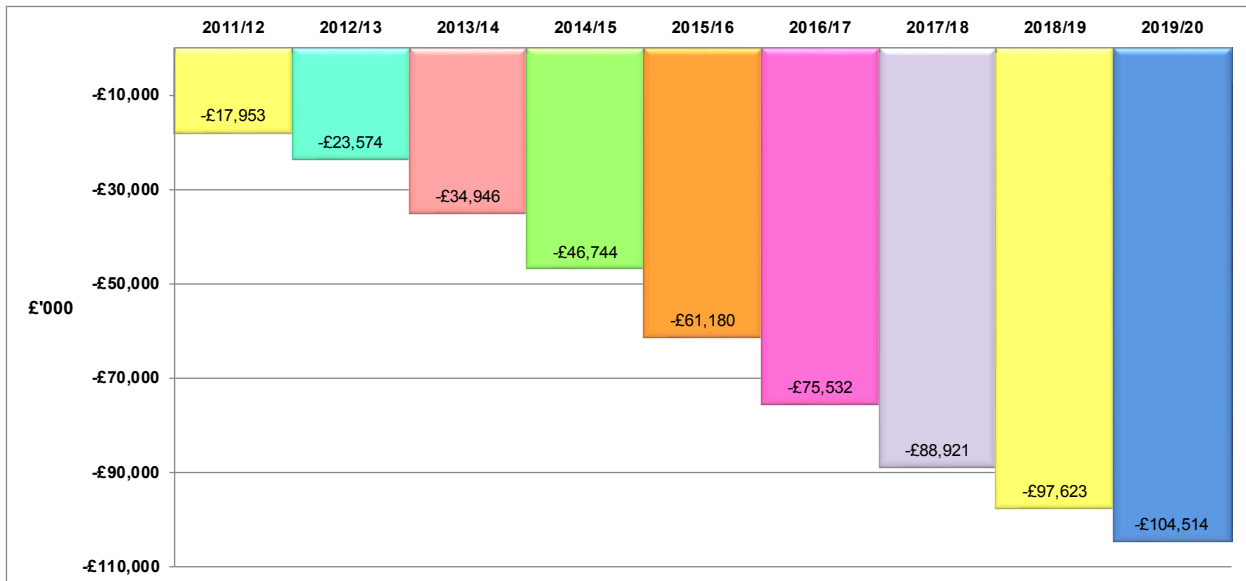
13. On 13 December 2018 the Secretary of State for the Ministry for Housing, Communities and Local Government (MHCLG), James Brokenshire, issued the provisional Local Government Finance Settlement for 2019/20. Slightly later than originally planned the statement confirmed the final year of the four year financial settlement (2016/17 to 2019/20) into which 97% of local authorities had previously become fixed. The settlement also confirmed the commitments for 2019/20 for winter pressures and the extra funding for adults and children's social care. The provisional settlement provided clarity in regards to a number of additional matters particularly pertinent to the new BCP Authority.
14. The first is the proposal to remove negative Revenue Support Grant (RSG) in 2019/20 which will have a £3m positive impact on the new authority at least in its first year. Government lobbying around negative RSG was a key category within the BCP financial strategy agreed in May 2018 by the BCP Joint Committee. It was also a matter that members of the BCP Financial Strategy & Council Tax Harmonisation Task and Finished Group raised with each of the five local MPs in early July.
15. The second salient matter is around the payment of New Homes Bonus (NHB). Government now propose to maintain the current annual baseline for housing growth below which no NHB is paid. The baseline, sometimes referred to as the "deadweight", is 0.4% and Government had previously indicated that due to affordability this needed to be increased in 2019/20. However Government have now identified an extra £20m so the deadweight can be maintained. This means that the NHB for BCP will be £3.8m in 2019/20 which is a reduction of £0.5m compared to 2018/19. Previously a larger reduction had been assumed. The document also indicated that 2019/20 will be the final year NHB is paid as the Government look to explore how to incentivise housing growth as part of the next spending review.
16. As set out in the provisional 2019/20 financial settlement Government also;
 - propose to continue to recognise the impact that inflation is having on the costs of service delivery by giving councils the ability to increase their Council Tax in 2019/20 by 2.99% with a referendum triggered by increases over this level.
 - intend to publish a social care green paper.
 - share the concerns of CIPFA regarding some councils' commercial investments and they will be discussing with the Treasury whether further intervention might be required.
 - issued two further consultation documents intended to support the next spending review associated with Fair Funding and Business Rates Retention.

17. The Business Rates Retention consultation documents sets out that it is still their intention to move to a 75% retained business rates model from 2020/21 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 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 be a full reset for 2020/21 which will see the “growth” within the current business rates system up to 2019/20 transferred to baseline resources that Councils are allowed to retain.
18. The final 2019/20 Local Government Finance Settlement was issued on 29 January 2019 with no changes to those set out in the provisional settlement for BCP. In his conclusion James Brokenshire stated that the settlement answered calls for additional funding in 2019/20 and paved the way for a more self sufficient and reinvigorated system of local government.

Local Context

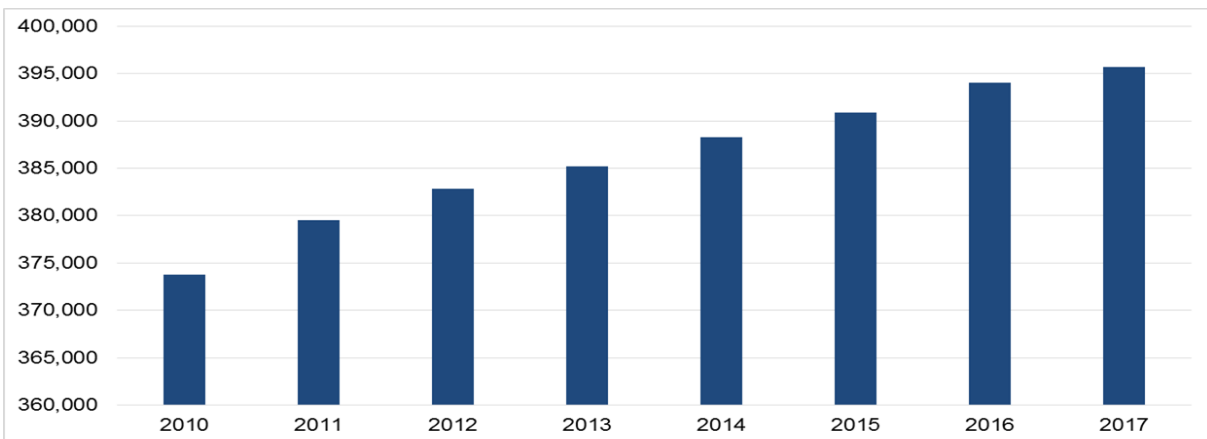
19. The MTFP is designed to provide sound financial management and control arrangements which will be integral to the delivery of good governance for the council. Such arrangements will help in supporting service delivery, accountable decision making and safeguarding stewardship whilst optimising the use of available resources.
20. This report 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.
21. As stated previously the creation of this new 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 eight years of austerity which saw protections applied to the NHS, schools, international development, defence equipment and latterly to defence and the police mean that public spending reductions have and will continue to be felt disproportionately by Local Government. This means that apart 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.
22. Locally as highlighted in figure 2 below there has been a total £105m per annum reduction to Bournemouth, Christchurch and Poole’s core funding compared to 2010/11 as part of the Government's austerity programme. To put this reduction into context the total net annual budget for the Unitary Authority of Poole in 2018/19 equated to £101m.

