

Cabinet

Dorset County Council



Date of Meeting	6 December 2017
<u>Cabinet Member</u> Tony Ferrari – Cabinet Member for community and resources	
<u>Lead Officer</u> Richard Bates – Chief Financial Officer	
Subject of Report	Medium Term Financial Plan (MTFP) update
Executive Summary	<p>This report provides the third update of the year, 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 finalise the budget strategy and deal with remaining budget gaps for 2018-19.</p> <p>The report revisits financial performance and forecasts for the current year so that Members can form a clear picture of how the overspend has been tackled through a range of one-off and base budget measures and how these will impact on the 2018-19 budget strategy.</p>
Impact Assessment:	<p>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.</p>
	<p>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.</p>
	<p>Budget: The report provides an update on the County Council’s budget position for 2018-19 and the following two years.</p> <p>Major risks that influence the development of the financial strategy include:</p> <ul style="list-style-type: none"> views taken – and published information - on changes in grant funding, inflation rates, demographic and other

	<p>pressures and income from the council tax and non-domestic rates;</p> <ul style="list-style-type: none"> • success in delivering the savings anticipated from the <i>Forward Together</i> 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. <p>Risk Assessment:</p> <p>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:</p> <p>Current Risk: HIGH</p> <p>Residual Risk HIGH</p> <p>Other Implications:</p>
<p>Recommendation</p>	<p>The Cabinet is asked to consider the contents of this report and:</p> <ol style="list-style-type: none"> (i) note the Directors' latest estimates of outturn for the current year, including the savings from the Forward Together programme and the proposals for managing the residual overspend in the current year; (ii) note the update from the Chancellor's budget statement from 22 November; (iii) note the latest projections for the current MTFP, including the level and adequacy of balances on the general fund; (iv) understand the causes of the remaining budget gaps at this stage and the work still being done to support it; (v) understand the risks inherent in the assumptions being made in each Directorate underpinning a balanced budget position, including the schedule of Forward Together savings set out in Appendix 2; (vi) approve the invest to save bid of £1m put forward by Children's Services, to enable the immediate recruitment of additional social workers to support the delivery of the Directorates savings programmes. This will be funded from the Councils transformation fund; and (vii) put forward any other issues it wishes to be taken into account in the development of the MTFP and budget.

Reason for Recommendation	To enable work to continue on refining and managing the County Council's budget plan for 2018-19 and the remaining MTFP period.
Appendices	<ol style="list-style-type: none">1. CPMI for October (period 7)2. Forward Together programme savings schedule for 2018-193. Summary forward together position for 2017-18
Background Papers	Society of County Treasurers' briefing papers MFTP reports for budget 2016-17 and 2017-18 Spending review 2016 Final local government finance settlement
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1. Background

- 1.1 This paper provides an update on the development of the MTFP and budget strategy and analyses Government policy changes or announcements made in the Chancellor's Budget. A further update will be brought if there are any significant announcements in the local government finance settlement. A final paper will come on 31 January 2018 with a budget strategy and council tax to be recommended to the County Council on 22 February 2018.

2. Forecast of outturn for 2017-18

- 2.1 The latest forecast of outturn for the Authority, (October, period 7), indicates an overspend of just over £4.1. This is a £1.9m improvement on the preceding month and a reduction of over £5.4m since the peak expectation in May. A breakdown is shown in the table below.

Directorate	Net Budget	Forecast Outturn	Forecast (Overspend)/ Underspend	Of which	
				Forward Together	Base budget
	£k	£k	£k	£k	£k
Adult & Community Services	132,943	134,106	(1,163)	(2,308)	1,145
Children's Services	62,493	68,632	(6,139)	(700)	(5,439)
Environment & Economy	35,575	35,403	172	(321)	494
Partnerships	20,002	19,010	992	0	992
Chief Executive's Dept	10,585	10,617	(32)	(164)	132
Total Service Budgets	261,598	267,768	(6,170)	(3,493)	(2,676)
Central/Corporate Budgets	(260,274)	(262,317)	2,043	0	2,043
Whole Authority	1,324	5,451	(4,127)	(3,493)	(634)

- 2.2 Earlier iterations of the forecast highlighted concerns around the budget which prompted significant work across the Authority to review budgets closely and develop turnaround strategies – not only to deal with the overspend in the current year but also to ensure the base position was affordable as a basis on which to roll out the MTFP process from 2018-19 onwards.
- 2.3 It is therefore pleasing to see the predicted overspend reducing further in key parts of the business. The changes in the forecast are analysed in the table, below. Although risks remain, we remain confident that the financial performance for most parts of the organisation will be very close to budget this year.

