Cabinet

Dorset County Council

Date of Meeting	27 June 2018
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, brief update of the new financial year for Cabinet. It covers the national and local issues impacting on the County Council's finances and covers matters that will need to be taken into account when developing the MTFP in readiness for the transition to the new, unitary authority. The report also summarises some of the information that will be provided to the Audit & Governance Committee on 29th June concerning: • the 2017/18 outturn (subject to audit) • balances at 31 March 2018 • the most recent 2018/19 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 2018/19 and preparations for budget setting for 2019/20 and beyond. 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 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.
	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
	Other Implications:
Recommendation	The Cabinet is asked to consider the contents of this report and: (i) note the unaudited outturn position for 2017/18, specifically the financial performance in service Directorates; (ii) note the Directors' early estimates included in the forecast of outturn for the current year; (iii) note the latest savings expectations from the Forward Together programme and contribute ideas for short-term and longer-term savings; (iv) note the starting position for the current MTFP and budget round including the level and adequacy of balances on the general fund; (v) put forward any other issues it wishes to be taken into account in the development of the MTFP and budget; (vi) agree the proposals to increase the current ceiling on the flexible use of capital receipts; (vii) agree the transfer of an additional £2.5m into the LGR reserve to provide for future costs of transition; and (viii) understand the risks associated with and impacting upon the financial performance for the current and future financial years.

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	None
Background Papers	Society of County Treasurers' briefing papers Previous MTFP reports 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.

1.2 The process of reviewing the MTFP will be different this year due to the transition to the new, unitary authority but the work to establish and deal with the budget gap will continue. Members sitting as part of the Organisational Transformation Board have already confirmed that the County Council will need to look to deliver savings to deal with the budget gap for 2019/20 as we cannot rely on full, first-year savings from LGR.

1.3 The report includes summary information relating to the accounts and outturn for 2017/18. 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.

1.4 The report also contains a brief update on the 2018/19 financial expectations and a risk assessment around the transformation savings inherent in the *Forward Together* programme.

2. Unaudited outturn for 2017/18

2.1 The County Council is required to prepare its annual accounts in accordance with proper practice. This principally means compliance with the Code of Practice on Local Authority Accounting in the UK and the Accounts and Audit Regulations 2015. For the year ending 31 March 2018, these Regulations require the Authority's draft accounts to be certified by the Chief Financial Officer and submitted for audit by 31st May, with the Auditor's opinion due in time for final approval of the accounts by Members by 31st July.

2.2 These statutory dates are significantly earlier than in previous years (30th June and 30th September respectively) but the County Council has made excellent progress in bringing forward the deadlines for closing its accounts in preparation for the implementation of the earlier closedown dates in 2017/18. In each of the last two years, closedown work has been completed inside these tighter deadlines (before they were formally implemented) as part of the improvements made by the Financial Services Team during its transformation.

2.3 I am pleased to be able to confirm that the Statement of Accounts for 2017/18 was certified by the Chief Financial Officer on 30th April 2018. Last year's accounts were certified on 15th May 2017 and the preceding year on 31st May 2016.

2.4 The statement of accounts is clearly a cornerstone of any organisation's financial governance arrangements and the reduction in time taken to produce this document should not be seen as an attempt to lessen its importance. Rather, a more structured and disciplined approach to the work of closedown has been shared across the wider team, allowing tasks to be carried out in parallel rather than in series. A robust do/review/sign-off procedure and thorough approach to working papers has also enabled this reduction in time spent on the accounts and the result is that we are better able to deploy our people to support the organisation's future plans.

2.5 The draft outturn for the year was an overall underspend of £0.2m. Within this total, there was a net overspend on service budgets of £4.9m, offset by £5.1m of underspends within corporate budgets as analysed in the table, below.