Figure 2: Cumulative per annum reductions in the core Government funding of Bournemouth, Christchurch and Poole compared to 2010/11 (£000's)



23. The Council's finances therefore remain under immense pressure but not only due to the ongoing reductions in government funding. Cost increases through such factors as the Living Wage as well as the relentless increase in demand for Council services, particularly those related to vulnerable adults and children, will also play a significant role. This unprecedented increase in demand for Council services can be partially attributed to the **5.9%** increase in the conurbations population already experienced over the period of austerity, as set out in Figure 3 below;

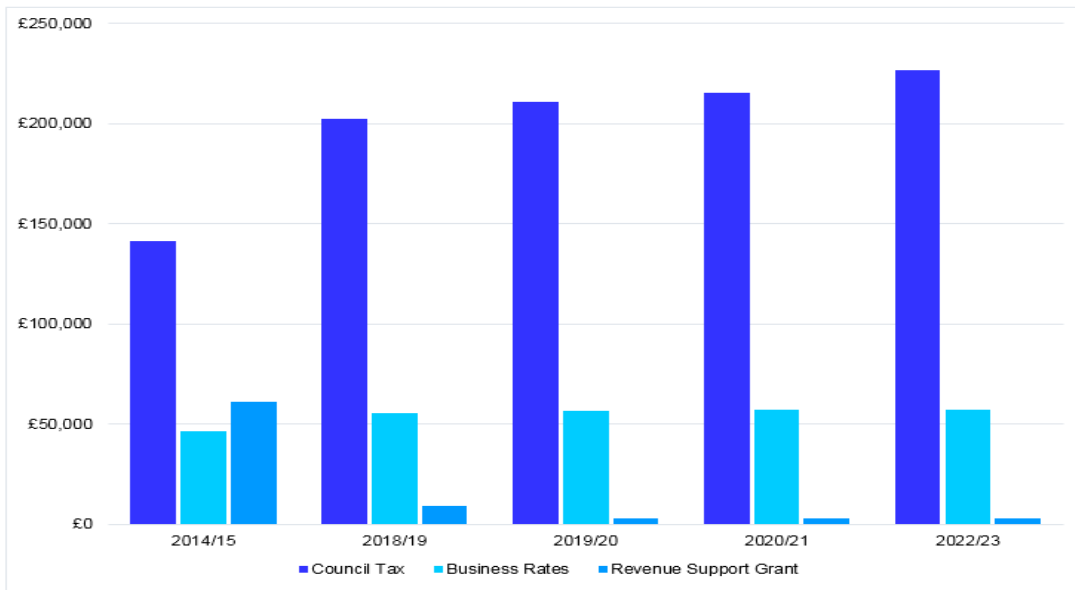
Figure 3: Increase in BCP's population between 2010 and 2017



Source: Population Estimates Unit, Office of National Statistics 2018

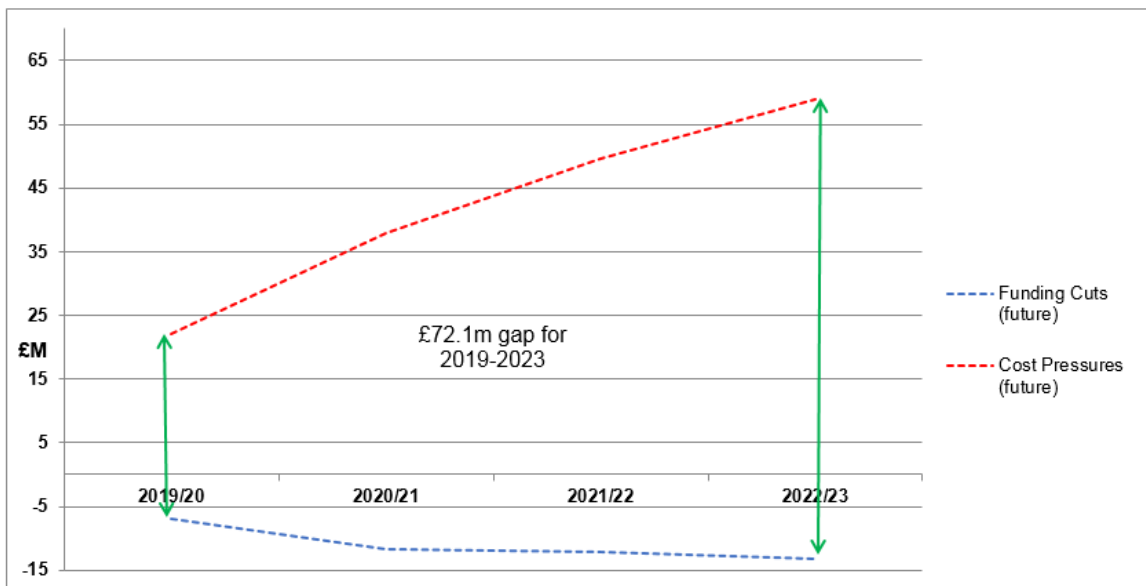
24. As a result, by 2021 apart from certain specific service grants the Council will be reliant on the money and other income (net of fees, charges and asset purchase strategy income) it raises locally to pay for most local services, be that Council Tax or the amount of local business rates it is allowed to retain. Figure 4 below highlights the anticipated changing pattern of Council funding.

Figure 4: Changing pattern of Council funding



25. This presents the council with an unprecedented challenge as not only is core Government funding being completely removed by April 2020, 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 5 highlights the combined impact of cost pressures with the complete withdrawal of Government core funding.

Figure 5: Impact of cost pressures and reductions in Government funding

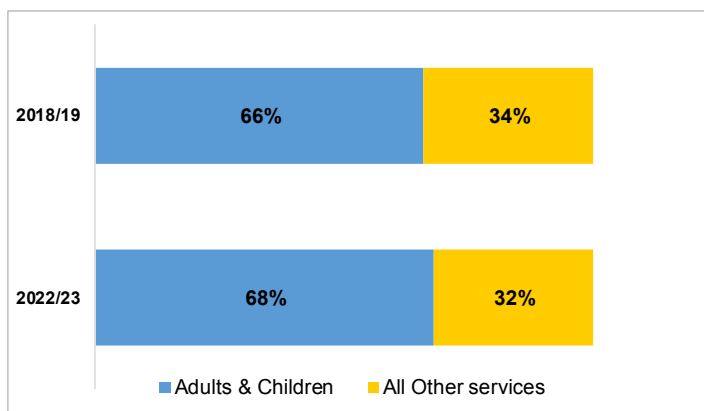


26. This loss of funding, coupled with increasing demand for services, means the Council must make further savings of approximately £27m over the next three years. This will make it even harder to balance the Council's budget, deliver universal services (such as

refuse and recycling collections, libraries, parks and open spaces) and meet core duties such as protecting vulnerable children and older people.

27. 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 6 below.

Figure 6: Changing pattern of Council spend



Local Context: Financial Strategy

28. At the meetings of the BCP Joint Committee on the 15 December 2017, 20 March 2018, 23 May 2018 and the BCP Shadow Executive on 24 July 2018, 17 October 2018 and 12 December 2018 high level consolidated Medium Term Financial Plan (MTFP) information has been presented which has been drawn together from both the published plans of each of the four relevant sovereign councils and the work to date to deliver a balanced, sound, robust and sustainable budget for 2019/20.

29. To support its development the Shadow Executive previously endorsed the following high level budget cycle for the BCP Unitary Authority;

Stage One: April to June

- High level budget planning process as set out in the Consolidated MTFP Update report to the May 2018 BCP Joint Committee including the Financial Strategy.
- Top down baselining and disaggregation of Dorset County Councils 2018/19 Budget to establish costs and income relevant to the community and residents of Christchurch.

Stage Two: June to September

- Initial detailed service based budget process led by the Phase 2 Delivery Boards.
- Establish and implement cash limits and savings targets. These were issued in July.
- Outline savings and efficiency plans as per the Financial Strategy. Within this there was an emphasis on efficiencies / reductions in the number of employed staff through economies of scale.

Stage Three: October to December

- Refinement stage including Member consideration of budget saving options.
- Consideration of public consultation, options and proposals.

Stage Four: January to February

- Finalise the 2019/20 Budget.