	AP0	April	May	June	July	August	September	October
	£k	£k	£k	£k	£k	£k	£k	£k
Children's Services	(4,000)	(5,750)	(7,080)	(7,356)	(7,850)	(6,393)	(6,407)	(6,139)
Adult & Community	(2,100)	(2,100)	(2,500)	(2,187)	(1,722)	(1,694)	(1,813)	(1,163)
Environment & Economy	(1,570)	(720)	(486)	(134)	(112)	(200)	(368)	172
Dorset Waste partnership	23	170	165	435	616	729	866	992
Public Health	0	0	0	0	0	0	0	0
Chief Executive's	0	0	0	(185)	(150)	(89)	(67)	(32)
Other/corporate	0	0	400	247	1,400	1,400	1,728	2,043
	(7,647)	(8,400)	(9,501)	(9,179)	(7,817)	(6,247)	(6,061)	(4,127)

- 2.4 Work continues throughout the organisation to implement further, one-off and recurring savings measures and turnaround strategies. The Chief Financial Officer visited Directorate Leadership Team meetings in October and November with a view to understanding what further savings might be achieved beyond those currently

being predicted, before the end of the year. Feedback was positive in that Adult & Community Services and Chief Executive's Department should both be close to budget, Environment & Economy Directorate should underspend by around £200k and Dorset Waste partnership should underspend (DCC share) by around £1m.

- 2.5 This should reduce the overspend in the year to a level which can be dealt with through release of reserves already identified as no longer required, flexible use of capital receipts, savings in the Repairs and Maintenance budget, and other corporate budget underspends and one-off funding.
- 2.6 An analysis of the current year's financial performance and prospects is set out in the following paragraphs.

Children's Services

- 2.7 The Children's Services budget is now projecting an overspend of £6.1m, a small reduction from the £6.4m reported in October. Pressure continues around the number of children in care and the mix of placements.
- 2.8 The overall numbers of children in care rose slightly this month to 445 from 441 in September (both months include 12 unaccompanied asylum seekers). Whilst this is a reduction from the peak of 506, they will not reach the "best case" anticipated number of 400 by the end of the year.
- 2.9 Analysis of the make-up of children in care is showing that lower cost placements have been replaced by higher cost placements with Independent Sector Fostering Agencies and Independent Sector Residential Care Providers, and it is estimated that the cost of this cohort of children will overspend the budget by £7.3M in 2017-18.
- 2.10 The early stages of the implementation of the modernising fostering strategy have begun with the aim of recruiting, retaining and training foster carers to increase capacity of the in-house service and reduce the need to purchase high cost placements from the Independent Sector. The positive impact of this will not start to show until the end of 2017-18.
- 2.11 Pressure continues around agency and legal costs within the Care & Protection area of the budget.
- 2.12 The SEN Transport budget has seen a reduction in the forecast overspend from £1.03m to £0.74m. The results of the major retendering exercise look positive, however this is still a very fluid time (the start of a new academic year), where route changes are more likely to occur. With demand still growing the challenge remains to maintain spending at current levels whilst transporting more children.
- 2.13 Actions continue to be taken within the Directorate to offset the continued increase in spending within the placement budgets, and reduce spending in other areas. Vacancies have been held or extended when able, and one off funds or grants have been released wherever possible.
- 2.14 As reported in previous reports a total of £2.4m of one-off funding has been identified and allocated against the Children's Services budget.

Dedicated Schools Grant

- The pressures on the DSG budget continue with a current projected overspend of £3.7m. The HNB overspent by £5.8m overspend in 2016-17. The main pressure points continue to be around the number of children with an EHCP/statement continuing to grow (April 2016 = 1,594 April 2017 = 1,846; July 2017 = 1,986) and the

post-16 area where all post-16s in FE colleges now require EHCPs to be funded for the first time via HNB, and the LA maintains responsibility through to the age of 25.

- 2.15 New funding mechanisms are currently being calculated to balance various budgets within the HNB and placement reviews are also happening, but it is difficult to move children once a placement has been arranged. New process arrangements should control the number of independent, non-maintained school placements. Plans are being developed, with schools, to find new ways of operating within available funding in addition to clawing back the deficit incurred.

Adult & Community Services

- 2.16 The Adult & Community Services budget (£132.9m) is projected to overspend by £1.2m (0.88%). Although a reduction from the £1.8m reported to Cabinet in October, a number of pressures remain.
- 2.17 The Adult Social Care Service User budget (£69.2m) is currently forecast to be overspent by £2.3m (3.3%). £2.2m of this is due to a current shortfall in the Directorate's Forward Together savings. Pressure continues to build in this budget area particularly in the demand for residential and domiciliary care and the cost of residential care for service users with a Learning Disability. Also, the forecast now recognises the potential costs of the sleep-in shift pay compliance scheme for social care providers that may have incorrectly paid workers below legal minimum wage hourly rates for sleep-in shifts. This could cost the Council up to £500k in 2017-18. The pressures have been mitigated by the use of funds due to slippage in iBCF funded schemes.
- 2.18 Other areas of the Directorate have increased forecast underspends. These underspends are generally due to difficulties in recruiting social workers and other, specialist posts. However, a further detailed examination of budgets in Commissioning released £300k in one-off reductions due to budgets no longer required in this year and contracts coming to an end.
- 2.19 The overall FT savings target for the Directorate for 2017-18 is £7.1m. Of this, £3.5m has been achieved and plans are in place for a further £1.4m, leaving the £2.2m mentioned above. Turnaround plans are being worked through and include various options ranging from the use of one-off reserves, stretching the existing savings targets where possible, working with the Clinical Commissioning Group (CCG) to clarify and expedite Continuing Health Care (CHC) decisions and using underspent resources within the improved Better Care Fund (iBCF).
- 2.20 The achievement of savings within Adult Care Social Care does come with a degree of uncertainty and risk due to the nature of how savings might be achieved. The complexity of cases means that delays are likely and savings may not be achieved as predicted. The Directorate is though committed to coming in on budget.

