Cabinet

Dorset County Council

Date of Meeting	28 June 2017
Cabinet Member Tony Ferrari – Cabinet Member for communities and resources Lead Officer Richard Bates – Chief Financial Officer	
Subject of Report	**Medium Term Financial Plan (MTFP) update**
Executive Summary	This report provides the first update of the new financial year for Cabinet, on the national and local issues impacting on the County Council's finances. It mentions matters that will need to be taken into account when developing the three-year MTFP from 2018/19 to 2020/21 and highlights work that is already in progress to address the budget gaps identified in the previous MTFP round. The report also summarises some of the information that will be provided to the Audit & Governance Committee on 24th July concerning: • the 2016/17 outturn (subject to audit) • balances at 31 March 2017 • the most recent 2017/18 forecast of outturn.
Impact Assessment:	Equalities Impact Assessment: This high level update does not involve a change in strategy. As the strategy for managing within the available budget is developed, the impact of specific proposals on equality groups will be considered.
	Use of Evidence: This report draws on proposals and funding information published by the Government, 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 for 2017/18 and the following two years. Major risks that influence the development of the financial strategy include: • views taken – and published information - on changes in grant funding, inflation rates, demographic and other

<table>
<tr><td></td><td>pressures and income from the council tax and non-domestic rates;
• success in delivering the savings anticipated from the Forward Together programme and containing other cost pressures arising;
• judgement of the appropriate levels for reserves, balances and contingency, to minimise the risk of an unmanageable overspend without tying-up funds unnecessarily
• pressures arising so far in 2017/18 that had not been factored into the budget; an early indication of the level of concern over these matters is provided.</td></tr>
<tr><td></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></td><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 unaudited outturn position for 2016/17, including the respective underspends and overspends within service Directorates;
(ii) note the Directors' early estimates included in the forecast of outturn for the current year and the operational reasons causing us to diverge from the balanced budget agreed by Council in February;
(iii) note the starting position for the current MTFP and budget round including the level and adequacy of balances on the general fund;
(iv) note the latest, savings expectations from the Forward Together programme;
(v) put forward any other issues it wishes to be taken into account in the development of the MTFP and budget;
(vi) note the proposals to consider an increase in the flexible use of capital receipts, subject to formal approval to be brought to a subsequent Cabinet meeting; and
(vii) understand the risks associated with and impacting upon the financial performance for the current and future financial years.</td></tr>
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Reason for Recommendation	To enable work to continue on refining and managing the County Council's budget plan for 2017/18 and the overall three-year MTFP period.
Appendices	1. 2017/18 FT Programme items 2. 2018/19 FT programme items (WIP)
Background Papers	Society of County Treasurers' briefing papers MFTP reports for budget 2016/17 Spending review 2016 Final local government finance settlement
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1. Background

1.1 The Cabinet considers a report at this time of year, to prepare the way for rolling forward the financial plan during the rest of the financial year, culminating in agreeing the budget and the rate of council tax at the February meeting of the County Council. Work has already started on financial planning for 2018/19 and beyond and this report provides an update on that work as well as a stock-take of our current financial position and recent performance.

1.2 The report includes summary information relating to the accounts and outturn for 2016/17. That information is indicative-only at this stage, as it has not yet cleared the external audit process or been through scrutiny by the Audit & Governance Committee.

1.3 Estimates of the outturn for 2017/18 and savings from the Forward Together programme are as accurate as they can be at this early stage of the year, though Members will clearly want to understand the differences between the forecasts and final outturn for 2016/17 in certain parts of the business.

1.4 A preliminary, summary analysis is also provided, in section 3, of the main variations in underlying organisation activity, metrics and performance which give rise to such significant, forecast variances since a balanced budget was set in February.

2. Unaudited outturn for 2016/17

2.1 The draft financial statements were certified by the Chief Financial Officer on 15th May 2017 and published on dorsetforyou.com the following day. Significant improvements have been made to the quality, accuracy and timeliness of the annual accounts production process in recent years. For the 2016/17 accounts, we completed our work a full, six weeks earlier than we did just two years previously - and we continue the journey to reduce time taken for the accounts to an ambitious target of just thirty days.

