

Cabinet

Dorset County Council



Date of Meeting	31 January 2018
<p><u>Cabinet Member</u> Tony Ferrari – Cabinet Member for Communities & Resources</p> <p><u>Lead Officer(s)</u> Richard Bates – Chief Financial Officer</p>	
Subject of Report	Medium Term Financial Plan (MTFP) and Budget 2018-19 to 2020-21
Executive Summary	<p>This report provides the final update on the major national and local issues facing the County Council and how they affect the 2018-19 budget and financial strategy in ensuing years.</p> <p>Previous Cabinet meetings have agreed the basis for final development of the budget and MTFP, subject to the finalisation of the Forward Together programme and the risks surrounding the savings targets therein.</p> <p>This paper summarises the development of the budget and MTFP throughout the year, culminating in recommendations for Cabinet to propose to County Council regarding Council Tax and Social Care Precepts, expenditure allocation and savings measures.</p> <p>The budget monitoring information for 2017-18 has been routinely provided through the regular MTFP updates to Cabinet. Appendix 1 sets out the latest (December) forecast, predicting an overspend of some £4.1m. The root causes of the overspend have been drawn to Members' attention during the year and are summarised in this report. Focus will remain on reducing the overspend as far as possible, by 31 March to minimise the impact on the base budget in future years.</p> <p>Directors have made their best attempts to assess the impact of current and future years' pressures and build them into the MTFP to ensure we understand and accurately define the size of the Forward Together programme that must be delivered and balance this against judicious use of reserves and balances. This has been a key consideration of the S151 Officer in considering his statutory duty to ensure a balanced, achievable budget.</p>

	<p><u>Summary of budget development</u></p> <p>The provisional local government finance settlement introduced flexibility around council tax for the next two years enabling the County Council to increase basic council tax by 2.99% in 2018-19 and 2019-20 to recognise inflationary pressures.</p> <p>In addition to the 2.99% increase, the County Council will levy a 3% adult social care (ASC) precept in 2018-19 meaning a 5.99% increase in the county’s council tax.</p> <p>This increase takes the total ASC levy to the 6% total that Government introduced in the current planning period.</p> <p>The Council’s Forward Together programme (Appendix 2) sets out a savings target for 2018-19 which recognises that as well as closing the £10.2m budget gap set out in section 6.2, there are base budget pressures (section 2.2) which must also be addressed.</p> <p>Surpluses on council tax collection funds will deliver one-off funding to allow the Council to accommodate further changes required as a result of reducing Education Services Grant and costs of transitioning some of our services, such as looked after children.</p> <p>The County Council has responded to the consultation on the 2018-19 provisional settlement and looks forward to engaging in further consultations on negative RSG and fair funding. We also await the adult social care green paper.</p>
<p>Impact Assessment:</p>	<p><u>Equalities Impact Assessment:</u></p> <p>In respect of the proposal to increase adult social care fees and charges, an EqIA screening tool has identified that a full EqIA is not required.</p> <p>The remainder of this update does not involve a change in strategy. As the strategies for managing within the available budget is developed, the impact of specific proposals on equality groups will be considered.</p> <p><u>Use of Evidence:</u> This report draws on proposals and funding information published by the Government, briefings issued by such bodies as the Society of County Treasurers (SCT) and the content of Dorset County Council reports and financial monitoring data.</p> <p><u>Budget:</u> The report provides an update on the County Council’s proposed budget strategy 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 on changes in grant funding, business rates growth, inflation rates, demographic and other pressures and

	<p>income from locally raised tax, including the Social Care Precept;</p> <ul style="list-style-type: none"> • success in delivering the savings anticipated from the existing Forward Together programme and a further, significant transformation beyond that point to manage within our medium-term funding limits; • judgement on the prudent use of reserves, balances and contingency; • pressures arising that have not been factored into the budget and/or the Forward Together programme. <p>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</p> <p>Other Implications: None.</p>
<p>Recommendation</p>	<p>The Cabinet is asked to consider the contents of this report and subject to confirmation of funding levels once the final settlement is received:</p> <ul style="list-style-type: none"> (i) consider the service issues and risks associated with the savings measures arising from the updated Forward Together programme, set out in Appendix 2 and agree these as the measures upon which further consultation takes place; (ii) note the risks associated with the use of one-off funding through flexible capital receipts and collection fund surpluses to balance the budget; (iii) confirm the Council Tax increase of 2.99% for 2018-19 and note the assumption of 2.99% in 2019-20 and 1.99% beyond that; (iv) confirm a Social Care Precept of 3% for 2018-19 and 0% in 2019-20, bringing the three-year total to the 6% allowed by Government; (v) recommend to the County Council: <ul style="list-style-type: none"> a) the revenue budget strategy for 2018-19 to 2020-21 b) the budget requirement and precept for 2018-19 c) the position on general balances and reserves; (vi) require the Chief Financial Officer to present to the County Council a schedule setting out the Council Tax for each category of dwelling and the precepts on each of the Dorset Councils for 2018-19. <p>And;</p>