Directorate	**Net Budget**	**Outturn**	**(Overspend)/ Underspend**
	£k	**£k**	**£k**
Adult & Community Services	133,634	133,626	8
Children's Services	61,776	68,427	(6,651)
Environment & Economy	32,779	32,251	528
Partnerships	18,547	17,665	882
Chief Executive's Dept	12,778	12,402	377
Total Service Budgets	259,515	264,371	(4,856)
Central/Corporate Budgets	(301,805)	(306,899)	5,094
Performance for the year	(42,290)	(42,528)	238
Movements in the general fund			
Performance for the year			238
Minimum Revenue Provision adjustment			6,600
Transfer to LGR reserve			(2,500)
Increase in the general fund			4,338
Review of reserves in-year			1,776
Opening balance			12,352
Closing balance			18,466

2.6 Further changes to the minimum revenue provision (MRP) calculation, made in-year in line with the national policy changes, improved our position further with a cumulative, net underspend of £6.6m.

2.7 A transfer of £2.5m to the LGR reserve, is also included in the accounts – and for which Cabinet approval is hereby sought. Including that final adjustment for the year, will bring the increase in our balances in at £4.3m. This, coupled with the £1.8m released from other reserves/balances as part of our biannual review during the year means that balances close the year at £18.5m.

2.8 The narrative in the paragraphs that follow is a reminder of the reasons for budget variances.

Adult & Community Services

2.9 The Adult & Community Services directorate ended the year with an underspend of £8k.

2.10 The Directorate had a savings target of £7.1m. £5.6m of these savings were due from the adult care service-user budgets, with £4.2m of it relating 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. The final performance meant that £1.9m of savings were not met. Service-user-related spend continues to increase annually and the underspend for the Directorate was only achieved through short-term savings in staffing, commissioning budgets and the application of specific reserves and repurposing improved Better Care Fund (iBCF) monies.

Children's Services

2.11 The Children's Services directorate ended the year with an overspend of £6.7m.

2.12 The Children's Services directorate ended the year with an overspend of £6.7m. Pressures were primarily around the number of children in care and the mix of placements, agency spend and SEN Travel.

2.13 The overall number of Looked after children (LAC) is fluctuating around 450. Whilst this is a welcome reduction from the peak of 506, it did not reach the best-case scenario of 400 by the end of the year. Analysis of the make-up of children in care also showed that lower-cost placements were replaced by higher-cost placements with Independent Sector Fostering Agencies and Independent Sector Residential Care Providers. This cohort of children caused the budget to be overspent by £7.9m in 2017-18.

2.14 The agency staff budget was overspent by £0.4m. Whilst still significant this has reduced during the year and spending appears to have stabilised.

2.15 The SEN Transport budget ended the year with a £0.5m overspend. There was a major retendering exercise during the year which did see some cost reductions however with demand still growing this budget continues to remain under pressure. Prudence and vacancy management across other areas of the service offset other pressures and a proportion of the overspends described above.

Dedicated Schools Grant

2.16 The Dedicated Schools Grant ended the year with a £4.6m overspend, when added to the £4.1m carried from 2016-17 this has resulted in a total deficit carried forward of £8.7m. The overspend is a result of additional pressures against the High Needs Block of the budget and the Council is now working jointly with the Schools Forum to identify methods to recover this deficit.

Environment & Economy

2.17 The Environment & Economy directorate ended the year with an underspend of £528k. The Directorate had a savings plan of £3.8m for 2017-18.

2.18 The main movements since the last report were a reduction in transport costs in Dorset Travel and extra income being received in the Coast & Countryside Service. The Highways Service was forecasting an underspend in February but two snow events in February and March caused an overspend, which the Directorate was able to contain in-year rather than draw on the specific reserve.

Partnerships

2.19 Dorset Waste Partnership; the County Council's share of the overall under spend was £882k.

2.20 DWP's overall underspend was £1.985m of which £613k was added to the budget equalisation reserve (BER). The majority of this, at £1.1m, related to volumes of waste arisings, associated haulage costs, and improvements to gate fees as waste continues to be diverted away from landfill. Other significant favourable variances include income from recyclates for part of the year, and favourable contributions from trade waste and garden waste services. No significant overspends arose.

2.21 Public Health; Public Health is managed within a ring-fenced grant contributed by all three Dorset Council partners.