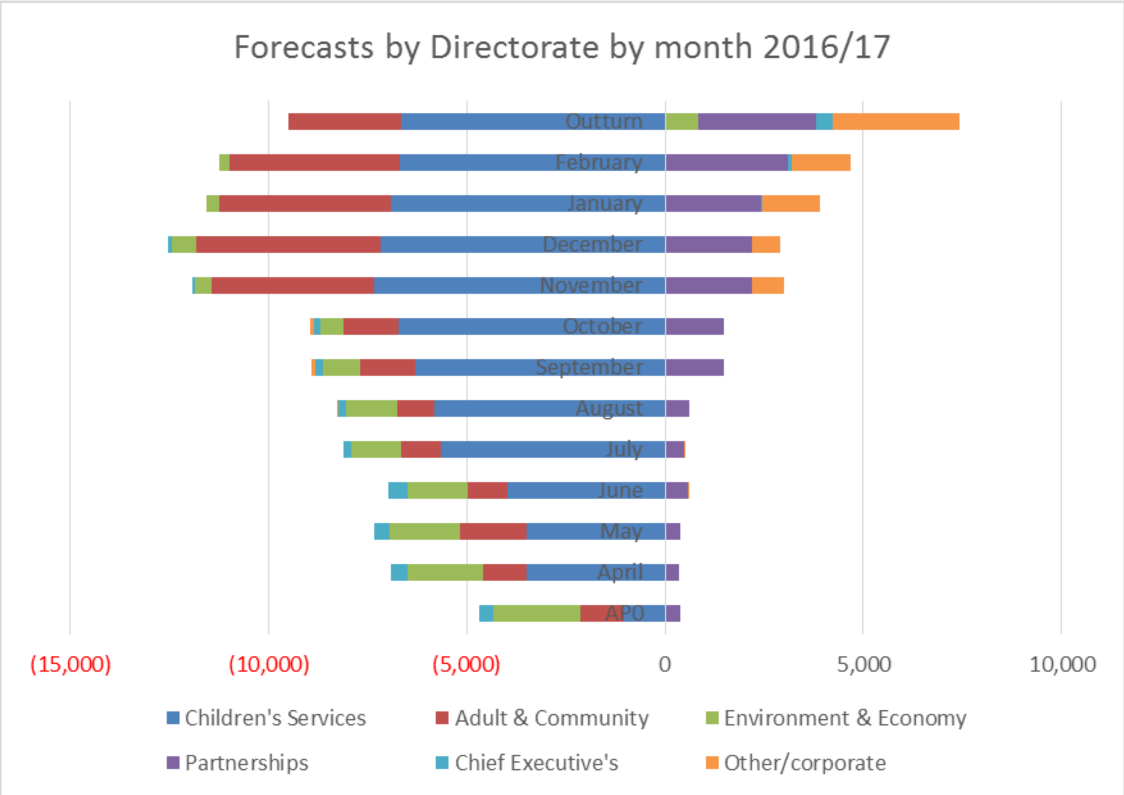
2.2 When our certified accounts were issued on 16th May, our auditors, KPMG, confirmed that Dorset County Council was the first of their Local Government clients to publish their financial statements.

2.3 The statements are therefore currently still being audited by KPMG. The audited accounts and outturn for the year to 31 March 2017 will be presented to the Audit & Governance Committee at its meeting on 24th July. The information below must therefore be taken as draft, at this stage. Any amendments to the figures as a result of work during the audit will be included in a future MTFP update.

2.4 The draft outturn for the year was an overall overspend of £2.1m. Within this total, there was a net overspend on service budgets of £5.3m, partially offset by £3.2m of underspends within corporate budgets as analysed in the table, below.

Directorate	**Net Budget £k**	**Draft Outturn £k**	**(Overspend)/ Underspend £k**	**February Forecast £k**
Adult & Community Services	122,598	125,440	(2,842)	(4,295)
Children's Services	66,271	72,930	(6,659)	(6,680)
Environment & Economy	33,095	32,269	0.826	(0.261)
Partnerships	20,216	17,233	2,983	3,083
Chief Executive's Dept	9,893	9,473	0.420	0.124
Total Service Budgets	252,073	257,345	(5,272)	(8,028)
Central/Corporate Budgets	(270,713)	(273,908)	3,193	1,457
Whole Authority	(18,640)	(16,564)	(2,078)	(6,571)

2.5 The graph below shows how the overall forecast moved during the course of the year and provides context for the February forecast data in the table at para 2.4. The narrative in the paragraphs that follow is a reminder of the reasons for budget variances and also highlights any significant variations between the February forecast and the draft outturn.



Adult & Community Services

2.6 The Adult & Community Services budget ended the year with an overspend of £2.8m (2.3%) against a budget of £122.6m. The key reasons are summarised in the following paragraphs.

2.7 Adult Care Service User Related budget (£63.5m) was overspent by £5.5m (8.6%). This The key factors in the overspend are:

- increased costs of care caused by increasing volumes of off-framework purchasing and lack of market management
- CHC pick-up totalling around £1.7m
- service users' capital falling below the threshold and the County Council paying
- inability to "review-down" the cost of care for those currently in receipt of a service to offset the increases
- increased acuity of packages.

2.8 There was a positive swing of £550k in the Service User related budget between the February forecast and the final outturn due to a reduced provision for bad debts compared to the previous financial year. A separate paper covering significant changes to the debt management policy and approach in 2016/17 will be going to Audit & Governance Committee on 24th July.

2.9 The Adult Care General budget (£12.6m) was underspent by £1.1m (8.7%) at the end of the year. This was predominantly due to staff turnover and vacancies. The position did improve in the last month due to unforeseen income to the value of £230k.

2.10 The Commissioning & Performance Budget (£36.4m) was underspent by £842k (2.3%). The underspend is due primarily to staff vacancies across several teams and unbudgeted income of £230k, due to the Integrated Community Equipment Store, that only accrued late in the year.

2.11 The Early Help & Communities budget (£8.5m) was underspent by £298k (3.5%). This can be attributed to a reduction in use of Library buildings by Skills & Learning resulting in lower income from room hire, lower than anticipated expenditure on Blue Badge scheme within Early Help, an increase in the predicted costs of PIAP, and additional income and vacancy savings arising in Trading Standards.