30. As part of the Stage Three process Delivery Boards, in liaison with their nominated Shadow Executive Members, have been undertaking work to determine the efficiencies that could contribute to their established savings targets. The main area has consistently been focused on the reduction of the consolidated staff base of the new 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.
31. Figure 7 below presents the consolidated MTFP as articulated through those previous reports. The 2019/20 Budget as summarised;
- a) manages a minimum of a further £6.9m per annum reduction in core annual Government funding to the Council.
 - b) manages a now total cut estimated at £105m per annum in reduced annual Government funding since 2010/11.
 - c) prioritises investment in services to the most vulnerable members of our community with an extra £3.3m (net of the extra £3m Government Adult & Children Grant and £1.9m extra Improved Better Care Grant) going into services for Adults and Children despite the further annual reductions in Government funding.
 - d) sets aside from reserves £2.4m to enable a balanced High Needs Budgets on the Dedicated Schools Grant (DSG) to be delivered. It should be stressed this is a one-off contribution in 2019/20 only and a sustainable solution needs to be found to both the ongoing annual high needs budget and the deficit brought forward.
 - e) establishes a base budget revenue contingency of 1% of the proposed 2019/20 net revenue expenditure to support the uncertainty in creating the first budget of the new authority.
 - f) enables a £1.2m contribution into the ICT infrastructure of the new Council.
 - g) continues to protect frontline services insofar as is possible.

Figure 7: Budget 2019/20 and MTFP 2019 to 2023

Pressures	19/20	20/21	21/22	22/23	4 year
	£m	£m	£m	£m	£m
Government Funding reductions	6.9	4.9	0.4	1.0	13.2
Adult Social Care - Pressures	6.9	7.4	5.6	3.5	23.4
Adult Social Care - Winter Pressures	1.7	0.0	0.0	0.0	1.7
Pay Award	2.9	3.0	2.9	2.9	11.7
Place Pressures	2.4	2.2	1.5	1.2	7.3
Pension Fund - Tri-annual revaluation impact	1.8	1.3	0.7	0.7	4.5
Children's Services Pressures	1.3	1.2	0.6	0.6	3.7
Corporate Services / Central Items Pressures	1.1	0.4	0.4	0.4	2.3
Contingency	2.0	0.0	0.0	0.0	2.0
Revenue Contribution to Capital <i>(includes ICT Investment Plan)</i>	1.1	0.0	0.0	0.0	1.1
Interest Payable	0.4	0.3	0.0	0.0	0.7
Minimum Revenue Provision	0.3	0.0	0.0	0.0	0.3
Public Health - Pressures	0.1	0.1	0.0	0.0	0.2
Total Additional Annual Pressures	28.9	20.8	12.1	10.3	72.1
Cumulative Pressures	28.9	49.7	61.8	72.1	
Additional Resources	19/20	20/21	21/22	22/23	4 year
	£m	£m	£m	£m	£m
Council Tax Income	(5.4)	(3.7)	(4.1)	(4.4)	(17.6)
Council Tax Foregone	1.5	1.1	1.1	1.1	4.8
Council Tax Base Increases	(2.7)	(1.0)	(1.1)	(1.1)	(5.9)
Council Tax Discounts	(0.2)	0.0	0.0	0.0	(0.2)
Local Council Tax Support Scheme	(0.2)	0.0	0.0	0.0	(0.2)
Chartered Trustees	0.3	0.0	0.0	0.0	0.3
Business Rates Income	(1.7)	(1.0)	(1.0)	(1.1)	(4.8)
Collection Fund	(0.6)	0.2	0.0	0.0	(0.4)
Use of Reserves	(0.8)	0.8	0.0	0.0	0.0
DCC Disaggregation - 2018/19 Budgets	(1.3)	0.0	0.0	0.0	(1.3)
Adult & Children Social Care Funding	(3.0)	0.0	0.0	0.0	(3.0)
Adult Social Care - Winter Pressures Funding	(1.7)	0.0	0.0	0.0	(1.7)
Improved Better Care Funding	(1.9)	0.0	0.0	0.0	(1.9)
Savings & efficiencies					
Adult Social Care	(2.2)	(0.4)	(0.1)	0.0	(2.7)
Children's Services	(1.6)	(0.3)	0.0	0.0	(1.9)
Place	(4.3)	(0.1)	(0.6)	0.0	(5.0)
Corporate Services	(3.1)	(0.2)	0.0	0.0	(3.3)
Total annual extra resource & savings	(28.9)	(4.6)	(5.8)	(5.5)	(44.8)
Cumulative extra resources & savings	(28.9)	(33.5)	(39.3)	(44.8)	
Annual – Net Funding Gap	0.0	16.2	6.3	4.8	
Cumulative MTFP – Net Funding Gap	0.0	16.2	22.5	27.3	

32. The MTFP as presented is based on a number of key budget 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;

a) Government funding

The MTFP is currently drafted in line with the final year of the four year Local Government Financial Settlement announced in 2016/17. This highlights that the new Council will lose a further £6.9m per annum in core Government funding from 2019/20 onwards including £0.5m in New Homes Bonus and £0.2m in Housing Benefit Administration Grant.

As previously referenced the Government have commenced work on their 2019 Spending Review (SR2019) which will outline the resources they intend to make available to Local Government from 2020/21 onwards. At this stage there has been no formal announcement on the exact impact on any specific department or council however as set out in section 11 of this report the financial planning assumption is of a cash freeze in the main grants received from Government be that our baseline funding resources, the previously announced Improved Better Care Fund resources, or the newly announced 2019/20 grant for Adult and Children's Social Care.

What is known about the next Spending Review is that it will;

- be underpinned by an ongoing principle of relative need which is why the Government have been undertaking a Fair Funding Review (FFR).
- be structured around a move to 75% Business Rates Retention, see section 17.

At its crudest the Fair Funding Review is exploring the relationship between three core issues, the volume of services needed, the cost of those services and the ability to raise income locally. The assumption has always been that core government grant funding was designed to fill the gap between these three issues.

Any redistribution of funding for local government will inevitably create winners and losers. The concern for BCP will be that historically such redistributions have not favoured south coast or Dorset authorities.

As a matter of prudence it has been assumed that the £3m relief provided within the provisional 2019/20 Local Government Finance Settlement for the impact of negative Revenue Support Grant will be for one year only and the reduced resource level will be reflected in the new resource distribution arrangements from 2020/21 onwards.

b) Council Tax

Currently within 2018/19, and based on the annual band D charge, there is a £207.48 (14.8%) difference between the £1,399.68 charged in Poole and the £1,607.16 charged in Christchurch. Bournemouth charge £1,438.92 which equates to a £168.24 or 11.7% difference from the Christchurch charge. The 2019/20 budget is based on the assumption that BCP will adopted a council tax harmonisation strategy in line with the local preference developed by the Shadow Executive namely that **in respect of the charge levied by the BCP Unitary Authority;**

- 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

In support of this local preference the budget for 2019/20 and MTFP make provision for the financial implications of council tax foregone resulting from the application of the following assumed parameters;

- 1) As harmonisation is based on the amount of council tax required to fund the services provided by the new BCP Unitary Council, adjustments will be made to the amounts currently charged in the three predecessor councils to reflect the creation of two new Town Councils in Christchurch and the transfer of the mayoral function to Chartered Trustees in both Bournemouth and Poole.
- 2) Poole's council tax as adjusted for the creation of Chartered Trustees will rise in line with the Government's referendum limit.
- 3) Christchurch's unitary charge council tax, which reflects the decision by Christchurch Borough Council to set up two new Town Councils, will be frozen until the Poole council tax catches up.
- 4) Bournemouth's council tax as adjusted for the creation of Chartered Trustees will increase by slightly less than the annual referendum limit to ensure it catches up with Christchurch's (unitary charge) level of tax in the same year as Poole's.
- 5) The actual Government referendum limit is 2.99% for 2019/20. An assumed limit of 1.99% has been presumed for financial planning purposes annually thereafter. Any increases higher than those currently assumed will reduce the period of harmonisation.
- 6) A precept for the Chartered Trustees in Bournemouth and Poole will not actually be issued until the 2020/21 financial year. In respect of 2019/20 BCP will need to include in its council tax requirement an Anticipated Amount which the trustees will then request is made available to them. This will mean an adjustment to the Bournemouth and Poole Band D charges will be made in 2020/21.
- 7) The 2019/20 unitary charge in Christchurch is slightly lower than the combined 2018/19 council tax levied by Dorset County Council and Christchurch Borough Council due to the cost of services transferring to the two new Town Councils. The precepts for these two new Councils (*Highcliffe & Walkford and Christchurch Town Council*) including the amounts needed to fund both their operation and the transferred services, will be a matter for these new organisations.