Environment & Economy

- 2.21 The Directorate is now forecasting an under spend of £172k. This is a £540k improvement on the position reported to Cabinet in October, after allowing for the transfer of the Estates and Assets function and 'Way we Work' property savings targets to Financial Services. There is a commitment to maintain around this level of underspend at the end of the financial year if at all possible, subject to weather related demands.

- 2.22 Economy, Planning and Transport continue to forecast an underspend of £93k due to savings now coming to fruition as part of a two year plan and also posts being held vacant pending future restructures.
- 2.23 Dorset Travel are now forecasting an underspend of £110k. There are still outstanding risks associated with contracts recently retendered, which are being closely monitored, and the part year effects of September changes.
- 2.24 The Business Support Unit phase one review has proceeded as quickly as practically possible but there is an overspend of £58k due to timing and part year effects.
- 2.25 The Coast and Countryside Service is forecasting an overspend of £59k and progress with planned service initiatives continues to be made, which will reduce this figure still further.
- 2.26 There are a number of predicted and planned underspends in Building and Construction and in Highways Services, the most significant being £127k on Network Management, due to tight budgetary control resulting in less expenditure being incurred than anticipated.
- 2.27 The ICT service is now forecasting an overspend of £115k due to income from capital projects being less than first forecast. There are partial mitigations in other parts of the service. Income from capital projects is an increasing issue especially for ICT, but also for other services in Environment and Economy, that is likely to have a larger impact in 2018-19.

Chief Executive's Department

- 2.28 An overspend of £32k is currently being forecast for the department with minor variances being forecast for the majority of services.
- 2.29 More significantly, the Way we Work property programme is still forecasting £164k of whole-authority, property savings that are not achievable due to changing service needs and Cabinet decisions to retain property that was previously considered surplus to requirements.
- 2.30 The most significant forecast underspend is in the HR service (£104k), where posts are being held vacant where possible.

Partnerships

- 2.31 Dorset Waste Partnership is forecasting an underspend of £1.543m of which the County Council's share (64.32%) would be £992k. The main variances are i) Inflation in excess of budget (£39k) is likely to have an adverse impact on Waste Disposal Contracts. ii) Favourable waste disposal tonnages, including the beneficial effects of additional tonnages to NES, result in an overall saving (£616k). iii) Recyclate costs – an updated calculation based on average prices over a period of time has again shown a favourable forecast of expenditure per tonne, whereas the budget was set at a higher figure. This results in a potential saving of £664k including glass and non DMR materials. However, this is linked to the commodities market and therefore carries a high degree of risk and cannot be called 'certain' saving at this stage. iv) Additional temporary resources, varying from budget by £22k, are required to support enforcement cases including fly tipping and abandoned vehicles. v) Performance of both the Commercial waste service and the Garden Waste service is favourable against the budgeted position. vi) There are some concerns that container income

may not achieve the budgeted amount, giving an adverse variance of £50k and vii) minor underspends are forecast on management and administration costs (£15k) and the operations budget (£30k).

- 2.32 The Public Health budget is predicted to be on target and will deliver £1.2m worth of savings in 2017-18. This will be distributed between the three partners using the agreed formula. The County Council will receive approximately £700k.

Central/corporate budgets

- 2.33 Central budgets are currently forecast to be underspent by just over £2m due to lower than budgeted net interest costs and release of some contingency budget due to flexible use of capital receipts (see below). An underspend on corporate R&M is also emerging as the year progresses, which will reduce the net overspend further still and will help offset the overall overspend.

Review of reserves and balances

- 2.34 The Finance Team has reviewed the County Council's reserves and has worked with managers to release £1.7m of funding to support the overall overspend. A further review of reserves is carried out during closedown so if there is any further release of funds, members will be advised.

Capital receipts flexibility

- 2.35 Members are reminded of the arrangements in place for the three financial years 2016-17 to 2018-19 in which flexibility around capital receipts has been granted. This means that any receipts generated in this period can be used to fund revenue costs of transformation. Cabinet has approved a ceiling of £5m to be used this way. £1.4m was applied in 2016-17 and further receipts will be applied this way in the current year subject to costs qualifying to be funded this way.