Chief Executive's Dept

2.22 The Chief Executive's Department ended the year with a £377k underspend.

2.23 The main areas of movement since the February forecast were additional income in Legal Services, Financial Services increasing their cost-recovery from the Asbestos Service and Human Resources holding vacant posts and reducing training costs.

Central/corporate budgets

2.24 Central Budgets finished the year with an underspend of £5.1m.

2.25 The Regulations around flexible use of capital receipts allowed us to use £1.5m of capital receipts to fund transformation costs which otherwise would have been charged to the contingency budget

2.26 Savings include £0.3m on interest costs due to renegotiation of a number of loans during the year, £0.2m lower financing charges for Dorset Waste Partnership assets, and £0.9m less Minimum Revenue Provision for financing capital expenditure.

2.27 A further £0.5m was released from central cost pool, flowing from continued improvements to the year-end accruals process and tighter management of purchase orders. Government grant receipts were higher by £0.5m in respect of under-indexing of the business rates multiplier, which will be included by central government as part of the core spending power allocation in future Local Government Finance Settlements and is now built into the Council's budget for future years.

3 Early financial forecast for 2018/19 (May, AP2)

3.1 Whilst a robust process of assurance, review and authorisation surrounds the budget, it includes £18.8m of savings and is therefore clearly not without risk. Early monitoring of the 2018-19 performance and position will continue to be critical. The Finance Team is well advanced with early monitoring arrangements and Directors have confirmed the early predictions (AP2) for 2018-19 as set out in the table, below.

Directorate	Net Budget	Forecast Outturn	Forecast (Overspend)/ Underspend	Of which: Forward Together	Of which: Base budget
	£k	£k	£k	£k	£k
Adult & Community Services	135,072	136,634	(1,562)	(765)	(797)
Children's Services	65,085	67,680	(2,595)	(2,595)	0
Environment & Economy	34,722	34,708	14	(90)	104
Partnerships	19,866	19,866	(0)	0	(0)
Chief Executive's Dept	9,290	9,570	(280)	(250)	(30)
Total Service Budgets	264,034	268,458	(4,424)	(3,700)	(724)
Central/Corporate Budgets	(256,002)	(256,673)	671	0	671
Whole Authority	8,032	11,785	(3,753)	(3,700)	(53)

3.2 The main reasons for projecting variation from budget at this time are…

<u>Children's Services</u>

3.3 The target for the financial year is to reduce the number of children in care to 390 by March 2019. At the end of May 2018, there were 443, six fewer than at the end of April. The riskiest area is the number of complex children in high cost residential placements (46) and independent fostering placements (IFA) (105). These numbers are most volatile and hardest to plan for and forecast.

3.4 The priority is to reduce the number of children in the high cost residential and IFA placements and instead use our own, in-house foster carers whose recruitment process is currently in train. Running alongside this process we must reduce the run rate of children entering care, getting us down to 390 as soon as safely possible. The pace of change required is both challenging and ambitious and there are risks associated with delivery. There are currently six children near the cusp of requiring complex, expensive care. For now, they are being managed but it sometimes require only a small event to tip the balance and they could incur significant, additional cost.

3.5 Because of the risks and because it is still so early in the financial year we are taking a deliberately cautious, conservative view of likely financial performance. This means we are predicting a £2.6m overspend. It should be said that current activity levels are not "overheating" but it is equally true to say that some of the deliverables (eg new foster carers) have to deliver as the financial year progresses.

Dedicated Schools Grant

3.6 The 2018-19 budget for the High Needs Block (HNB) of the Dedicated Schools Grant (DSG) assumed the delivery of some significant cost reductions. There are a number of variables influencing the delivery of some of these reductions, and the risk around their delivery should be recognised. In addition, despite building for growth, demand appears to be ahead of predictions at this stage in the year and must be managed as the year progresses.

Adult & Community Services

3.7 The Adult & Community Services budget is currently forecast to be overspent by £1.6m. Built into the budget is a savings plan totalling £9.382m. High-risk areas within the plan include £4m savings from Adult Care Operations where assumptions are that this will not be achieved in full. This is a risk-averse position at this stage and work continues to address the savings.

