Cabinet

Dorset County Council

Date of Meeting	18 January 2017
Cabinet Member Robert Gould – Leader of the Council Local Member(s) All Members Lead Officer(s) Richard Bates – Chief Financial Officer	
Subject of Report	**Medium Term Financial Plan (MTFP) – update for provisional Local Government finance settlement**
Executive Summary	This report provides a further update to the 14th December Cabinet report, dealing mainly with matters arising from the Local Government finance settlement (the settlement). The report also seeks direction from Members on the preferred approach to the Social Care Precept over the next three years, given the flexibility allowed by Government in the settlement.
Impact Assessment:	Equalities Impact Assessment: This high level update does not involve a change in strategy. As the strategy for managing within available funding is developed, the impact of specific proposals on equality groups will be considered.
	Use of Evidence: This report draws mainly on the provisional settlement information as it is the most detailed, up to date information affecting the County's Council's funding position. Evidence has also been taken from the Autumn Statement, briefings issued by such bodies as the Society of County Treasurers and the content of Dorset County Council reports and financial monitoring data.
	Budget: The report provides an update on the County Council's budget position and provisional settlement funding changes for 2017-18 and beyond. The provisional settlement is still subject to consultation.

<table>
<tr><td rowspan="2"></td><td>Risk Assessment:
Having considered the risks associated with this decision using the County Council's approved risk management methodology, the level of risk has been identified as:
Current Risk: HIGH
Residual Risk: HIGH</td></tr>
<tr><td>Other Implications:</td></tr>
<tr><td>Recommendation</td><td>The Cabinet is asked to consider the contents of this report and:
(i) note the content of the provisional settlement and its impact on the County Council's planning for 2017-18 and beyond;
(ii) note that action is being taken by officers to reduce the overspend in the current financial year;
(iii) put forward any other issues it wishes to be taken into account in the development of the MTFP;
(iv) agree the principles of the revised capital receipts strategy attached at appendix 1, required for the flexible use of CRs incorporated into the MTFP;
(v) confirm the budget strategy with regard to the Social Care Precept over the remainder of the MTFP period to 2019-20;
(vi) confirm the budget strategy for the use of £1.5m of the improved better care fund in 2018-19;
(vii) note the growth in the Council Tax base for 2017-18 and the surpluses on collection funds reported by collection authorities and
(viii) confirm the strategy for dealing with the reduction in Education Service Grant (the use of one-off monies) but that in the long-term children's services to schools will need to fit within a smaller funding total as a result of reduced grant unless additional income is generated from trading.</td></tr>
<tr><td>Reason for Recommendation</td><td>To enable work to continue on refining and managing the County Council's budget for 2017-18 and the three years of the MTFP period.</td></tr>
<tr><td>Appendices</td><td>1. flexible use of capital receipts strategy</td></tr>
<tr><td>Background Papers</td><td>Provisional Local Government finance settlement
Comprehensive Spending Review 2015
Autumn Statement 2016
Society of County Treasurers' briefing papers
MTFP updates to Cabinet 29 June 2016, 28 September 2016, 14 December 2016.</td></tr>
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1. Background

1.1 This report provides an update to Cabinet to clarify the content of the provisional settlement and its impact on the Council's budget and financial strategy. A final MTFP report will come to the 1st February meeting containing specific proposals for the revenue budget and council tax for Cabinet to recommend to the County Council.

1.2 The Cabinet set the broad direction for financial strategy and the MTFP at the 14th December meeting, subject to assumptions around funding, specific grant allocations, council tax, non-domestic rates and the Social Care Precept. The provisional settlement included unforeseen flexibility around the SCP which Cabinet is now being asked to consider for the MTFP, alongside confirmation of New Homes Bonus and Adult Social Care Support Grant.

2 Provisional Local Government Finance settlement

2.1 On 14th December, the Secretary of State for Communities and Local Government, Rt Hon Sajid Javid MP, presented the provisional local government finance settlement to Parliament. The County Council had already signed-up to the four-year funding deal offered by the Government as part of the previous spending round, so it was hoped that there would be no significant surprises.