2.12 Director's Office budget (£1.5m) was underspent by £410k (26.4%). This largely reflects budgets actively held back to offset the overall overspend.

Children's Services

2.13 Children's Services had been projecting an overspend of around £6.6m (10%), against a net budget of £66.3m since the summer of 2016. Whilst this is clearly very far from a favourable position, the reasons have been well documented:

- The number of looked after children (LAC) has broadly stabilised after starting the year at 493 (including 4 unaccompanied asylum seeking children (UASC)) and ending the year at 496 (15 UASC). Peak numbers were 506 in September. The number currently stands at 479 (with 12 UASC) and the trend is now downwards. At budget setting time it was assumed that the downward trend would be established sooner than has proved to be possible. Overall the LAC budget overspent by £6m, which has been offset by a £4m planned release from contingency, resulting in a £2m overspend overall. The legal budget was also overspent by £0.4m as a result of the costs of seeking court orders for higher LAC numbers.

- A well-reported, national shortage of social workers, a favourable tax regime and increased regional competition resulted in an increase in the number of agency social workers engaged. The agency costs overspend, net of vacancies, was £2.4m. Agency staff numbers peaked at 58 in January but successes in the recruitment strategy, coupled with less favourable tax arrangements from April 2017 saw agency numbers reduce to 40 at the end of May. With newly-appointed staff yet to start, the expectation is to take this figure below 10 by the end of the summer.
- SEN transport spend has increased slightly on previous levels of around £8.8m, which resulted in an overspend of £2.25m during the year. Part of the overspend was due to over-optimistic expectations of savings that were deliverable when the budget was set in January 2016. Numbers of children with SEN eligible for home to school transport have increased from around 750 children in 2015/16 to over 900 currently (18%). Average costs have also increased by around 3.5%.

2.14 There were a number of underspends specifically through better commissioning and from holding back office vacancies that resulted in a £1.2m underspend in the Design and Development service.

2.15 In addition to County Council funded services, the Children's Services Directorate is responsible for administering the £258m schools budget, which is funded from the ringfenced dedicated schools grant (DSG). The majority of this funding is delegated to County Council schools and academies (£218m), with the County Council responsible for the administration of the remaining £40m to fund nursery settings, specialist education services and distribute funding for children with special educational needs to mainstream and independent schools. This budget overspent by £5.2m, mainly driven by the increase in demand from schools for children assessed as having special educational needs. The number of children with an Education, Health and Care Plan (EHCP) or statement of educational need has increased from 1,400 in 2014 to over 1,900 at the end of March. For the first time the DSG has an overall deficit of £4m, which will need to be recovered in future years.

Environment & Economy

2.16 Environment and Economy overall ended the year with an underspend of £826k, following a stop on non-essential spend and a deferral of some essential spend in to 2017/18.

2.17 Economy Planning and Transport (£213k underspent) - Fee income work at year end was more buoyant than expected. Unmet Forward Together savings and lower than anticipated planning fee income have been met by other savings from within the service.

2.18 Dorset Travel (£76k underspent) - Fleet driver staff costs were reduced and a significant reduction in the costs of concessionary fares was only visible at year end.

2.19 Business Support Unit (£13k overspent) - significant savings that were required were achieved but a minor overspend was incurred as a result of a late recharge of other internal services.

2.20 Coast and Countryside (£235k underspent) - cessation of non-essential spend and deferral of spend where possible in the later part of the year across all teams, together with the ability to generate extra income have contributed to the higher than previously forecast underspend. Another favourable factor has been the benign weather in the last three months of the year resulting in a low number of emergency call outs for tree work.

2.21 Estates and Assets (£472k overspent) - Late additional depot repairs and maintenance costs caused a deterioration from the February forecast. The main areas of overspend were on the County Buildings budget and the corporate 'Way We Work' property rationalisation programme, caused by savings being counted elsewhere. It is also worth noting that capital receipts are being generated, but the benefits are not reflected in the revenue account.

2.22 Building and Construction (£409k underspent) – Rigorous vacancy management was exacerbated by a number of other staff losses which have proved difficult or, to date, impossible to replace with a risk to significant capital project work required in the near future.

2.23 Network Management (£162k underspent) – An improved position from the February forecast due to buoyant end of year income.

2.24 Network Development (£290k underspent) – The underspend, which is similar to that predicted in February, also benefited from examples of stopping non-essential spend and deferring expenditure into 2017/18, in line with the corporate requirement.

2.25 Fleet Services (£86k underspent) – The under spend increased from that previously forecast due to reduced insurance charges.

2.26 Emergency Planning (£6k underspent) – Small amounts of additional income have been generated.

2.27 Director's Office (£307k overspent) – The overspent reflects, what had been recognised for some time, an unrealistic expectation of vacancies across the whole of the Directorate due to lower turnover following restructuring. Compensating savings have been found within the Directorate.

2.28 ICT and Customer Services Unit (£141k underspent) – The underspent was due to some items of expected spend previously forecast not being incurred and additional income not included in previous forecasts.

Partnerships

2.29 Dorset Waste Partnership – (The County Council share of the overall under spend was £1.608m). Significant savings against budget were achieved through reduced costs after renewal of a major contract, volatile recyclate costs reducing significantly, reduced costs incurred in relation to tonnages of waste disposed of (due to favourable rates), cheaper fuel prices for part of the year, tight management of operational costs and higher than expected income on garden and commercial waste services.