Turnaround strategies

- 2.36 Although the table in section 2.1 sets out the latest expected outturn position, managers having been continuing to implement turnaround strategies and tactical savings measures during the year. These actions should see further downward movement in the forecast in coming months such that Directors are confident that the overall overspend can be managed from within one-off funding, underspends on corporate budgets and reserves released after the review mentioned in section 2.34.

3 Chancellor's budget for 2018-19

- 3.1 There were no real expectations around improvements for Local Government in the budget and this appears to be the case. The current four-year funding deal remains in place and there was no obvious mention of any material changes to anything in the County Council's funding position at this stage.
- 3.2 Areas to mention briefly include:
- downward revisions to the UK growth forecasts
 - forecast reductions in inflation from current levels in the next two years
 - borrowing to peak in 2017-18 but now expected to reduce more slowly than previously anticipated in the years to 2021-22

- movement away from the 1% public sector pay cap to a position of decisions by individual Secretaries of State supported by independent pay review bodies
- plans for changes to legislation for council tax relief on empty properties
- changes to the business rates uplift from RPI to CPI have been brought forward
- additional funding for potholes (County Council share as yet unconfirmed)

3.3 We await the local government finance settlement for confirmation of the funding position after which a further update will be provided to Members.

4 Progress with the budget gap

4.1 The October update to Cabinet presented budget gaps for the first two years of the MTFP as £11.5m in 2018-19 and £16m in 2019-20. At that stage the third year was not included in our planning work – though we knew we would need additional savings. We were anticipating savings of £9.5m from the Forward Together programme in 18-19 but no savings were assumed beyond that.

4.2 Having moved our financial modelling forward, we are now predicting headline budget gaps across the three years of the MTFP of £12.4m, £15.3m and £7.7m - £35.4m in total. The current budget strategy assumes we will fund £1m of this through flexible use of capital receipts and £0.5m from collection fund surpluses leaving a savings requirement of £10.9m.

4.3 Members will note that in pursuit of this savings requirement, appendix 2 totals nearly £18.4m at this stage. However, as well as breaching the budget gap, the programme must also deliver additional savings towards the base budget overspend experienced in 2017-18 or this will simply be carried into 2018-19 as base budget pressure. As the current year progresses the overspend is expected to reduce further as mentioned earlier, but at this stage it is essential to generate a list of savings which exceeds the budget gap alone.

5 Issues, risks and other matters affecting development of the MTFP

Pay inflation

5.1 Our current model assumes pay inflation of 1% in each of the first two years of the new MTFP, then 2% in 2020-21. There has been significant speculation around the possibility of an easing of the cap on public sector pay in recent months and we therefore need to be alert to anything that increases these costs.

5.2 The County Council's staff costs budget in 2017-18 is just over £116m, so each 1% will cost us nearly £1.2m in 2018-19. As time moves on and we are better informed, we may also need to revisit the 1% assumption in 2019-20.

5.3 Whilst considering pay inflation, it is also pertinent to mention the potential costs of increments payable to staff during the course of the year. In 2017-18 the budget strategy was based on Directorates covering the cost of their own increments and this is our working assumption again in 2018-19 and beyond. Consideration will also need to be given to any further savings that can be achieved through a general (or specific) vacancy factor which is generally built into base budgets across the Authority.

General price inflation

- 5.4 General (non-pay) inflation is provided for at 1.5% in 2018-19 and at 2.25% in each of the following years. CPI currently stands at 3.0% and interest rates have increased for the first time since 5th July 2007 in an attempt to take inflation pressure out of the economy. However, we cannot yet assume that inflation has peaked and we will therefore need to give further consideration to building higher inflation assumptions into our financial model.

Coroner's Service

- 5.5 There are currently discussions taking place between the newly appointed Coroner, Bournemouth Borough Council (the host authority for the county's Coroner and Mortuary Service) and Dorset County Council. The purpose of the discussions is to gain a shared understanding of any difference between shorter term budgets, to enable the senior coroner to deal with the number of inquests needing to be done which she has inherited and future more steady state budgets.
- 5.6 The Coroner's current view is that, to date, the area has carried out a lower number of inquests on average, than number of deaths when compared with other areas. The implication is that the cost of the service and therefore, Dorset County Council's contribution, may need to increase. Indicative estimates of the increase could be in the region of £100k.

Dorset Waste Partnership

- 5.7 The DWP had increased budget provision built into the next two years of the County Council's MTFP, in line with DWPs five year budget plan. Given the underspend in 2016-17 and the likelihood of an underspend in 2017-18, the DWP is likely to be taking a less prudent view of its likely performance in 2018-19, for example assuming improving recycle prices, and lower tonnages in its planning assumptions. The DWP also has a £1m budget equalisation reserve which would help shield against significant adverse movements during 2018-19.
- 5.8 Given the constraints on partner funding and taking account of the informal views expressed at the recent DWP budget workshops a general view was expressed that the DWP budget would need to be constrained in future years. The DWP MTFP presented to the November Joint Committee forecasts that to continue to deliver services in their present form, costs would rise from £33.1m, as proposed for 2018-19, to £37.5m in 2022-23 taking into account inflationary cost effects, household and waste tonnage growth. Therefore the DWP Joint Committee is likely to have to consider cutting waste and cleansing services in order to find the level of savings required to match the funding constraints likely to be required by partners.