Environment & Economy

3.8 The Environment and Economy Directorate is forecasting a £14k underspend. The main risk to the Directorate is in the Building & Construction Service where there is reliance on fee-earning income. With LGR and certain projects being stalled (Blandford Waste Station) there is a concern that the Service may overspend in the year.

Partnerships

3.9 The Dorset Waste Partnership is forecasting an overspend of £985k. The most significant factor is the increased cost of dealing with Dry Mixed Recyclate (DMR) as a result of quality restrictions imposed by China. The expectation is that any overspend will be met from a draw-down from the budget equalisation reserve (BER). At the beginning of 2018-19, the BER stood at just over £1.2m. Any overspend in excess of this figure would need to be funded from partner authorities. Members of the Joint Committee have already challenged the DWP to develop plans for additional savings to reduce the overspend.

3.10 Public Health – the Public Health budget is managed within a ring-fenced grant contributed by the three partner authorities.

Chief Executive’s

3.11 The Chief Executive’s Dept is forecasting an overspend of £280k, mainly due to the uncertainty of achieving all of the targeted savings (£504k) from the Way We Work Programme. Further work needs to be carried out in this area to ensure all savings are harvested when possible.

Central/Corporate budgets

3.12 A favourable performance is being forecast at this stage, due mainly to increased anticipated business rates receipts which were notified after the 2018-19 had been set.

4 Forward Together

4.1 The Forward Together programme continues to be monitored by the Organisation Transformation Board and the financial implications of the programme are also reported through CPMI.

2018/19			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	9,382		2,379	6,238	765	-
Childrens	6,333		700	3,038	2,595	-
Env & Economy	1,749		1,399	260	-	90
Chief Exec's	854		190	414	250	-
Public Health	-		-	-	-	-
Dorset Waste Partnership	455		-	455	-	-
Summary - All Savings 2018/19	**18,773**		**4,668**	**10,405**	**3,610**	**90**

4.2 At this stage of the year a shortfall of £3.7m is being reflected against savings targets of £18.8m. This is fully reflected in the forecast information shown in section 3. Directors and their teams continue work on the programme and strive to find replacement savings where there is risk to the achievement of savings.

5 Starting position for MTFP 2019/20

5.1 Early work on establishing the budget gap for 2019/20 estimates the figure as £16.5m for the "as-is" Dorset County Council. Clearly a proportion of this will fall to the new Bournemouth, Christchurch and Poole unitary authority to deal with through the disaggregation process. The gap is caused by the combination of net funding changes of around £2.7m and cost pressures of £13.8m.

5.2 Delivering the Forward Together savings is therefore critical to the sustainability of the two future authorities. Whilst the 2017-18 performance and movements in reserves left the balance on the general fund at £18.5m we must be mindful of early indications of overspends in key areas of Children's Services and Adult & Community Services and the impact that would result from failure to manage within the budget. Also, there is significant risks around the High Needs Block of the Dedicated Schools Grant in respect of the deficit carried forward and the in-year savings plan. Although some prudent use of reserves is likely to be required in transition to the new organisation and subsequent transformation, we must ensure that sufficient balances remain in general funds to guard against ongoing business risks.

5.3 Members of the Budget Task & Finish Group and the OT Board have already been clear that our budget strategy should work towards dealing with the gap that results from our roll-forward and reworking of the MTFP for 2019/20. Dorset Area Finance Officers are clear that as part of the delivery of the 2019/20 new authority budget, they should be approaching the budget setting exercise form the perspective of balancing individual budgets whilst simultaneously, actively progressing efficiencies and other, early reorganisation savings opportunities as we transition to the new authority.

6 Principles, method and timeline

6.1 The MTFPs for all councils are currently being rolled-forward with consistent assumptions (though the differences in current plans are materially the same) and the Budget Task and Finish Group will review the Dorset Area budget gap alongside early thoughts for closing the gap when it meets on 29th June. Each council also has its own governance process to go through prior to submitting proposals.

6.2 Jason Vaughan has been appointed as Interim S151 Officer to the Shadow Authority and the responsibility to develop a balanced budget for the new Dorset Council therefore falls to him.