2.30 Public Health – In year, the Joint Public Health Board (JPHB) released £2.3m of accumulated reserve plus a further £200k of in-year savings back to the three constituent local authorities. Dorset County Council received 55% - nearly £1.4m. At the year end, £1m was returned to reserves to cover commitments not yet fulfilled.

Chief Executive's Dept

2.31 The Chief Executives' Department achieved a year-end underspend of £420k from a budget of £9.4m. This is compared to a forecast underspend of £124k in February. The main causes of underspend are:

HR (£244k underspent) – savings were achieved through vacancy management and a hold on non essential spend in the final months of the year. The service also received some additional, unpredicted income.

Legal and Democratic Services – although this service had been predicting an overspend for the majority of the year the final position was an underspend of £118k. This was due to the receipt of some additional one off income and a stop on non essential spend.

Further savings were achieved in the Assistant Director's office (£40k), Programme office (£30k), Chief Executives Office (£42k) and Governance and Assurance budget (£25k).

The above offset overspends in the Cabinet area and Policy and Research budget.

The Cabinet area as a whole overspent by £49k, this was mainly due to overspends in the Surplus land budget. This budget has been under pressure due to the high number of surplus properties being dealt with as a result of the Way we Work programme.

The Policy and Research budget overspent by £76k. This was as a result of the service being unable to achieve it's vacancy factor together with a loss in budgeted income.

Central/corporate budgets

2.32 Central Budgets finished the year with an underspend of £3.2m, versus a forecast underspend of £1.4m

2.33 The change between February and the final position was due to the flexible use of capital receipts, which allowed us to use £1.4m of capital receipts to fund transformation costs which otherwise would have been charged to contingency.

2.34 Continued close management of the contingency budget resulted in a further underspend of £0.7m.

2.35 We borrowed less than the budget planned for and therefore there was a saving on the cost of borrowing of £0.5m.

2.36 Due to tighter processes around our year end accruals process we were able to release £0.5m of our central accrual provision back into the revenue account.

3 Forecast of outturn for 2017/18

3.1 The latest forecast of outturn for the Authority, (May, period 2), indicates an overspend of £9.5m; a breakdown is shown in the table below.

Directorate	Net Budget £k	Forecast Outturn £k	Forecast (Overspend)/ Underspend £k
Adult & Community Services	126,461	128,961	(2,500)
Children's Services	57,926	65,006	(7,080)
Environment & Economy	33,683	34,169	(486)
Partnerships	19,002	18,837	165
Chief Executive's Dept	10,426	10,426	0
Total Service Budgets	247,498	257,399	(9,901)
Central/Corporate Budgets	(246,191)	(246,591)	(400)
Whole Authority	1,307	10,808	(9,501)

3.2 May's is the third forecasting exercise of the year, after AP0 and April which predicted outturn figures of £7.6m and £8.4m respectively. The principal cost pressures continue to be in relation to looked-after children, SEN transport and user-driven adult social care costs. Further information can be found in the CPMI area of Sharepoint.

3.3 To understand the current year's forecast, we must also revisit some of the fundamental assumptions that were made at the time the budget strategy was being developed. It is important for Members to understand what changes have happened since Directors and managers built plans around activity and performance levels that have caused the forecast position that we are currently predicting.

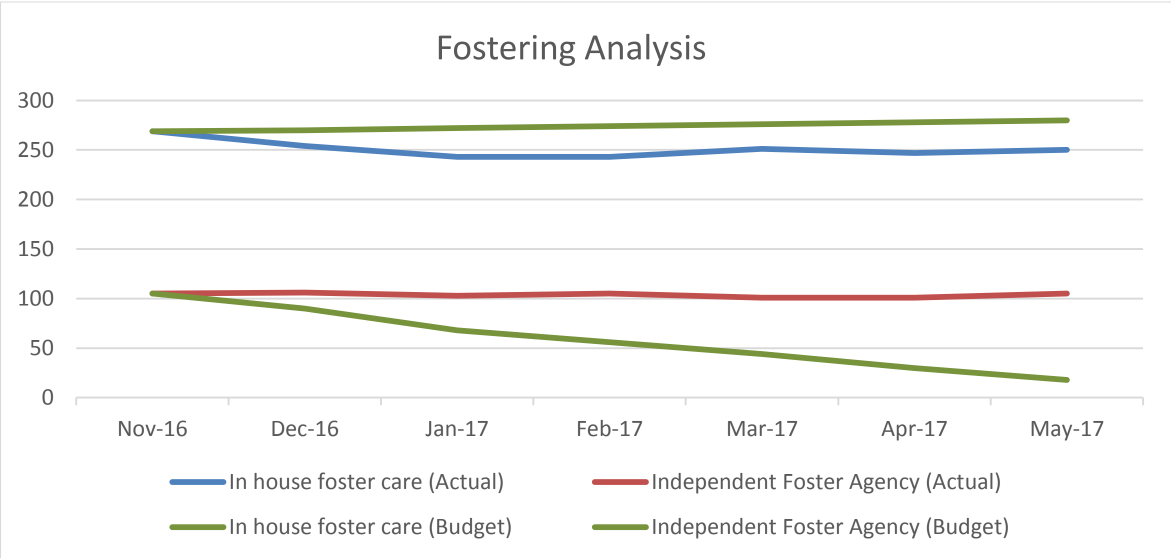
3.4 The Chief Financial Officer has a statutory responsibility for signing-off a balanced budget and we must therefore understand what assumptions and plans have not come to fruition and which might therefore need consideration beyond the current financial year as well as being included in current-year forecasts. The main changes since budget setting are set out in the paragraphs below.