Normally a local authority would determine its consolidated council tax base, the number of its Band D equivalent properties, as part of an annual report to Council in December/January each year. BCP will need to maintain a separate taxbase for each area (Bournemouth, Christchurch and Poole) until the point of harmonisation.

c) Business Rates

The assumption is that the Council will continue to deliver amounts in excess of those assumed by the Government as part of the Council's baseline finance settlement from the Government. Actual performance has been reducing to close the gap in recent years. In line with the detail of the Spending Review 2019 (SR19) announced by the Chancellor in his October 2018 Budget our current financial planning assumption is for business rates resources to increase by Consumer Price Index (CPI).

This position will be kept under review in light of the announced move to a 75% Retained Business Rates model from 2020/21.

d) New Homes Bonus (NHB)

In establishing a consistent financial policy it is proposed to budget for New Homes Bonus to support the revenue base budget in 2019/20. NHB is an unringfenced grant paid by Central Government to Councils for increasing the number of homes and the number of long term empty properties bought back into use in their area. The bonus was previously paid for six years at a rate equivalent to the extra Council Tax revenue a property will raise. In line with the 2017/18 local government finance settlement the bonus has been reduced to five years from 2017/18 and four years from 2018/19 onwards. A restriction is now applied which means the Council will not receive any bonus on the first 0.4% of any housing growth.

The 2018/19 allocation across Bournemouth, Christchurch and Poole is £4.3m in New Homes Bonus. The budget proposed for 2019/20 assumes that the NHB will be reduced to £3.8m.

Current indications are that 2019/20 will be the final year NHB is paid as Government look to explore how to incentivise housing growth as part of the next spending review. It is though assumed that the replacement will provide resources equivalent to legacy payments already anticipated under the current system.

e) Adult and Children's investment

Additional £27m investment in Adult and Children's services over the next 4 years being a combination of;

- a) demographic growth in demand for care packages including those to support the urgent and emergency care system as well as preventing delayed discharges from hospital.
- b) assumptions around specific inflationary pressures within the care market which have increased the cost of care between 6% to 10% in recent years.
- c) Impact of the new National Living Wage which will increase from £7.83 an hour to £8.21 per hour from 1 April 2019 (4.9%).
- d) Investment in the Adult and Children "out of hours" service.

This investment excludes the extra £1.7m being invested in services to support winter pressures in 2019/20 and funded by a specific government grant.

The £27m also excludes the £4.9m of government funding being made available to BCP in 2019/20 under the Improved Better Care Fund (£1.9m) and the additional Social Care Funding (£3m) announced in the October 2018 Budget. Within the MTFP it has been assumed that the absolute level of these funding streams will continue to be received over the period of the next spending review. It is hoped that the anticipated Green Paper on social care funding will provide sustainable funding for this service moving forward.

f) Better Care Fund

Introduced in 2013 the Better Care Fund (BCF) is a single budget shared between the National Health Services (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 have agreed with the Dorset Clinical Commissioning Group (DCCG) to split the current pan Dorset Better Care Fund in two separate pooled budgets for the two new Health & Wellbeing Boards.

The 2019/20 allocations have not yet been finalised. However it is estimated that the BCP Better Care Fund will be in the region of £61m. The DCCG will contribute approximately £42m of which £11m being passed to the BCP Unitary Council to support the delivery of Adult Social Care Services.

The BCP Council contribution will be in the region of £18.9m which will include base budget (£2.7m), the Disabled Facilities Grant (£3.1m), the Improved Better Care Fund (£11.3m) and the Winter Pressures money for 2019/20 (£1.7m).

It is currently anticipated that the DCCG elements of the BCF will be subject to a 1.7% up-lift as a result of national guidance to CCGs, but this has yet to be confirmed. This is in a context where cost increases for many of the social care elements of the BCF are significantly above this level.

It has been agreed locally that the key themes for the BCF will continue from 2018/19 into 2019/20 and these are:

- Support for carers
- Maintaining independence
- Early supported hospital discharge
- Integrated health & social care locality teams
- Moving on from hospital living
- Strong & sustainable care markets

The Better Care Fund arrangements to date have included two pan-Dorset pooled budgets which have included all three current local authorities and the DCCG. The plans from April 2019 are that “The Moving On From Hospital Living” pooled budget (which covers the care and support costs for people with significant learning disabilities) will become two pooled budgets with each of the future Councils having

a pooled budget for their own residents with DCCG. For the BCP Council this pooled budget will be in the region of £9.6m. The Integrated Community Equipment Service pooled budget will remain a pan Dorset pooled budget with a total budget in the region of £8.1m. Negotiations are taking place to ensure that the financial contributions of both the DCCG and local authorities are equitable in the light of demand trends over recent years.

The national BCF policy and guidance for 2019/20 have not yet been published. The DCCG and Councils are working on the basis of the continuation of the BCF as one year only awaiting the Adult Social Care Green Paper plus the Comprehensive Spending Review for new policy and resources from 2020. The full plans and financial arrangements for the BCF for BCP will now be formally agreed post 1st April given the current timetable for national guidance. It is assumed that it will be possible to agree the detailed financial arrangements for the BCF with the DCCG within the financial framework set for Adult Social Care in the BCP 2019/20 budget as set out in this overall report.

g) Pay award

In September 2017 the Government announced its intention to move away from the 1% per annum public sector pay award policy but with a clear indication that any actual increases above this level are unlikely to be funded nationally. Negotiations via the National Employers for Local Government Services set a 2% flat rate increase in both 2018/19 and 2019/20. However, increases in the lower spinal column points to reflect the National Living Wage increase the local government pay bill by 2.7% in 2018/19 and 2.8% in 2019/20.

Within the proposed budget provision has been made for the 2% baseline increase, with further provision in certain services where they have a significant staff base on the lower spinal column points. Services are expected to manage the impact of any incremental drift in their pay base.

The actuary to the Dorset Local Government Pension Fund scheme has determined a 15.6% standard employers ongoing pension fund rate plus a backfunding cash sum of £9.465m for 2019/20 will apply to the new BCP Council.

h) 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 2018 was 2.1% as measured by the Consumer Price Index (CPI).

i) Assumed Savings and Efficiencies

Figure 7 identifies that £29m of additional resources and savings have been identified in establishing a robust budget for 2019/20. Clearly council tax resources, additional government grants and resources identified from the disaggregation of the Dorset County Council 2018/19 budget make a significant contribution. However so does the contribution made by each of the four delivery boards in their implementation of the approved BCP financial strategy. This includes over £5m in savings from the consolidated staffing base of the new council, in savings in the cost

of democratic representation and in external audit fees. Additional savings have been generated from commercial opportunities already approved by the predecessor councils and from the implementation of common financial and operating policies and through a review of fees and charges.

The table below sets out an analysis of the £11.2m service based savings and efficiencies for 2019/20;

Figure 8: Analysis of service based savings

	2019/20 £m
Staffing and organisation	5.3
Democratic Representation	0.5
External Audit	0.2
Service Efficiencies	
- Adult Social Care	2.0
- Children Services	0.2
- Place Theme	0.7
- Corporate Services	0.7
Commercial Opportunities	0.7
Fees and Charge	0.9
Total	11.2

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.

BCP Schools Forum

33. 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.
34. The BCP Shadow Schools Forum was constituted in October 2018 with a complement of twenty four members and with representation from all categories of schools across the existing three Council areas. A total of four 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 Dedicated Schools Grant.