Children's Services

- 5.9 The modernising fostering strategy previously considered by the Cabinet highlighted that there would be a one-off budget pressure in 2018-19 of £2m, this reflects the time lag in increasing the number of in house foster carers and subsequently reducing the need for as many Independent Fostering Agency placements. Assuming that there is sufficient funding, the plan is that this would be met from Council Tax Surpluses declared by the district and borough Council's during their budget setting process.
- 5.10 The Medium term financial plan report (MTFP) in October agreed an additional £3.2m increase in base budget for Children's Services. This reflects the cost of rebasing placement numbers from 400 to 440.

- 5.11 In order to achieve the savings programmes that will bring Children’s Services to a balanced budget position an investment of £1m is sought to enable the recruitment of twenty additional Social Workers. This additional resource would enable the reduction of caseloads to 1:15. All the programmes (Family Partnership zones, recruitment of foster carers working with children on the edge of care, reduction of re-referral rate) will be made to work consistent with one another to bear down on a reducing number of LAC and achieving the consequential budget savings

The £1m investment would be in the form of an invest to save bid with an initial anticipation of £1.5m savings in 2018-19 based on a further reduction of looked after Children (LAC) from 440 to 390. In due course we would anticipate a further reduction in LAC of 44 down to 346 generating further savings of £1.32k in 2019-20. We would expect the investment to be repaid from these further savings made in 2019-20.

The long term aim to significantly reduce the number of LAC would bring Dorset closer to comparative numbers in similar counties such as West Sussex.

The proposal is this will be funded from the Councils transformation fund.

100% Business Rates Retention

- 5.12 In 2015, the Government made the commitment to local government retaining 100% of its business rates by the end of the Parliament (which at that stage was 2020-21). However, despite assurance that work is continuing on this area, there is concern that the failure to include a Local Government Finance Bill in the Queen’s Speech means that these changes may be problematic. We are unclear at present, what the impact of this work either proceeding or being cancelled will be. Whilst guidance is being sought and business rates work stream activity continues, there is doubt whether this work will now be delivered.
- 5.13 Our assumptions about business rates growth across the MTFP are in line with Government assessments via our formula spending share and then 3% in 2020-21.

Academies

- 5.14 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.
- 5.15 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.

- 5.16 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.

Better Care Fund and Improved BCF

- 5.17 Previous iterations of the MTFP only included small amount of BCF monies as the rules and conditions were unclear at that stage. It is now appropriate to release the additional funding for the County Council across the MTFP. This means £2.3m in 2018-19 and a further £2.0m in 2019-20.

Improved Better Care Fund Allocations

	2017-18	2018-19	2019-20
	£m	£m	£m
Old		4.289	9.022
New	7.432	5.479	2.728
Total	7.432	9.768	11.75
Increase		2.336	1.982

- 5.18 However, this isn't new money and will be required to support the key aims of the Better Care Fund including:

- meeting adult social care needs
- reducing pressures on the NHS, including supporting people to be discharged from hospital when they are ready
- ensuring the local care market is well supported.

- 5.19 The Delayed Transfers of Care (DToC) targets associated with the new funding have been agreed with the CCG and submitted to NHS England. They are stretching targets. Added to this, the iBCF Planning Guidance states that the Government will consider a review, in November, of 2018-19 allocations of the social care funding provided at Spring Budget 2017 for areas that are poorly performing. This funding will all remain with local government, to be used for adult social care. This should be noted as a risk when considering the funding available for 2018-19.

Local Government Pension Scheme (LGPS)

- 5.20 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 further funding 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%. As part of staff costs budgeting (which was advanced into September this year to give earlier assurance around affordability) additional budget allocations were made to fund the increase to 22.5% in 2018-19.

Flexible use of capital receipts

- 5.21 For a three-year period from 1 April 2016, authorities are able to spend receipts from selling fixed assets to fund the revenue costs of improvements to services. Cabinet has approved up to £5m to be used this way, £1.4m of which has already been applied and a similar sum will be applied in 2017-18.

- 5.22 The present assumption in the MTFP is for a further £1m to be used in 2018-19 and there is still some headroom within the £5m total and the £3.4 spent/projected in our current assumptions.

RSG/general funding

- 5.23 Our assumptions around the general level of funding around RSG in recent years have been well documented. Whilst transitional funding has been given in 2018-19 to offset £2m or negative grant, no such provision has been made for the negative £10.2m currently scheduled for 2019-20. This is what gives us the majority of the budget gap in that year.
- 5.24 As noted elsewhere, we are concerned that the formula review and/or business rates retention agenda will not be sufficiently well-formed to allow us to plan with any real certainty other than to assume a further, significant level of savings must be delivered. We are also unable to make assumptions which are more informed about the likely levels of funding for 2020-21; we have therefore assumed a further £8m reduction is required, taking our total negative RSG to over £18m.