Children in Care

3.5 A £6m overspend is currently being forecast. Whilst the number of looked after children reduced to 479 at the end of May, the cost profile of those children has remained high, with relatively less costly arrangements having been managed out of the system. The budget was set based on well documented and stated assumptions and aspirations that numbers of LAC would reduce to around 400 by the end of 2017. Underlying those broad numbers were assumptions about the mix of the type of care that children would be receiving.

3.6 Traditionally, about 75% of children have been placed with foster carers who are directly engaged and managed by the County Council. The financial planning for the budget was based on that trend continuing, with around 300 children expected to be placed with in-house foster carers. However, the numbers of foster carers engaged by the County Council has actually decreased. This has resulted in children having to be placed with much more expensive, agency foster carers, who are currently accommodating around 100 children. In addition, there have been significant increases in the costs of children placed in independent sector, specialist accommodation with the current average cost for the 40 children placed there being £4,300 per week (£223k per annum). The combination of this change in the type of care as well as slightly higher numbers than anticipated has, at this stage, resulted in a £6m forecast overspend. It is likely that this forecast will be reduced if continued progress can be demonstrated and the numbers in external, residential placements start to reduce. Despite the aspirations for it to do so, this has not yet happened and as such the forecast has been projected prudently to provide a, hopefully, worst-case scenario with the existing numbers of LAC and mix of care.

3.7 The chart below show the difference in the type of foster care actually being used against the predicted numbers used to set the budget. The number of more cost-effective, in-house foster carers used has reduced by 29 since the budget was formulated in December 2016, when the predictions were that in house foster carers would slowly increase as a result of recruitment campaigns. Linked to this and projected falling numbers of children in care it was anticipated that the use of Independent Foster Agency carers would reduce quickly. The decrease in the in-house foster care placements has meant that the foster agency workers have taken up the slack and stayed at December 2016 levels rather than reduce. This has added a pressure of £2.7m against the fostering budget.



3.8 In addition the number of children placed in high-cost, external residential placements (including high-cost, supported accommodation) is now 41, up slightly from the December 2016 level. In December a review of all high-cost placements was carried out and 13 children were identified as able to move to lower-cost arrangements by the end of spring. The budget was based on there being 33 children in these placements by May 2017. This has not materialised adding a £3.6m pressure to these budgets. The slow progress in moving these children into new placements means that the forecast now assumes that these placement will remain at the current level for the remainder of the financial year. If progress is made then the overall forecast overspend will reduce from this level.

SEN transport

3.9 £1m overspend being forecast. There has been a lot of work in this area to try to reduce costs and make savings. However, after some initial successes in moving some very high-cost children onto personal travel budgets, the overall increase in demand has prevented total costs from decreasing. The current re-tendering of key route contracts means that it is not yet possible to predict the costs of the service going forward. The prediction is based on continuing to maintain costs at their current level, rather than at the lower, budgeted level. Once the tender results are known this overspend may reduce. Proposals are being developed to reduce these costs and improve service but these require legal consideration and consultation.

Agency Social Work

3.10 Agency costs are expected to be in excess of budget for the first quarter whilst new, permanent staff are due to start employment during the spring and early summer. The overspend being incurred in these early months is not forecast to be recovered. Options could be considered as to what measures could be taken to reduce agency staff numbers sooner, alongside a risk assessment of the impact on the social work service. Unless this happens and quick decisions are taken it is likely that an overspend of £0.5m will be incurred.

3.11 Dedicated Schools Grant

3.12 £1m overspend currently being forecast. There were extensive and challenging consultations with the Schools' Forum over options to manage the demand and reduce costs to within available funding when setting the DSG budget for 2017/18. Whilst significant progress was made, there is still demand in the system that will be difficult to contain within the current funding. Early indications are that significant improvement has been made in relation to demand management with much more robust gateways into the system. However, at this time there is insufficient evidence that demand will be contained and it is expected that these budgets will overspend by around £1m. Plans will need to be developed, with schools, to find new ways of operating within available funding in addition to clawing back the deficit incurred.

Adult Care Service User related spend

3.13 £2.5m forecast overspend. There are £5.6m of savings attributable to the Adult Care Service User budgets. £4.2m relates to reviews of packages of care, the letting of the Dorset Care contract and improving the brokerage function, £1m from additional income and £400k relating to improved use of technology.

3.14 There is a real danger of slippage in the programme of reviews due to logistics and complexity of the cases being reviewed. There is also further risk around the Care contract, that does not come into force until December 2017 and how much impact that can have on the cost of care in such a short space of time. There is also delay in achieving the income target of £1m. It is for these reasons that it is felt prudent to assume a high level of risk associated with these savings.