Dedicated Schools Grant (DSG)

35. The gross DSG of £260 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 amounts are then recouped by the DfE to enable the budget share for pre 16 pupils to be paid directly by the Education & Skills Funding Agency (ESFA).

36. 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

37. 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 brought the funding rates of the three existing Councils up to the same level and provided a significant increase for each compared with the previous year. There has been no further uplift in funding which has been eroded in real terms and particularly by the national living wage increases which have a significant impact in this sector.
38. Although DfE funding rates have been the same each Council has retained different levels of funding to support the free entitlements with different formulae implemented to allocate funding to providers.
39. BCP is proposing to transfer £0.2m (1%) 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 with the transfer recommended by the Shadow Schools Forum at their January 2019 meeting.
40. The level of funding retained for central budgets relating to the free entitlements was agreed by the Shadow Schools Forum in November 2018. Together with the amount transferred to high needs the amount centrally retained is a total of 2%. Less than the 5% maximum allowed.
41. A new funding formula for providers has been developed with representatives from the sector. A consultation took place with all providers in late autumn and the outcome of this was considered by the Shadow Schools Forum in January. A separate paper on the meeting agenda for a Council decision includes the recommendation from this meeting that the consultation proposals should be adopted given the broad level of support within the sector.

Schools Block

42. The national funding formula (NFF) for mainstream schools funding provided a £4.6m (2.5%) increase for 2019/20 due to updated formula values and school data (October 2017 school census). A further £2.6m (1.2%) has been provided through growing pupil numbers from the October 2018 school census in final allocations.

43. Consultation was undertaken with all schools in late autumn regarding the mainstream schools formula to adopt for BCP to take into account varying levels of funding transfer to high needs. The Shadow Schools Forum received the outcome of this consultation in December 2018 which showed broad support from schools for the principles and general approach within the consultation. A separate paper on this meetings agenda relates to a request for a Shadow Authority decision to endorse the recommendation of the Shadow Schools Forum on how the mainstream school formula should be implemented for BCP to take into account the level of funding transfer from the School Block.
44. In 2019/20 a new national formula has been implemented by the DfE to fund pupil growth. This is lower than the aggregated funding received across BCP in 2018/19. An amount remains unused after the Shadow Schools Forum agreed the central budget needed to fund schools for anticipated growth from September 2019. This reduces the amount needed to be taken from the mainstream school NFF to achieve a level of funding transfer to high needs.

High Needs Block

45. The national formula for the High Needs Block provides funding protection for BCP's historic level of expenditure with an increase for 2019/20 to reflect demographic growth. This was initially allocated at £0.5m for BCP but was increased in December by £0.8m from a share of the £125m announced nationally.
46. The funding shortfall within high needs received significant publicity in the autumn with the latest position well-documented in a recent LGA report (Have we reached a 'tipping Point'? Trends in spending for children and young people with SEND in England). This authoritative report considers the causes of the growth in demand and what can be done to address budget pressures. However, it concludes 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**"
47. Although the additional funding in December has been welcomed it is not sufficient to meet the growing demand with a £4.8m funding shortfall identified in 2019/20.
48. The DSG Regulations allow Schools Forum to approve a transfer of mainstream school funding of up to 0.5% in 2019/20. A higher level requires the approval of the DfE. A transfer to high needs of £2.2m (1.1%) was approved by Schools Forum in January 2019. This level of transfer is awaiting approval from the DfE.
49. This report recommends both the transfer 1% from DSG and early years funding of £0.2m to the high needs budget with the Council contributing £2.4m from its own resources (a specific earmarked reserve) as a one off contribution to the High Needs Block recognising that 2019/20 is an exceptional year.
50. There are forecast DSG deficits for the end of 2018/19 in the existing Councils of £4.5m. These relate to previous and forecast current year outturn positions for high needs budgets, being £3.4m for Bournemouth and £1.1m for the Christchurch share of Dorset

CC, although a decision could be made by Dorset that some or all of this will be written off by the Council and not transfer to BCP.

Central School Services Block

51. The funding is provided through a national formula for on-going functions with BCP receiving less funding than 2018/19 as funding is reducing by 2.5% per year. Historic commitments are funded at the level of the previous year budget with the DfE signalling these allocations will also start to reduce from 2020/21. Funding supports specific central services for all schools and the DSG system as a whole. The Shadow Schools Forum has agreed the budgets are set at the level of funding.

Maintained Schools

52. BCP will have 16 schools plus the Christchurch learning centre to maintain at April 2019. 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 charge was not agreed at the January meeting with no central retention possible unless the DfE agree to override this decision.

Academies

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

Education & Skills Funding Agency (ESFA)

54. 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 for maintained schools until the end of March.

Schools Pupil Premium

55. The schools 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, Looked After Children (LAC) or adopted, and of forces personnel. The funding values have not increased since 2017/18.

Capital Strategy

56. 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.

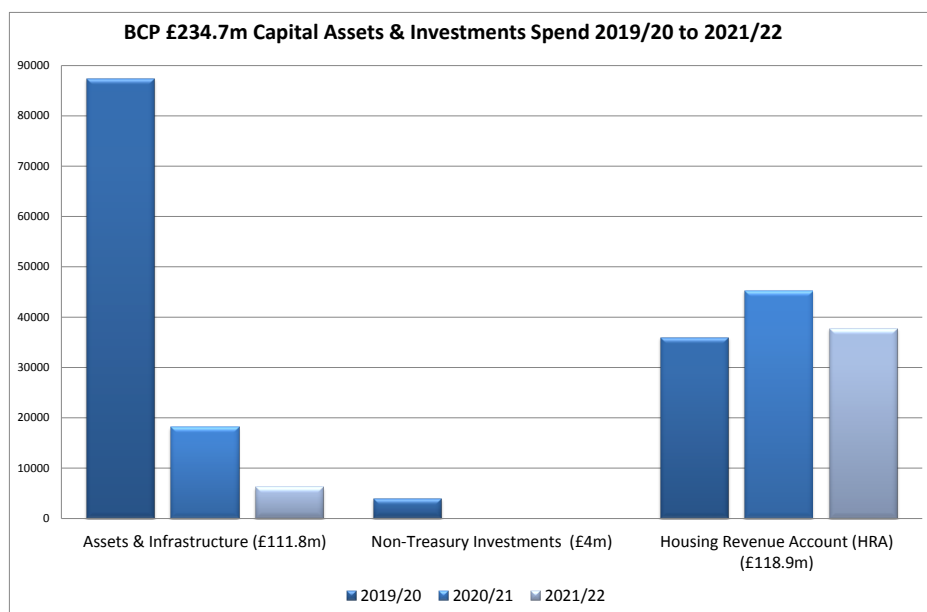
- Administrative offices.
- Approximately 10,000 council homes.

The Council’s capital 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.

Combined capital budget portfolio: 2019/20 to 2021/22

57. BCP’s portfolio of planned capital investment (2019/20 to 2021/22) currently consists of £111.8m investment in General Fund assets & infrastructure, £4.0m approved non-treasury asset investment, and £118.9m Housing Revenue Account (HRA) spend on local housing provision. This represents a combined capital investment of £234.7m over a three year period, as summarised in Figure 9.
58. It is, however, important to recognise that the £234.7m represents capital resource currently approved for investment in the discrete capital programmes of Bournemouth, Christchurch and Poole Councils, with capital resource estimates for the completion of capital projects inherited (from Dorset County Council (DCC)) for the Christchurch area.