General funding

2.2 The settlement contained no changes to our anticipated funding (settlement funding assessment (SFA)) for the next three years. The table below sets out those figures alongside the preceding two years for comparison.

	2015-16	2016-17	2017-18	2018-19	2019-20
	£m	£m	£m	£m	£m
Settlement Funding Assessment	73.290	56.143	43.584	38.650	29.885

2.3 These were the figures included in the four-year deal so the confirmation is welcome though we continue to press our point on negative RSG (-£10.1m in 2019-20) at every possible opportunity.

Education Services Grant

2.4 The Education Services Grant (ESG) is split into two parts, an element for all schools regardless of whether they are mainstream or academy, which is calculated based on £15 per pupil, called "retained duties funding", and an element for mainstream schools, which has traditionally been calculated on the basis of £78 per pupil, known as "general duties funding". It was announced in the Autumn statement of November 2015 that there would be a national £600m reduction in the ESG although it was unclear about what form this would take and how it would fall across Local Authorities. The DfE have since announced that the "general duties" element of ESG will be removed from September 2017. The DCLG has published allocations for transitional ESG which provides funding of £987k for Dorset for the period April to August 2017, which aligns the funding with the Academies' financial year, after which there will be no further ESG funding. The "retained duties" element of funding has also been transferred into the Dedicated Schools Grant (DSG) and has been notified at £807k for the financial year. Local Authorities are required to consult with schools before top slicing this from the DSG to enable the delivery of central services. The December report that suggested that our current estimates for 2017-18 and 2018-19 looked optimistic and this has proved to be the case - we are currently assuming a reduction from £3.7m in 2016-17 to £2.4m in 2017-18 but the reduction will be to £1.7m in 2017-18 and £0.8m in 2018-19.

2.5 It is proposed that these faster reductions in ESG be dealt with through the use of one-off monies, such as collection fund surpluses. The end point for funding will be the same, it is simply the steepening of the reduction we are trying to manage.

2.6 The reduced level of ESG available to the County Council will need to be reflected either in reduced services (which schools no longer wish the Authority to provide) or through increased income from de-delegation of schools budgets or trading these or other services to schools.

New Homes Bonus

2.7 The Government's response to the NHB consultation has been to move from a six-year rolling NHB figure to five years in 2017-18 and then to four years from 2018-19 onwards. NHB will also only be paid for new homes growth above 0.4%. The impact of this is the loss of around £435k in 2017-18 for the County Council. Across the County as a whole, NHB changes are shown in the table below.

2.8 The changes for 2017-18 will yield £240m which is being reallocated to upper-tier authorities as Adult Social Care Support Grant.

	Prov 17-18 NHB Feb 2016	**Prov 17-18 NHB Dec 2016**	**Change**
	£m	**£m**	**£m**
Bournemouth	5.161	3.484	(1.677)
Poole	3.201	2.158	(1.043)
	8.362	5.642	(2.720)
Dorset	2.110	1.678	(0.432)
Christchurch	0.845	0.661	(0.184)
East Dorset	1.164	0.884	(0.280)
North Dorset	1.993	1.438	(0.555)
Purbeck	0.586	0.458	(0.128)
West Dorset	2.302	1.953	(0.349)
Weymouth and Portland	1.225	0.970	(0.255)
	10.225	8.042	(2.183)
	18.587	13.684	(4.903)

Adult Social Care Grant and the Improved Better Care Fund

2.9 Despite losing NHB in 2017-18 as described, the new Adult Social Care Support Grant allocated to Dorset will be £1.944m. This is a grant for 17-18 only and from 2018-19 onwards the improved better care fund is paid. The net £1.5m funding increase falling to the County Council as a result of these changes must be allocated to adult social care.