Environment & Economy overspend

3.15 £0.486m forecast overspend. This is due mainly to risks still remaining around a number of proposed Forward Together savings.

3.16 Although the recent Dorset Travel tender process has had a successful outcome in securing planned savings, there is still a risk (£0.15m) around Dynamic purchasing related travel savings.

3.17 The Economy service restructure carries a 'part year' risk of savings not being achieved of around £0.1m; this includes an element of business as usual activity.

3.18 There is some risk (£36k) of vacancy management savings not being achieved in the Coast and Countryside service.

3.19 The 'Way we Work' property savings programme is progressing well but the risk of not achieving the full savings required is around £0.1m. However there is a £0.4m risk relating to the recalculation of the overall level of savings achievable from the property portfolio relating in particular to 2018/19.

3.20 As part of business as usual there is a risk (£0.1m) of Repairs and Maintenance fee income reducing due to a shrinking capital programme.

Partnerships

3.21 Dorset Waste Partnership – (The County Council share of the forecast under spend is £0.165m). The principle items being higher than anticipated inflation being more than balanced out by a continuing favourable recyclates market.

3.22 Public Health – the Public Health grant was reduced by 2.5% for 2017/18 and currently stands at £34.288m across Dorset. The service is predicted to spend to budget in 2017/18.

4 Starting position for MTFP 2017/18

4.1 Budget 2017/18 was balanced through the use of £2.8m of one-off funding from the collection fund surplus and a further £1m flexible use of capital receipts, as per the strategy approved by Cabinet in 29016/17. The development of the budget is not covered further here, but previous Cabinet MTFP papers are available for reference. The conclusion of the 2017/18 budget round left us with the remaining budget gaps across the planning period.

Provisional budget summaries for 2017/18 to 2019/20					
Assumed council tax increase			*4.99%*	*4.99%*	*1.99%*
Band D equivalent tax			*£1,326.87*	*£1,393.11*	*£1,420.83*
			2017/18	2018/19	2019/20
			£M	£M	£M
Previous year's budget			264.9	264.1	266.2
Move in specific grants applied as general funding			0.1	2.6	2.4
Commitments provided for:					
- Resource Allocation Model			2.0	2.6	3.1
- Other central commitments			15.8	8.4	10.0
- Collection Fund surplus			3.5		
Total budget requirement before savings			**286.2**	**277.7**	**281.7**
Estimated budget available			**264.1**	**266.2**	**265.8**
Savings required	3-year total:	-49.4	-22.1	-11.5	-15.9
Savings found by:					
- Forward Together programme			-18.3	-9.5	
- Use of Collection Fund/Balances (One Off)			-2.8	-0.8	-0.5
- Use of Capital Receipts (One Off)			-1.0	-1.0	
- Remainder still to be found to avoid scaling			0.0	-0.2	-15.4

4.2 Delivering the Forward Together savings is critical to the financial performance for the year and to our future viability. The 2016/17 overspend left the balance on the general fund at £12.3m – above the lower end of our operating range (£10m) but without capacity to absorb an overspend of the magnitude currently being forecast.

4.3 Of the current overspend being forecast, £2.8m of this is due to shortfall against Forward Together savings while the remainder is attributable to other, core budget pressures which Directors are currently formulating plans to deal with.

4.4 As well as additional plans for savings, it is becoming clear, even at this early stage of the year, that there are certain parts of the organisation which will simply not be able to meet their budget targets this year. The budget for children in care, for example, is already so heavily over-committed that it will not be possible to pull this back in the current financial year. We must therefore start to make plans to accommodate a level of overspend in the current year and think critically about more achievable, realistic targets for the Children's Services budget this year, which can serve as a more stable, reliable platform upon which we can build the 2018/19 budget.

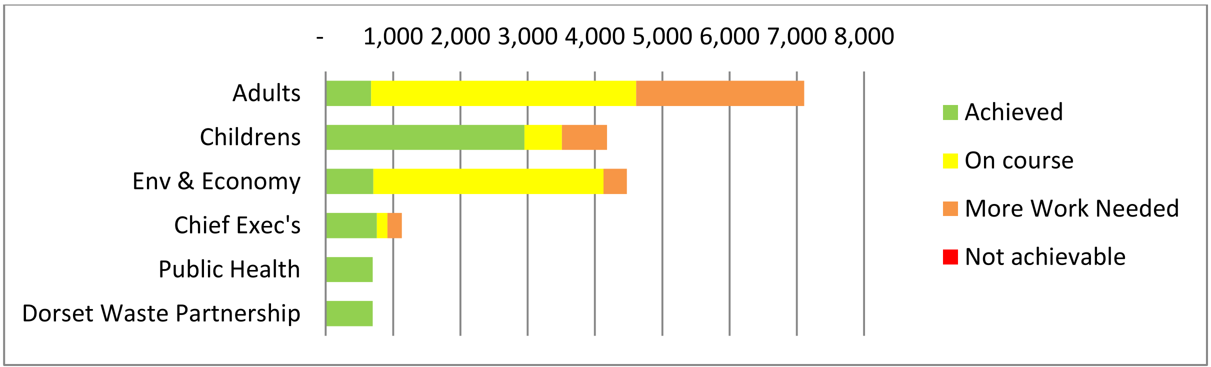
4.5 It is suggested that the Budget Strategy Group is reconvened with cross-party Membership to consider these plans as well as them being considered through the usual overview and scrutiny route (most crucially through Audit & Governance). Budget Strategy Group can then also consider the other matters which need to be taken forward as part of the MTFP and budget process this year, some of which are deal with in section 6 of this report.