Council Tax

6.3 Consideration will need to be given to potential for changes that are currently under consideration around Council Tax harmonisation. Members will recall that recent modelling suggests a £6m gap between the immediate harmonisation option and alternatives. An assumption will therefore need to be agreed soon around CT levels for 2019/20 so we can estimate a realistic budget gap to address.

Negative RSG (the tariff adjustment)

6.4 We must also be mindful of the potential for part of the budget gap to be closed by Government action around the tariff adjustment. As it currently stands, the County Council's 2019/20 funding includes -£10.1m for this and unless we are told differently, we must assume this is a real budget problem for us to address. We now understand the consultation will be issued at the end of this month so it should be possible to model potential scenarios and develop a firmer understanding around potential funding gaps. Part of any remaining tariff adjustment would be an issue for the Bournemouth, Christchurch and Poole unitary authority.

Budget timetable

6.5 Detailed budget options will need to be worked up over the summer period to allow time for consultation in the autumn, where necessary. The final budget will need to be agreed by the Shadow Council in February 2019.

Planning period

6.6 For Dorset County Council, the immediate focus is on the budget for 2019-20. The new Shadow Council will however need to consider a longer time period to consider how the implications of the future savings arising from LGR will improve the long term financial position of the new authority.

7 Issues and risks impacting on the MTFP

75% business rates retention

7.1 In 2015, the Government made the commitment to local government retaining 100% of its business rates by the end of the Parliament. We are now clear that this cannot be achieved but the Government is still pursuing a 75% rates retention policy. It is still too early to be clear what this might mean for future funding but there is no assumption of increased net funding to the County Council or the new authority work might continue in this area but Members will be updated as soon as matters become clearer.

Needs Based Funding Formula

7.2 Work continues nationally on the new needs based funding formula for local government. It is anticipated that this will be in place for the new CSR period starting in 2020-21. It is currently too early to tell how any changes which arise from this will affect the 2 new unitary councils.

Academies (and Ofsted)

7.3 Risk continues for the County Council around the threat that sponsored academy orders for schools with inadequate Ofsted ratings will leave us with school deficits. Budmouth is already subject to a conversion order and there is at least one other high profile case which is likely to have a similar outcome.

Specific budget pressures

7.4 There are continuing pressures in the system around social care budgets, both for Children's Services and Adult & Community Services. Assessment will need to be made as to whether any of the issues which we are already aware of in 2018-19 will become an additional base budget issue for 2019-20.

7.5 There are also pressures in relation to the Dorset Waste Partnership which arise from the use of one-off funds to deal with issues in 2018-19 and also potential increased capital financing costs.

Local Govt Pension Scheme

7.6 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 2018-19 is 22.5% but over the next three years this will increase to 25%.

Flexible use of capital receipts

7.7 In the Autumn Statement 2015, the Chancellor announced changes to the rules for the use of capital receipts. For a three-year period from 1 April 2016, authorities would be able to spend revenue generated from selling fixed assets to fund the cost of improvements to services. Cabinet 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. A further £2m was subsequently agreed during 2017-18 and to 31/03/2018, just under £3m of this £5m total has been applied.

7.8 It is possible that the combination of budget pressures and the need to invest resources in our future transition and transformation activities will require increased use of capital receipts. The Government has already acknowledged this nationally, through the extension of the period for flexible receipts usage to 2021-22. Cabinet is therefore asked to approve the use of an additional £5m of capital receipts in this way, giving us headroom of £7m to apply from 2018-19.

Underlying budget assumptions review

7.9 A review of underpinning budget assumptions is a fundamental part of every MTFP process and 2019-20 will be no exception. Much of this work has already been developed through the Dorset Area Finance Officers Group but as the MTFP is rolled-forward details of assumptions made at a more granular level will be tested as well as global issues like pay inflation, NLW, council tax etc. As noted else

8 Summary

8.1 There remain considerable financial challenges and funding uncertainty ahead. The County Council will however need to continue to play a significant part in delivering the 2019-20 budget.

Richard Bates
Chief Financial Officer
June 2018