2.10 There is no further update on the improved BCF as yet and our assumption so far has been that it could well come with additional costs, so it will have a neutral impact. However, given that the NHB funding taken in 2017-18 is being recycled into Adult Social Care Support Grant, Cabinet is asked to give consideration to the inclusion of some of the improved BCF funding in the base budget for 2018-19 on the basis that it will not generate additional, commensurate costs. Cabinet is therefore asked to recommend the inclusion of £1.5m of these funds in the MTFP (total funding available for 2018-19 is £4.3m). No change to the assumptions for 2019-20 are recommended at this time.

Council tax, referendum limits and Social Care Precept

2.11 There are no changes to the referendum principles of a 2% cap on the increase to Council Tax across the planning period. The County Council's assumption has always been for a 2% annual increase in basic council tax.

2.12 Members will recall the previous report, which drew attention to of the absence of any kind of adult social care measures from the Autumn Statement. The provisional settlement however, introduced flexibility for upper-tier authorities around the Social Care Precept and announced that within an overall limit of 6% across the three years to 2019-20, councils could increase the precept in the first two years by 3%.

2.13 An early survey by the Society of County Treasurers indicated that approximately 50% of Shire Counties would be proposing an increase of 3% in each of the first two years with no increase in year 2019-20. Some would be continuing with the annual 2% increase on top of council tax and there was also evidence to indicate that some councils would be considering increase of 2%/3%/1% across the three years.

2.14 The table below shows the annual and total yields from council tax by modelling various increases across the three-year period. Due to the impact of compounding it can be seen that relatively higher increases in earlier years have a higher yield over the three year period. However, to achieve the highest starting position for 2019-20, an annual increase of 2% gives the optimum result.

2.15 The difference between the relative base positions for 2019-20 in absolute terms is negligible, it is therefore recommended that the County Council increases the SCP by 3% in each of 2017-18 and 2018-19, with no increase in 2019-20. Across the three-year MTFP period this generates £6.3m more than an annual 2% increase which would otherwise have to be found through savings. Monies generated through the SCP must be applied to adult social care (but this will not be the full £6.3m).

	2017-18 (at 2016/17 rates)	2017/18	2018/19	2019/20					
CT growth		1.99%	1.99%	1.99%		3-year yield difference	Yield ranking	2019/20 base difference	2019/20 base ranking
Taxbase growth	0.90%		0.75%	0.75%					
						£k		£k	
SCP increases		2%	2%	2%	Total				
£k	206,762	215,008	225,199	235,874	676,081	0	4	0	1
SCP increases		2%	3%	1%					
£k		215,008	227,349	235,852	678,209	2,129	3	(22)	3
SCP increases		3%	2%	1%					
£k		217,075	227,365	235,868	680,308	4,228	2	(5)	2
SCP increases		3%	3%	0%					
£k		217,075	229,536	235,825	682,436	6,355	1	(49)	4

Capital grants

2.16 There have been no changes to previously published highways grants but details of the Growth Deal 3 are still awaited. It is hoped that this announcement will include details of funding for major schemes.

Public Health funding

2.17 Public Health allocations for 2017-18 have been confirmed as expected and confirm an overall 2.46% reduction across the county as a whole, as show in the table, below.

	2016-17 £000	**2017-18 £000**	**Reduction %**
Dorset County Council	16,112	15,715	-2.46%
Borough of Poole	7,991	7,794	-2.47%
Bournemouth Borough Council	11,051	10,779	-2.46%
	35,154	34,288	-2.46%

3 Other items to bring to Cabinet's attention

Forecast of outturn for 2016-17

3.1 The forecast of outturn for December sets out a predicted overspend of £9.6m. Actions are in hand from Directors and their Leadership Teams to reduce this figure as much as possible in-year with a view to minimising the impact on the 2017-18 base budget starting position.

3.2 There has also been positive news in terms of a forecast underspend of around £2.8m on property repairs & maintenance, much of which should impact on the revenue budget, hence partly mitigating the position.