5 Forward Together

5.1 The FT programme continues to be monitored by the FT Board and the financial implications of the programme are also reported through CPMI.

5.2 The latest Board report indicates that of the £18.3m savings targeted for delivery in 2017/18, the following progress is being made. Of the £3.7m where more work is needed, £2.8m is included in the forecast overspend at this stage.

Summary - All FT Savings		Assessment of Savings achievement			
2017/18					
Savings measure		**Achieved**	**On course**	**More Work Needed**	**Not achievable**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Adults	7,110	675	3,935	2,500	-
Childrens	4,179	2,953	558	668	-
Env & Economy	4,473	707	3,419	347	-
Chief Exec's	1,132	762	156	214	-
Public Health	700	700	-	-	-
Dorset Waste Partnership	700	700	-	-	-
Summary - All Savings 2017/18	**18,294**	**6,497**	**8,068**	**3,729**	**-**



5.3 At present, the 2018/19 figures are work in progress as the details are still to be finalised by DLTs and CLT and agreed by Cabinet. The table at 4.1 currently assumes £9.5m of savings will be delivered through the FT Programme while the 2018/19 programme is actually targeting a higher total value. Given the potential for some savings not to be progressed and the risk that some may under-deliver, it would seem prudent to pursue a higher level savings than is need to balance the budget. This also allows scope to deal with in-year budget pressures as they arise.

2018/19 - outline only yet to be approved by Members		Assessment of Savings achievement			
Savings measure		**Achieved**	**On course**	**More Work Needed**	**Not achievable**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Adults	6,600	-	1,682	4,918	-
Childrens	1,650	-	-	600	1,050
Env & Economy	2,424	-	-	1,874	550
Chief Exec's	350	-	50	300	-
Public Health	-	-	-	-	-
Dorset Waste Partnership	300	-	300	-	-
Summary - All Savings 2018/19	**11,324**	**-**	**2,032**	**7,692**	**1,600**

6 Issues and risks impacting on the MTFP

General Election 2017

6.1 The recent news of the general election on June 8th casts a shadow over much of the work we have carried out on the MTFP to date. We are unsure, at this stage what impact the election will have on several, key aspects of our financial strategy.

6.2 What we do know (or suspect), is that the incoming Government will have a new, five-year term. Depending on the new Government's mandate, this could prompt an emergency budget and/or a new comprehensive spending review. It could also mean that previously agreed, four-year funding deals are set aside in favour of alternative funding strategies, none of which can be anticipated at this time. It might also mean further austerity measures are implemented in order to return the UK to a balanced, national budget, according to a different set of political or fiscal targets.

Business Rates Retention Scheme

6.3 In 2015, the Government made the commitment to local government retaining 100% of its business rates by the end of the Parliament. The announcement of the general election means uncertainty over not just the timing, but the potential that 100% retention model may not be pursued at all. Whilst the election itself does not derail the work, there are concerns in the sector that the model is proving difficult to develop and there is inbuilt tension between the work streams aiming to assess relative needs and the desire to retain growth in business rates. It is too early to be clear what work might continue in this area but Members will be updated as soon as matters become clearer.

Academies

6.4 The number of schools requesting to convert to academy has slowed. Five schools converted during 2016/17, bringing the total number to 59. Ten further schools have notified of their intention to convert during 2017/18.

6.5 There are 116 maintained schools under County Council control. The overall surpluses of these schools is £5.567m, made up of 20 schools who have deficits of £1.626m and 96 schools with surpluses of £7.193m. Overall, net surpluses have reduced from £7.9m at the start of the year, of which the deficit amount was £1.466m. There are risks associated with schools with deficits, which have poor Ofsted inspections and which are required to convert to academy under sponsorship. In this situation any school with a deficit that converts to a sponsored academy leaves their deficit with the County Council. There is a provision that has been set aside for this that has been risk-adjusted. There are currently two schools - with combined deficits of £126k - that are in the process of converting under sponsorship. These schools are unlikely to have reduced their deficits between now and their expected conversion dates and both have been issued with notices of financial concern. Officers continue to work proactively with them to reduce the deficit by as much as possible prior to conversion.

6.6 There are clear funding pressures within schools and this, coupled with the current OFSTED inspection regime increases the risk of more sponsored academy conversions of schools with deficits. We must therefore give careful consideration to the size of the provision and whether it is adequate to protect the organisation from the risks of sponsored conversions.

Education Services Grant (ESG)

6.7 ESG is being phased-out from August 2017. The final allocation was £987k for April to August 2017. ESG is intended to fund the County Council's statutory responsibilities in relation to supporting schools. Many of these statutory responsibilities were due to be removed as part of the Education white paper, which was withdrawn, however, the reduction in ESG has still taken place. Some of the ESG funding was transferred to the Dedicated Schools Grant (DSG), with Local Authorities required to seek the permission of their local Schools' Forum to claw back to cover the central education costs. Dorset's allocation for 2017/18 was £807k to which the Forum agreed to pass back to the County Council. In addition there was a School Improvement Grant, worth £220k that has been passed to Dorset to cover some of the work required that was previously funded from ESG. In total therefore ESG related funding for 2017/18 is £2,014k. A reduction from the £3.6m received in 2016/17.