Figure 9: BCP Total Capital Spend 2019/20 to 2021/22



59. **Assets & Infrastructure (£111.8m):** Appendix 4a-4c itemises by theme, scheme and locality, BCP wide £111.8m capital resource currently approved for Assets & Infrastructure investment. This consists of Bournemouth area £52.2m, Christchurch area £1.4m, Poole area £50.5m, Other schemes of £7.7m (including capital schemes inherited from DCC and a new BCP wide ICT investment plan).
60. Appendix 4a-4c is underpinned by separate BCP wide Strategies for Children’s Services (Appendix 4d), ICT infrastructure, and Highways Maintenance (separate report on the

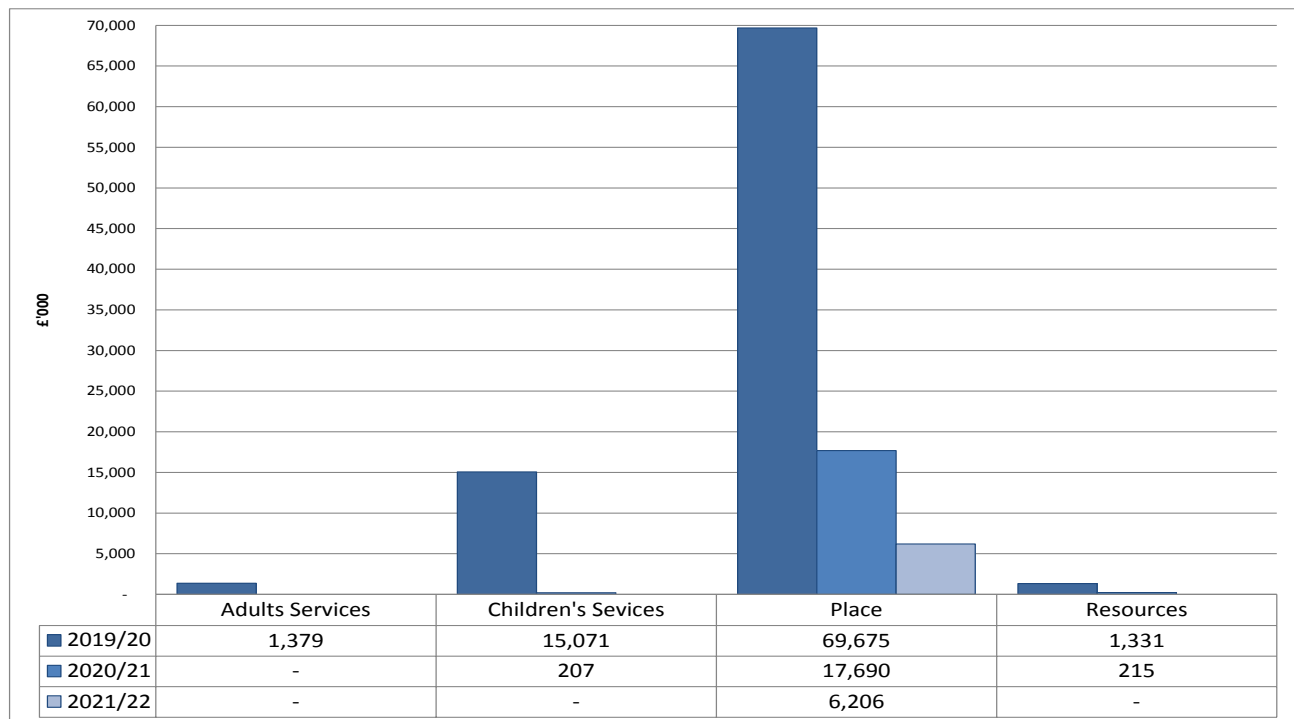
Shadow Executive Committee agenda). It is anticipated that additional BCP strategies (for example a new BCP wide fleet management strategy) will be brought forward for Member consideration as the BCP Unitary becomes more established.

- 61. **Housing Revenue Account (HRA) (£118.9m):** Budgeted capital investment is detailed in a separate report on the Shadow Executive Committee agenda.
- 62. **Non-Treasury Asset Investments (£4m):** The Council’s approach to non-treasury asset investment is outlined in the Asset Investment Strategy (Appendix 4e). The resources earmarked for 2019/20 reflect a predecessor council’s decision to undertake a specific purchase which at this stage has not yet been progressed. Further proposals will be brought forward for consideration and scrutiny based on opportunities as and when they present themselves. Any proposals brought forward will be conditional and will be subject to the appropriate due diligence arrangements.

General Fund Assets & Infrastructure to 2021/22 (£111.8m)

- 63. Based on current ‘predecessor authority’ capital programme budgets, the new BCP Unitary will have set aside £111.8m capital resource (between 2019/20 and 2021/22) to invest in and maintain its asset & infrastructure base. This will ensure the continued delivery of services vital to our community across the conurbation. Appendix 4a-4c summarises capital projects currently approved over the MTFP. Accepting that this budget will likely change as the new BCP Unitary takes shape, figure 10 provides an outline overview of capital budget by Council theme.

Figure 10: BCP Capital Budget (Assets & Infrastructure) Spend 2019/20 to 2021/22



64. Significant capital schemes currently approved include:

Adults Services

- Final phase of new Figbury Lodge care home construction

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 School to ensure sufficiency of secondary school places over the medium term
- Grant funded SEND capital schemes for children with special educational needs
- The BCP Children's Services Capital Strategy 2019/20 to 2021/22 (Appendix 4d) provides further detail on current and potential future capital projects.

Place

- Town Centre Regeneration including the Heart of Poole and Lansdowne Business District localities
- BCP wide Highways Infrastructure investment, in partnership with the Dorset Local Enterprise Partnership (DLEP), including A338 and Blackwater Junction improvement works and Port of Poole (Townside Access) improvements
- Investment in BCP's parks, open spaces and heritage assets (including Poole Park and Highcliffe Castle), in partnership with the Heritage Lottery Fund
- Protecting BCP's coastline and new seafront development programmes (including Canford Cliffs West, the subject of a separate report on the Shadow Executive Committee agenda)
- Investment in new temporary housing accommodation in Bournemouth to aid homelessness prevention
- New strategic waste facility and investment in BCP's frontline services' fleet operations

Resources

- Investment in BCP's ICT infrastructure plan

65. In addition to planned MTFP capital spend, unspent approved capital budget resource from the 2018/19 approved capital programmes for Bournemouth, Christchurch and Poole sovereign authorities will be added to BCP's 2019/20 capital programme.

66. Similarly unspent approved capital budget on DCC capital schemes for the Christchurch area at 31 March 2019 will transfer to BCP Unitary. It will become the responsibility of BCP Unitary to arrange for the completion and funding of remaining works on these schemes after 31 March 2019. Discussions are ongoing with representatives of the new Dorset Area Unitary for them to manage the completion of the works with BCP oversight. Due diligence is ongoing around the funding streams and the associated risks for these schemes – including with respect to potential new Prudential Borrowing BCP may need to undertake in order to complete these schemes (Appendix 4b). As part of this process it will also be necessary to take into account Dorset County Council's final capital spend at 31 March 2019, to ensure that unspent capital grants and potential borrowing requirements relating to transferred assets are properly understood and agreed.

67. Outside of its 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, by Bournemouth and Poole College, by the Port of Poole, by Bournemouth Airport, by Academies and by local employers.

BCP Financial Regulations (for capital projects)

68. In line with BCP Council's new financial regulations, all projects in the capital programme (Appendix 4c) are categorised according to whether Council approval is '*unconditional*', '*conditional*' or whether '*subsequent approval*' will at some point be required. This is a new BCP Council requirement that seeks to provide greater transparency over decision making and facilitate greater Member scrutiny over capital projects as they are delivered.

69. '*Unconditional*' projects are those that are expected to be delivered without alteration to either the original project brief or funding strategy. In practice these will be comparatively 'low value low risk' projects that have already started or are part of an ongoing programme of works. Good examples will be kitchen or bathroom replacement programmes in the HRA which are undertaken to an agreed standard or the Local Transport Plan expenditure where the detail is agreed with members as part of a separate governance process. '*Conditional*' projects are schemes already approved by Members which will only require further approval in the event of a significant change or potential divergence from the approved project brief (for example, a change in the scope of the project or a change in funding source). The last category of project "requires subsequent approval" is for those schemes where further Member approval is mandatory. These may be projects where resources have been set aside (say after an initial business case) as part of the annual budget process but where Members are expected to approve the final scheme once a full business case has been developed.