Underlying budget assumptions review

- 5.25 We have reviewed budget assumptions since the last report and in many cases, although we continue to recognise and report cost pressures, services are taking action to ensure pressures are minimised where possible and dealt with wherever feasible. Examples include managers absorbing the costs of their own increments without extra budget being provided. Other assumptions reviewed include:
- 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 fund 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
 - the requirement to address legitimate volume pressures in LAC numbers highlighted earlier in this paper.

Interest rates

- 5.26 The recent increase was the first in over a decade. It was, however, widely expected by the market and was effectively priced into financial instruments. Our expectation is at least two, further rate rises in 2018-19 which are modelled into the budget. Further sensitivity testing of our liquidity and financing position continues to ensure we are prepared for rate movements across the MTFP period.

6 Forward Together

- 6.1 As noted above, the programme currently set out at Appendix 2 amounts to more than £18.3m. The following narrative sets out a little more context. Directors will also be giving further details of the proposed programme at the budget briefing on the afternoon of 6th December.
- 6.2 Children's Services – A £6.1m savings programme has been drafted and agreed by the Directorate Management Team. Delivery of this programme is reliant on the invest to save bid detailed earlier in this report. Assuming the detailed budget build

work does not identify any further pressures this will leave Children Services with a £2m budget gap as described in paragraph 5.9.

- 6.3 Adult & Community Services – a savings programme of £9.3m is being developed through discussion with the Directorate Management Team and Directorate Programme Management Office. The underlying principles of the programme are to protect the adult social care user budget; to safeguard frontline service delivery capacity where required and to support wider transformation ambitions and activity running in parallel and beyond. Some investment funding may be required to generate these savings so £0.5m of the existing MTFP reserve is being earmarked for this purpose. Formal Cabinet approval for this will be sought if needed, in due course.
- 6.4 Environment and Economy – A £1.5m savings programme has been drafted after discussions with the Directorate Leadership team which, assuming that no other budget pressures are identified during the 2018-19 detailed budget build, would balance the budget for the Directorate when compared with the reduced funding available. This savings programme has been updated in the light of further information from that presented to Cabinet in June 2017 and was recently presented to the Economic Growth Overview Scrutiny Committee for their information and comment.
- 6.5 Chief Executive's Department – The initial savings programme was drafted and presented to Cabinet in June 2017. The programme now includes the whole authority 'Way we Work' property savings proposals and items related to the Estates and Assets service on their transfer to Financial Services. The programme now totals just under £1m and has been confirmed as achievable with Service Managers. Any further budget pressures identified during the detailed budget build for 2018-19 will need to be addressed separately.
- 6.6 Dorset Waste Partnership – As reported to the November 2017 Dorset Waste Partnership Joint Committee, the estimated cost of the current service for 2018-19 would be £33.8m across the whole partnership. In the light of funding restrictions on partner councils, including the County Council, a budget of £33.1m is currently proposed and is out to consultation with partners. The implied 'gap' of £700k is likely to be bridged by a combination of less prudent budget assumptions and, possibly, minor changes to the levels of service provided. Dorset County Council's share (£455k) of the above 'gap' is around 65%.
- 6.7 Public Health – As reported to the Joint Public Health Board on 20th November, preliminary forecasts for 2018-19 and 2019-20 have been developed that take account of further anticipated savings and likely impacts of work to date in restructuring public health activity and spend. Indicative projections at this stage indicate potential underspends of £454k & £154k for 2018-19 and 2019-20 respectively. The County Council would receive approximately 55% of any underspend achieved.

Summary

- 6.8 Whilst the ambition of the Forward Together savings target is welcome – and much needed. However, there is considerable risk around the delivery of a programme of this scale and the FT Board will need to examine carefully the measures proposed and accepted to close the budget and other spending gap. Monitoring of achievement of the savings will be essential to deliver a balance budget in 2018-19 and beyond.

- 6.9 Much work has been done to develop the budget strategy itself since the Cabinet reviewed the last paper and there is still more information to come. For example, we are still unsighted on the local government finance settlement and the status of local collection funds (which can help us with short-term solutions to certain budget pressures) will not be confirmed until mid-December – so we are not yet able to confirm a final budget strategy.
- 6.10 A further update will come in January and in the meantime Members will be alerted to any significant developments that impact on our assumptions or budget strategy development as they happen.