3.3 We will also be capitalising some of the costs associated with transformation during the current year, as set out in the flexible use of capital receipts strategy elsewhere in this paper. This should be around £1m in 2016-17.

Review of reserves and balances

3.4 The Finance Team conducts a review of reserves twice each year. The first is part of the closedown and accounts production process; the second is as part of the MTFP and budget round.

3.5 This year warrants a more considered, in-depth review due to the nature of the previous settlement, our concerns over the timing of some of our FT savings and several critical areas of overspend which are still proving difficult to bring under control within the timescales originally anticipated.

3.6 Our review should be concluding in mid-January, in time for the finalisation of the next Cabinet report so a further update will be provided then.

Flexible use of capital receipts

3.7 In the Autumn Statement 2015, the Chancellor announced changes to the rules for the use of capital receipts. For a three-year period from 1 April 2016, authorities are able to spend any revenue generated from selling fixed assets to fund the cost of improvements to services. The revised capital receipts strategy at Appendix 1 is a response to those changes in order for some of the County Council's costs of transformation to be treated as capital expenditure.

3.8 Under the previous rules, capital receipts could only be used to fund capital expenditure. The new flexibility therefore enables councils to use capital receipts to invest in service transformation or efficiency projects that will have a longer-term impact on the revenue budget position.

3.9 The revised strategy reflects an update to the previous plan, to incorporate changes introduced on 17th December 2015 by the Secretary of State for Communities and local Government. These changes were supplemented by further guidance on the flexible use of capital receipts, issued on 11th March 2016 as part of the Government's offer of a four-year funding settlement.

3.10 The March guidance set out the requirements for a specific strategy document like this one and the method for its review. Key points arising from the guidance are:

- the guidance applies from 1 April 2016 until 31 March 2019
- only capital receipts generated in this period can be used flexibly
- a strategy setting out projects to be funded through flexible use of capital receipts should be prepared annually and approved by full County Council
- the strategy should set out the benefits expected from each project funded this way
- the impact of the strategy on the Council's prudential indicators should be disclosed
- in subsequent strategy reviews, Council should consider previous use of flexibility to ensure planned efficiencies have bene realised
- strategies can be revised during the year but should be copied to DCLG
- approved strategies should be published online

3.11 The guidance defines qualifying expenditure as "Expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform the service to reduce costs and/or transform service delivery in a way that reduces costs or demands for services in future years for any public sector delivery partners." Individual authorities are required to decide for themselves whether expenditure falls within the qualifying criteria.

3.12 Qualifying costs are treated as capital expenditure and a variation to the capital programme is therefore required. The total estimate of qualifying expenditure for the period of the four-year settlement is currently £3m with £1m of this falling in 2016-17.

3.13 The new regulations do not require this strategy to be published separately, it is therefore included as an integral part of the County Council's MTFP. Flexible use of capital receipts was also referred to in the Authority's efficiency plan, approved by DCLG on 16th November 2016.

Pension fund valuation

3.14 The actuarial report for the pension fund has now been received and it is necessary to bring several matters to Members attention. Although the fund has outperformed its target returns of 6% (6.4%) and the past service funding level has grown from 82% to 83%, future assumed investment return rates are lower, meaning the average employer's cost of new benefits has risen from 13.3% of payroll to 15.7%, resulting in an expectation that contribution rates will need to be increased.

3.15 The impact of this for the County Council has been reviewed and we have asked the Actuary to certify the following increases for us over the next five years rather than the traditional three year period.

2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
21.0%	21.5%	22.5%	23.5%	24.5%	25.0%

3.16 Each 1% increase means around £1m for the County Council so although the MTFP currently provides for increases of around £0.3m each year, this will add a cost pressure for us.

Council tax base and collection fund surpluses

3.17 Colleagues in the collection authorities have provided positive news for us and have updated the council tax base figures as shown in the table below. This means growth in the base of 0.9% compared to our planning assumption of 0.75%.