Capital Grants Supporting Assets & Infrastructure Investment

70. 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 2019/20 capital grants for Bournemouth and Poole, 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. For Christchurch, Officers are working with Dorset County Council to ensure that an appropriate share of indicative capital grant 2019/20 for the Christchurch area is agreed and 'disaggregated' to the new BCP Unitary with effect from 1 April 2019.

71. In December 2018 Bournemouth, Christchurch and Poole Councils were also allocated additional capital grant funding for Highways Maintenance and Disabled Facilities Grants. Bournemouth and Poole's additional grant allocations have been accounted for within the BCP 2019/20 capital programme. Work is ongoing to ensure the 'Christchurch share' of additional capital grant (awarded in December 2018 to Dorset County Council)

is either utilised in the Christchurch area prior to 31 March 2019, and / or unspent capital grant balance is transferred to the new BCP Unitary on 1 April 2019.

72. Looking ahead the new BCP Unitary Authority 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 Homes England.

Assets & Infrastructure Sources of Funding to 2021/22 (£111.8m)

73. Figure 11 summarises BCP-wide 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, the draft BCP capital programme is 52% funded from external sources (Grants and Third Party Contributions) and 48% from BCP sources (Capital Reserves, Capital Receipts, Prudential Borrowing).
74. The vast majority of capital resource required for programme delivery has either already been received / secured or (in the case of Prudential Borrowing), the revenue cost has been factored into BCP's MTFP. Appropriate sensitivity analysis has been undertaken on future capital receipts, to assess and safeguard against the potential risk of a reduction in future value of capital receipt received.

Figure 11: Financing BCP Capital Assets & Infrastructure

BCP £111.8m Capital Budget (Assets & Infrastructure) Financing				
	2019/20	2020/21	2021/22	MTFP
	£000	£000	£000	£000
Funding Secured				
External Funding				
Capital Grant (includes indicative allocations)	37,555	8,320	2,740	48,615
Other contribution (inc s106 and CIL)	4,992	300	0	5,292
BCP Funding				
Capital Reserves	11,076	2,441	165	13,682
Capital Receipts	914	0	0	914
Prudential Borrowing	28,270	7,051	3,301	38,621
	82,806	18,111	6,206	107,124
Funding Forecast				
External Funding				
Capital Receipts Forecast	4,650	0	0	4,650
	4,650	0	0	4,650
Total Funding	87,456	18,111	6,206	111,774
% Capital Resource funded externally	49%	48%	44%	48%
% Capital Resource funded by BCP	51%	52%	56%	52%

Core Principles

75. In determining its capital strategy the Shadow Executive 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, and determined in conjunction with the setting of the Council's 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 inherited flexible use of capital receipts strategies. This totals up to £2.8m per annum for the period up to and including 2020/21 to fund the transition and transformation costs associated with establishing the new Council;
 - schemes which require a local contribution to lever in capital grants or external capital contributions to the Borough;
 - schemes which enable the Council to deliver the savings assumed within the MTFP;
 - schemes which enable the Council to exploit its assets;
 - schemes which protect key infrastructure.
 - f) To support any future ambitions or key infrastructure developments and to mitigate the underlying risks within its capital 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.

Shadow Authority Approval: 2019/20 Capital Budget

76. The new BCP Unitary Authority's constitution requires formal Council approval of each capital project before it can commence. In line with this, Shadow Authority endorsement is sought for the 2019/20 £111.8m capital programme budget, as attached in Appendix 4a-4c.

77. In endorsing this budget, Members should be aware that it is likely to change during 2019/20 as new schemes are approved, new funding sources identified and capital schemes are potentially revised in line with new BCP-wide priorities. Members are also reminded that, in line with new BCP financial regulations, there will be an opportunity for further Member scrutiny of significant capital schemes as they are developed.
78. Each of the schemes proposed within the capital programme has already received prior Member approval within its 'legacy authority', with the exception of the BCP wide ICT Investment Plan.
79. The proposed BCP ICT Investment Plan identifies additional investment required of £1,018k in 2019/20 and £200k in 2020/21 (total £1,218k) in BCP's ICT infrastructure. This investment is in addition to current approved ICT capital resource of £313k in 2019/20. The new investment consists of £870k on desktop device refreshes across Bournemouth, Christchurch and Poole estates and £348k on maintaining business critical storage and security ICT requirements. In line with the Core Principles outlined above, it is proposed that the additional investment is funded over both years from a 2019/20 in-year BCP Revenue Contribution to Capital (RCCO).
80. **Capital Contingency** – In recognition of the exposure to risks in the capital 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. Risks the contingency is intended to cover include;
- 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;
81. Allocations from the capital contingency will be made on the basis of approved business cases, which demonstrate a clear need for use of contingency funds. The likely level of capital contingency resources that will be made available to the new BCP Council on the 1st April 2019 is currently estimated to be around £2m. Potential schemes that may require an allocation include key infrastructure assets such as East Cliff.
82. The Council's capital contingency will be supported by the application of a BCP 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 Council’s regeneration objectives or where they do not provide value for money.

Reserves

83. 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.

84. 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 Council’s Medium Term Financial Plan, key major projects of the Council and a number of reserves the Council is required to hold in line with statute or its own governance requirements.

85. 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 12 below;

Figure 12: Council sensitivity to potential changes in assumptions

	Impact on level of net expenditure or council tax requirement £000’s
Looked after Child (high cost - residential) – per child	250
Looked after Child (medium cost – independent fostering) –per child	66
Intensive homecare package for a disabled person	113
Vulnerable Adults (learning disability – residential < 65)	160
Older person’s supported residential care	26 <i>average</i> 38 <i>higher end</i>

	Impact on level of net expenditure or council tax requirement £000's
Increase in the £7.4m cost of the Concessionary Fare Scheme to the Council	£74k per 1% increase in journey numbers

86. The interim 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.
87. 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.
88. 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% and 10% of net revenue expenditure. For BCP this would mean maintaining such reserves at between £13.7m and £27.4m.
89. Having considered all matters and the known business requirements of the new BCP Council in 2019/20, the interim Chief Financial Officer is of the view **that it is appropriate to set the level of Unearmarked Reserves at £15.4m for the 2019/20 budget** which is approximately 5.6% of the proposed net budget requirement for the year. This approach accords with the Financial Strategy approved by the Joint Committee in May 2018 which proposed maintaining the absolute value of the unearmarked reserves passed across from Bournemouth, Christchurch and Poole councils.
90. The position will be kept under review throughout the remainder of 2018/19 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.
91. With regard to Earmarked Reserves, it is estimated that their level as at 31 March 2019 will be £35m. It should though be highlighted that much will depend on the decisions of each of the four sovereign councils in the period prior to vesting day.
92. In developing a financial strategy to support the delivery of a balanced budget for 2019/20, the s151 Officer to the BCP Shadow Authority undertook a review of all

reserves in December 2018. The purpose of this activity was to determine the extent to which the reserves might be best applied to;

a) Transition, Transformation and one-off costs associated with creating the new council.

A one-off total amount of £9.1m has already been approved and committed to the BCP LGR programme funded from a combination of reserves and the flexible use of capital receipts. This funding is currently profiled as £7.9m in 2018/19 met by the four predecessor councils and £1.2m in 2019/20 funded by the new BCP council. Appendix 3b highlights this amount as available within a specific BCP earmarked reserve for this purpose. Any resources which slip from 2018/19 will be added to this reserve.

b) Specific challenges faced by the new Council in creating a new single tier local government entity. An example of this is around the deficits on the High Needs element of its Dedicated Schools Grant.

As referenced earlier in this report £2.4m has been set aside in a specific earmarked reserve to fund the council's contribution to enable a balanced 2019/20 High Needs Budget as part of the Dedicated Schools Grant. Work with Government and the BCP Schools Forum will be needed to establish both a sustainable budget position for 2020/21 onwards and to agree a plan for dealing with the legacy deficit brought forward.

c) Supplementing the amount currently available for Welfare Reform which acts as a Hardship Fund.