Specific budget pressures

6.8 Section 3 covers the budget pressures emerging in 2017/18 and monthly CPMI and future MTFP update reports will continue to keep members informed of progress in dealing with these strains.

Confirmation of grants

6.9 Most of our grants have turned out as budgeted, with the exception of the Extended Rights to Free Travel funding stream which showed a small improvement over what was expected.

Better Care Fund and Improved BCF

6.10 The national planning guidance and approval process for the BCF 2017–19 has still not been fully published and it is not clear when this will be available. In addition, further funds for adult social care have been allocated to local authorities to relieve pressure on adult social care but are subject to the BCF approval process. Local Authorities have been advised to develop and implement investment plans for these monies in conjunction with CCGs in advance of notification of any national and regional sign-off of overall BCF plans.

6.11 The Improved Better Care Fund monies amount to an additional £7.4m in 2017/18, £9.8m in 2018/19 and £11.750m in 2019/20.

6.12 The majority of resources for the Better Care Fund come from existing activity. It is not new/additional funding within the health and social care system. Consequently, the focus of the BCF is to change that activity to improve outcomes and effectiveness. However, in 2017/18 the Clinical Commissioning Group reduced its financial commitment within the BCF by 938k which had a potential impact on a number of services which supported hospital discharge. Dorset County Council used the equivalent amount of the notified additional social care monies to maintain these services.

6.13 The additional BCF monies allocated to adult social care must be invested in the following areas:

- Meet adult social care needs
- Reduce pressures on the NHS, including supporting people to be discharged from hospital when they are ready

- Ensure the local care market is supported

6.14 A report is being taken to the Health & Wellbeing Board to agree how the monies will be allocated.

Local Govt Pension Scheme

6.15 Previous MTFP iterations have incorporated additional funding for rising costs of the LGPS. Given the actuary's most recent report and the rates advised up to the end of 2021/22, it is likely that we will need to provide additional budget to cover these pressures. The employer's combined, current and past service deficit recovery rate for 2017/18 is 21.5% but over the next four years this will increase to 25%.

Flexible use of capital receipts

6.16 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 revenue generated from selling fixed assets to fund the cost of improvements to services. Cabinet subsequently agreed a revised, flexible capital receipts strategy in January 2017, allowing up to £3m to be used this way over the three years to 31 March 2019. £1.4m of the £3m total was applied this way in 2016/17.

6.17 It is possible that the combination of budget pressures and the need to invest resources in our future organisation might trigger a requirement to raise this figure above the current £3m total. As work progresses on the MTFP and budget for 2018/19, Members will be kept involved of the potential need to increase this total above £3m. Formal approval to increase the total will be sought if the requirement arises. In the meantime, as a precautionary measure, an additional £2m of anticipated capital receipts have been earmarked for use in this way.

Contingency

6.18 The contingency budget stands at £2.9m for 2017/18. Contingency is the first call for costs that have not been anticipated in base budgets during the year and which cannot be absorbed within Directorate budgets. Typically, redundancy is a significant component of the charge to the contingency budget each year. If Cabinet is minded to agree to additional, flexible use of capital receipts, it is likely that some of the contingency budget could be used to meet other commitments on a one-off basis.

Underlying budget assumptions review

6.19 A review of underpinning budget assumptions is a fundamental part of every MTFP process and 2018/19 will be no exception. Areas where we must revisit assumptions around funding or spending include the following examples:

- our capital financing requirements and their impact on the revenue budget
- review of the use of the social care precept and other adult social care funding alongside provision through existing Resource Allocation Model (RAM) factors
- inclusion and use of improved better care fud monies and the extent to which it might provide for pressures already factored into the MTFP
- pay, prices, inflation and demographic factors
- availability and application of flexible capital receipts
- likely rate of growth in the council tax base and surpluses on collection funds.

7 Summary

7.1 There are considerable challenges ahead. It is recommended that we reconvene the Budget Strategy Group to review assumptions and challenge future Directorate transformation and savings plans. Even at this early stage of the year, it appears that Children's Services will overspend significantly without the planned reduction in the operating numbers reported in section 3. We need to revisit those targets and agree what progress can realistically be made this year so we understand any possible impact on the planning position for 2018/19.

7.2 Three years are at risk; 17/18 where we are simultaneously overspending on base budget and falling behind with FT savings; 18/19 for which we have not yet confirmed the FT plan and 19/20 which has a significant savings target caused mainly by our negative RSG and the potential for this not to be resolved satisfactorily due to uncertainty around the election and work around BRR100%.

7.3 There are a number of issues to be worked though as part of the development of the MTFP and budget strategy, including material areas such inclusion of the rest of the BCF monies and the associated spend. Only once we have concluded this work will we be clearer on how significant our residual budget gap is for the current year whilst simultaneously taking action to deliver in-year savings against a backdrop of increasing demand and overspending budgets in Children's and Adults Services.

Richard Bates
Chief Financial Officer
June 2017