Band D equivalent properties					
Taxbase 2016-17		Taxbase 2017-18 (Provisional)	Increase	%	Collection fund surplus £k
19,528.0	Christchurch	19,624.0	96.0	0.49%	332
36,824.0	East Dorset	37,043.0	219.0	0.59%	532
25,687.7	North Dorset	25,910.1	222.4	0.87%	367
18,656.4	Purbeck	19,052.1	395.7	2.12%	436
40,881.8	West Dorset	41,255.6	373.8	0.91%	1,154
20,567.9	Weymouth & Portland	20,721.3	153.4	0.75%	649
162,145.8		163,606.1	1,460.3	0.90%	3,470

3.18 The balances declared surplus on the collection funds is also welcome and as mentioned above, is proposed for use to manage the faster loss of ESG than was previously anticipated. Using surpluses in any other way will leave us with further savings to be generated across the MTFP period for which ESG was assumed.

4 Summary and way forward

4.1 The provisional settlement has provided some useful, additional funding in 2017-18 and 2018-19 if the County Council chooses to apply Social Care Precept of 3% in both of these years.

4.2 Significant work is still required to deal with the budget gap as identified in the previous MTFP update report and the emerging pressures in the current financial year. Plans to address this will be set out in the next update to 1st February Cabinet meeting.

Richard Bates
Chief Financial Officer
January 2017

Appendix 1

Strategy for the flexible use of capital receipts 1 April 2016 to 31 March 2019

1. Background

1.1 This strategy is required as a response to the Government's direction for the treatment of costs as capital expenditure, issued on 17th December 2015. The strategy has been prepared according to the guidance on flexible use of capital receipts issued on 11th March 2016 and in line with the following guidance:

- the prudential code for capital finance in local authorities
- the code of practice on local authority accounting

1.2 The strategy covers the following matters:

- review and monitoring
- disposal of assets
- service reform projects
- qualifying costs
- expected benefits
- impact on prudential indicators.

2. Strategy review

2.1 This strategy must be updated at least annually. This will be done via reissuing this strategy document as part of the MTFP and budget setting process. Subsequent iterations of the strategy will report on the progress of each project and whether planned savings or efficiencies have been delivered.

2.2 Any changes to the strategy during the year must be submitted to DCLG.

3. Disposal of assets

3.1 Only receipts from the disposal of assets from 1 April 2016 can be used flexibly to fund qualifying costs of service reform. The Capital Accounting Team and colleagues from the Estates and Assets Team monitor all capital receipts and specifically those generated from 1 April 2016 as part of the way we work programme.

3.2 The Estates and Assets Team continue to develop the Authority's property rationalisation plans.

3.3 As well as costs of reform, capital receipts are also earmarked to support the existing capital programme and to reinvest into properties being retained as part of our overall property strategy in the transition to a smaller, overall estate.

4. Service reform projects

4.1 The County Council already has an overarching transformation programme, Forward Together 2020, which seeks simultaneously to reduce costs and transform service delivery over the period of the MTFP and with a close eye also on Local Govt Reorganisation.

4.2 The major projects which will derive funding from the flexible use of capital receipts are set out in Forward Together Board reports and are therefore not repeated here. For 2016/17 these include the reorganisations in Children's Services and Financial Services, for example. It has not been possible to finance all transformation projects from capital receipts and some will continue to be funded from the transformation fund. When Cabinet receives the February MTFP update report each year, a list of projects qualifying for flexible use of capital receipts will be included.

5. Qualifying costs

5.1 In order to be met from the flexible use of capital receipts, costs must satisfy the definition set out in the direction issued by Government. This means the costs must be incurred in order to generate revenue savings in service delivery and/or transform service delivery in a way which reduces costs or demand.

5.2 Set-up and implementation costs can be classified as qualifying costs but the ongoing revenue costs of new processes cannot.

6. Expected benefits

6.1 A brief narrative of the expected benefits of each project will be set out in the February update report each year, with an estimate of the qualifying costs and the potential future savings.