Richard Bates
Chief Financial Officer
November 2017

Appendix 1

Cost Centre Management Budget Monitoring Summary	Responsible Officer	Year	2017-18		August	September	October	October	
		'Above Line' Net Budget Only £000's	Forecast £000's	Projected Under/(Over) Spend £000's	Projected Under/(Over) Spend £000's	Projected Under/(Over) Spend £000's	Projected Under/(Over) Spend £000's	Forward Together	Other
Children's Services Directorate									
Childrens Service Budget									
Care & Protection	Vanessa Glenn	33,179	41,167	(7,829)	(7,995)	(7,988)	0	(7,988)	
Design & Development	Patrick Myers	11,646	11,387	196	266	259	(400)	659	
Director's Services	Nick Jarman	2,202	2,305	(140)	(99)	(102)	(150)	48	
Prevention & Partnerships (DCC)	Jay Mercer	13,066	13,773	(1,019)	(977)	(706)	(150)	(556)	
Application of Contingency/Control Node	Richard Bates	2,399	0	2,399	2,399	2,399	0	2,399	
Total Children's Services Budgets (DCC)		62,493	68,632	(6,393)	(6,407)	(6,139)	(700)	(5,439)	
Prevention & Partnerships (DSG)	Jay Mercer	44,854	48,627	(3,368)	(3,221)	(3,773)	0	(3,773)	
P&P DSG Funding	Jay Mercer	(44,867)	(44,867)	0	0	0	0	0	
Directors Services (DSG)	Nick Jarman	400	400	2	0	0	0	0	
Directors Services DSG Services	Nick Jarman	(400)	(400)	0	0	0	0	0	
DSG Services	Jay Mercer	(1,311)	(1,311)	(26)	0	0	0	0	
Total Children's Services Budgets (DSG)		(1,324)	2,449	(3,392)	(3,221)	(3,773)	0	(3,773)	
DSG Adjustment		0	0	0	0	0	0	0	
Children's Services (DCC + DSG) Total		61,169	71,081	(9,784)	(9,628)	(9,912)	(700)	(9,212)	
Adult & Community Services Directorate									
Adult Care Service User Related	Harry Capron	69,254	71,538	(2,088)	(2,412)	(2,284)	(2,208)	(76)	
Adult Care	Harry Capron	14,876	14,421	242	366	455	0	455	
Commissioning and Safeguarding	Diana Balsom/Sally Wernick	32,431	31,935	84	149	496	0	496	
Early Help & Communities	Paul Leivers	9,120	9,084	(62)	(49)	37	(100)	137	
Director's Office	Helen Coombes	7,262	7,129	129	133	134	0	134	
Adult & Community Services total		132,943	134,106	(1,694)	(1,813)	(1,163)	(2,308)	1,145	
Environment and the Economy Directorate									
Economy, Planning & Transport	Maxine Bodell	2,312	2,218	59	93	93	0	93	
Dorset Travel	Chris Hook	14,329	14,219	(233)	(233)	110	(190)	300	
Business support Unit	Mike Harries	359	417	(79)	(80)	(58)	(58)	0	
Coast & Countryside	Phil Sterling	2,266	2,325	(123)	(97)	(59)	(36)	(23)	
Estates & Assets	Peter Scarlett	0	0	0	0	0	0	0	
Buildings & Construction	David Roe	138	115	3	6	23	0	23	
Pooled R&M	David Roe	137	137	0	0	0	0	0	
Network Management	Simon Gledhill	1,128	1,000	111	69	127	0	127	
Network Development	Tim Norman	1,040	1,035	9	(1)	5	0	5	
Network Operations	Martin Hill	4,055	4,050	(0)	5	5	0	5	
Fleet Services	Sean Adams	(143)	(169)	5	25	27	0	27	
Emergency Planning	Simon Parker	214	207	6	7	7	0	7	
Director's Office	Mike Harries	828	822	(7)	7	6	0	6	
Streetlighting PFI	Tim Norman	3,862	3,862	0	0	0	0	0	
ICT	Richard Pascoe	5,051	5,166	49	(169)	(115)	(38)	(77)	
Environment and the Economy Directorate Total		35,575	35,403	(200)	(368)	172	(321)	494	

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Cost Centre Management Budget Monitoring Summary	Responsible Officer	Year	October					
		2017-18	August	September	October	Forward Together	Other	
		'Above Line' Net Budget Only £000's	Forecast £000's	Projected Under/(Over) Spend £000's	Projected Under/(Over) Spend £000's	Projected Under/(Over) Spend £000's	Projected Under/(Over) Spend £000's	Projected Under/(Over) Spend £000's
Chief Executives								
Chief Executives Office	Debbie Ward	275	278	(5)	(4)	(4)	0	(4)
Partnerships	Karen Andrews	189	163	23	26	27	0	27
Communications	Karen Andrews	247	247	0	0	(0)	0	(0)
Policy and Research	Karen Andrews	440	440	0	0	0	0	0
Commercial Services	Karen Andrews	431	432	(1)	0	(1)	0	(1)
Governance and Assurance	Mark Taylor	657	660	(3)	(1)	(2)	0	(2)
Legal & Democratic Services	Jonathan Mair	2,876	2,868	(10)	(7)	8	0	8
Financial Services	Richard Bates	1,459	1,489	25	47	(30)	0	(30)
WWW Property Savings	Richard Bates	(442)	(278)	(164)	(164)	(164)	(164)	(0)
Human Resources	Sheralyn Huntingford	1,335	1,231	0	0	104	0	104
Cabinet	Richard Bates	3,118	3,088	45	36	30	0	30
Chief Executives Total		10,585	10,617	(89)	(67)	(32)	(164)	132
Partnerships								
Dorset Waste Partnership	Karyn Purnchard	19,702	18,710	729	866	992	0	992
Public Health	David Phillips	300	300	0	0	0	0	0
Partnerships Total		20,002	19,010	729	866	992	0	992
Central Finance								
General Funding	Richard Bates	(23,542)	(23,542)	0	0	0	0	0
Capital Financing	Richard Bates	24,597	23,804	400	478	793	0	793
R&M	Richard Bates	1,287	1,287	0	0	0	0	0
Contingency	Richard Bates	839	(411)	1,000	1,250	1,250	0	1,250
Precepts/Levy	Richard Bates	677	677	0	0	0	0	0
Central Finance	Richard Bates	(264,132)	(264,132)	0	0	0	0	0
Central Finance Total		(260,274)	(262,317)	1,400	1,728	2,043	0	2,043
Total Above Line Budgets		0	7,900	(9,639)	(9,282)	(7,900)	(3,493)	(4,407)
Excluding DSG Budgets		1,324	5,451	(6,247)	(6,061)	(4,127)	(3,493)	(634)