Any amount not used from the £146,000 2019/20 revenue base budget for welfare reform / hardship fund will be used to supplement the value of this reserve for future purposes.

The review also set out the approach to categorising earmarked reserves into ten broad headings, namely;

- Financial resilience reserves
Most notably an overall MTFP financial planning reserve as well as a financial resilience reserve for the Adults, Children, and Place Delivery Boards.
- Transition and transformation reserves
Includes resources set aside to provide the 2019/20 contribution to the High Needs Budget on the Dedicated Schools Grant.
- Asset investment strategy, rent, risk and repairs reserve
- Insurance reserve
- Reserves held in partnership for external organisations
Such organisations include Schools, Dorset Adult Learning, Stour Valley and Poole Partnership, Bournemouth International Centre, Dorset Youth Offending Service, Aspire Adoption and Bournemouth 2026.
- Reserves required by statute or legislation
Includes resource for Business Rates appeals, Building Regulation Control Account and the Bournemouth Library Private Finance Initiative.
- Planning related reserves

- Government grants held in reserves due to the timing of expenditure
- Maintenance reserves
- ICT development and improvement reserves
- Reserves held to support corporate priorities and service improvements

93. In setting out the reserves available to the new Council, and as a matter of prudence, no assumption has been made in regards to the value of reserves that will be transferred from Dorset County Council (DCC). BCP will inherit a fair and reasonable share of these based on the balance sheet position of DCC as at the 31 March 2019. The proposal is that any reserves transferred not required for a specific purpose will be used to supplement the resources set aside by BCP for its Transition and Transformation.

94. In proposing the Reserves Strategy as set out in Appendix 3, the interim 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 phase three of the process for establishing the new Council.

Treasury Management Strategy

95. The proposed Treasury Management Strategy has been prepared by the Finance Task and Finish Group and was previously reviewed by the Shadow Executive as part of its consideration of the December 2018 Consolidated MTFP Update Report. 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 2019/2020 are set out in Appendix 5 for approval by the Shadow Authority.

96. A significant element of the Strategy 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 new 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 a number of 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 sufficient cash available as and when needed.

97. The strategy is significantly influenced by the requirements of the devolved system of council housing (Housing Revenue Account) 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.

98. 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.

99. 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. For example only an analysis of the historic debt positions of three areas could be set out as follows;

Figure 13: Historic debt positions of the predecessor councils

	Bournemouth and Poole 31/03/2018 £'000	Christchurch element of Dorset County Council* 31/03/2018 £'000
Total Capital Financing Requirement (CFR)	392,723	35,774
Less Housing Revenue Account CFR	(144,731)	0
Net General Fund CFR	247,992	35,774
Resident population estimates 2017	346.1	49.6
£ per no of resident	£716.53	£721.26

**The disaggregation of Dorset County Council element of Christchurch debt is still to be finalised. The figures above represent the approach that the Dorset Area Unitary representatives are seeking to take.*

Also included is any borrowing to finance specific commercial asset investments which generate a financial return for the council.

Housing Revenue Account (HRA)

100. 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 Members in setting the Budget for 2019/20.

Chief Officers' Pay Policy Statement

101. 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.
102. 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 Members' Allowances

103. The Council is required to adopt an annual scheme of Members' 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."
104. A report is presented as a separate item on the Shadow Authorities agenda to consider the recommendations of the independent remuneration panel in regards to the BCP Scheme of Member Allowances. The budget makes provision for a total cost of £1.034m which is a £500k saving on the consolidated budgets for the four predecessor councils.

Schedule of key financial decisions made by the sovereign councils

105. The interim Chief Financial Officers of each of the sovereign Councils has a key role in ensuring the Shadow Authority are made aware of any significant financial matters which will impact on the future resilience and sustainability of the proposed new Unitary Authority.
106. A four part protocol is in operation which requires;
 - 1) The Chief Financial Officer of each sovereign Council to ensure the relevant service Portfolio Holders and the Resources Portfolio Holders for each of the sovereign councils are made aware of any proposals before they are presented to the relevant decisions making body for approval.
 - 2) That each Consolidated MTFP Update report to the BCP Shadow Executive includes a schedule of the key financial decisions made since the previous such report.

- 3) That any key financial decision which is a Cabinet decision of the each sovereign Council's will need to include a section in the report on consultation with the Shadow Executive. The expectation is the report author will consult with the relevant members of the Shadow Executive and detail who they consulted with and their response.
- 4) That any report which is a Council decision of each of the sovereign Councils, and also contains a key financial decision, will be presented by the report author to the Shadow Executive for their formal consideration as part of the consultation process. The sovereign council will therefore be able to reflect on the feedback from the Shadow Executive when they consider their decision.

107. The Consolidated MTFP Update report to the BCP Shadow Executive on the 12 December 2018 presented the key decisions that had taken place since the 17 October 2018. Appendix 8 sets out the key financial decisions since the December Shadow Executive meeting.

Previous Reports

108. Previous Consolidated MTFP Update Reports to this Shadow Executive have provided information on;
- Financial Strategy.
 - Budget Timetable.
 - Aggregate Budget Information.
 - Fair Funding Review.
 - 75% Business Rates Retention Model.
 - Negative Revenue Support Grant (RSG).
 - Response submitted to the Ministry of Housing, Communities and Local Government to the technical consultation on the 2019/20 Local Government Finance Settlement.
 - Details of the CIPFA financial resilience index.
 - The Government's Budget 2018.
 - Treasury Management Strategy document
 - Capital Programme, the Capital Financing Requirement and External Loans.
 - Reserves.
 - Council Tax Harmonisation
 - Consolidated Housing Revenue Account.
 - Key financial decisions made by each of the four sovereign councils.

Consultation

109. 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 the 18 January 2019 on the BCP Budget for 2019/20 and Medium Term Financial Plan from the BCP Interim Chief Financial Officer and members of the Finance Task and Finish Group.
110. The necessary additional resources, savings and efficiencies required to balance the budget over the next four 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.

Summary of finance and resourcing implications

111. As set out in the report.

Summary of legal implications

112. It is the responsibility of Members of the Shadow Authority to ensure the Council sets a balanced budget for the forthcoming year. In setting such a budget Members 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.
113. As part of this final budget paper the interim 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

114. There are no direct human resource implications of this report. However, the 2019/20 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

115. None specifically related to this report.

Summary of equalities and diversity impact

116. 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.

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

Summary of risk assessment

118. A key thread of the Future Dorset submission was the opportunity to best protect public services as the government continues to reduce the funding it provides to local councils.

119. A separate report on this agenda addresses the programme update and its key risks.

Background papers

120. Previous Consolidated Medium Term Financial Plan reports to the Shadow Executive or Joint Committee can be found at <https://bcpsshadowauthority.wordpress.com/meetings/>

- 15 December 2017
- 20 March 2018
- 23 May 2018
- 24 July 2018
- 17 October 2018
- 12 December 2018

121. In addition the matter of Council Tax Harmonisation has been developed and considered through the following reports;

- 17 October 2017
- 21 November 2017
- 15 December 2017
- 30 January 2018
- 20 March 2018

- 16 April 2018
- 7 November 2018 (Parliamentary Order Update)
- 12 December 2018 (MTFP Update Report)

122. All these reports were subject to the Overview and Scrutiny arrangements established to support consideration of all the reports presented to either the Joint Committee or Shadow Executive.

Appendices

- 123. 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 Programme (a to c – summary and detail)
- Appendix 4d Children’s Services Capital Programme
- Appendix 4e Non Treasury Asset Investment Strategy
- Appendix 5 Treasury Management Strategy
- Appendix 6 Equalities Impact Needs Assessment (EINA)
- Appendix 7 Chief Officers’ Pay Policy Statement
- Appendix 8 Schedule of Key Financial Decision since 12 December 2018
Shadow Executive