Appendix 2

Savings Measure	18/19	Forward Together RAG rating Green - Achieved Yellow - On course Amber - More work required Red - Currently unlikely to be achieved	
Adult & Community Services			
Managing our Income	1,200,000	Yellow	
Increased income & efficiencies in Early Help & Community Services	200,000	Yellow	
Maturing our LATC	1,600,000	Amber	
Pathway Modernisation and Demand Management	400,000	Yellow	
Adult Social Care Ops Delivery	4,000,000	Amber	
Contract changes	250,000	Yellow	
Maximising efficiency in housing related support	832,000	Yellow	
Community Services target operating model	900,000	Amber	
	9,382,000		

Savings Measure	18/19	Forward Together RAG rating Green - Achieved Yellow - On course Amber - More work required Red - Currently unlikely to be achieved	
Chief Executives Department			
Early Retirement costs	50,000	Yellow	
Review of South West Audit Partnership (SWAP) days	15,000	Amber	
Human Resources	65,000	Amber	
Review of Communications	50,000	Amber	
Financial Services	55,000	Amber	
Review of Programme Office	60,000	Amber	
Other intra departmental Services efficiencies	5,000	Amber	
Cross Department Efficiencies	50,000	Green	
Estate & Assets - additional income and property service changes	110,000	Amber	
'Way we work' property programme - rationalisation of property	504,000	Amber	
	964,000		

Savings Measure	18/19	Forward Together RAG rating Green - Achieved Yellow - On course Amber - More work required Red - Currently unlikely to be achieved
Children's Services	£	
Modernising Fostering - new strategy	2,000,000	Yellow
Reduce numbers of Looked after children	1,500,000	Amber
Commissioning Review	500,000	Amber
Adoption costs and third party payments	300,000	Amber
Safeguarding	100,000	Amber
SEN Transport - Personal Travel Budgets	483,000	Amber
Review of residential care placements	1,200,000	Amber
	6,083,000	

Savings Measure	18/19	Forward Together RAG rating Green - Achieved Yellow - On course Amber - More work required Red - Currently unlikely to be achieved
Environment and Economy	£	
Environment - additional income, non-pay efficiencies and grant reductions	220,000	Amber
Highways - additional income, operational efficiencies and innovations	392,000	Amber
Economy - Planning and Transport - additional income and staffing efficiencies	202,000	Amber
Dorset Travel - additional income, fleet efficiencies and innovations	170,000	Amber
ICT – Full year effect of 2017/18 service efficiencies on 2018/19	313,000	Green
ICT – System licencing, maintenance and support options	40,000	Amber/Red
Directors Office - operations efficiencies (staffing) including BSU	135,000	Amber
Total savings required	1,472,000	
Total Transformation Savings	17,901,000	

Not part of main DCC Transformation Programme -

Savings Measure	18/19	Forward Together RAG rating Green - Achieved Yellow - On course Amber - More work required Red - Currently unlikely to be achieved
	£	
Dorset Waste Partnership - changes in budget assumptions - more risk DCC share	455,000	Yellow
Public Health	0	
Total Transformation Savings	18,356,000	

Appendix 3

Summary - All FT Savings and 2017/18 BAU pressures

2017/18		Assessment of Savings achievement			
		Achieved	On course	More Work Needed	Not achievable
Savings measure	£000's	£000's	£000's	£000's	£000's
Adults	7,110	3,358	1,444	2,308	-
Childrens	4,179	3,018	461	700	-
Env & Economy	3,858	1,156	2,381	321	-
Chief Exec's	1,747	897	686	-	164
Public Health	700	700	-	-	-
Dorset Waste Partnership	700	700	-	-	-
Summary - All Savings 2017/18	18,294	9,829	4,972	3,329	164