	(vii) approve the proposal to increase fees and charges for non-residential adult social care services by 5% in 2018-19.
Reason for Recommendation	To approve the Council Tax increase for 2018-19 and to enable work to continue to refine and manage the County Council's budget strategy for the remaining MTFP period.
Appendices	<ol style="list-style-type: none"> 1. CPMI for December 2017 2. Summary of Forward Together programme and savings proposals for 2018-19 3. Provisional budget and precept summary 2018-19
Background Papers	Local Government finance settlement Spending reviews SCT briefing papers Previous MTFP updates to Cabinet
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1. Background

- 1.1 The Medium Term Financial Plan (MTFP) sets out the key financial arrangements and assumptions on which the County Council's budget is based. It underpins delivery of the County Council's Corporate Plan. This report is the fifth and final of the year to update Members on the budget strategy and the forecast for the remaining two years of the MTFP.
- 1.2 During the year Members have already developed and agreed a number of strategies, including for Council Tax, the Social Care Precept, use of collection fund surpluses, use of capital receipts, inflation, wage growth, demographic factors and capital financing. It was also understood that more detailed measures for savings from transformation in the Forward Together programme would come to the January meeting once fuller consideration had been given to the robustness of the revised programme by Directorate Management Teams.
- 1.3 These savings proposals and the assessment of the risk and potential impact of these upon the County Council's reserves and balances are the final building blocks in our financial model and must be clearly understood to ensure the risk to the organisation's financial security is managed robustly. These savings are set out in Appendix 2.
- 1.4 Cabinet is therefore asked to recommend the Budget Strategy to the County Council. In determining the Strategy, Council must take account of the following:
- the resources available; particularly through council tax and Social Care Precept, the settlement and the impact of the funding formula over the MTFP period;
 - the present national economic situation and the Government's adherence to the fiscal tightening strategy to balance the national budget in the longer term;

- advice and information issued by the Government, including the report of the Spending Review 2015 (and fixed, four-year funding) and the Chancellor's Autumn Budget issued in November 2017;
- the Prudential Code for Borrowing and the County Council's capital financing policy;
- the County Council's corporate aims and priorities, agreed by the Cabinet;
- the potential impact of the strategy on service provision and the Council's performance in key service areas;
- the risks associated with reducing funding for current services or not addressing budget pressures;
- the risks associated with the Forward Together programme savings and the elimination of the structural budget deficit over the MTFP period;
- the use of reserves and balances;
- ongoing macro-economic conditions, especially uncertainty around withdrawal from the European Union.

2. Development of the budget and MTFP

Opening position

- 2.1 Members may recall from very early reports that the opening position for the current MTFP round was a budget gap of £27.4m in the first two years. The December reported highlighted that by the time we had reworked our financial model and reviewed our assumptions for the full three years of the planning period, the budget gap was £35.4m with £12.4m of this falling in 2018-19.

Outturn, forecast of outturn and cost pressures during the year

- 2.2 In developing the 2018-19 budget, Members were mindful of the forecast overspend against service budgets in 2017-18 and the actual overspend in 2016-17. The position during 2017-18 has gradually improved over the year to the extent that we are currently predicting an overspend of £4.1m. We continue to do everything we can to reduce this figure. Appendix 1 sets out the summary budget monitoring information from December's forecasting round. Members have received numerous reports and updates on our anticipated outturn over the course of the year so no further analysis is provided here.

Local Government finance settlement

- 2.3 The provisional settlement was announced by the Secretary of State for Communities and Local Government, Sajid Javid, on 19th December 2017. Much of it was already known to us and there was no significant, additional funding for the sector.
- 2.4 Members had signed-up to the Government's four-year funding deal so despite the fact that we will continue to press our case around negative RSG in 2019-20 and for resolving funding uncertainty beyond that, there was comfort that the majority of our funding was known and was being planned for with relative certainty. The summary funding table from settlement is shown below.

Dorset					
Illustrative Core Spending Power of Local Government;					
	2015-16	2016-17	2017-18	2018-19	2019-20
	£ millions	£ millions	£ millions	£ millions	£ millions
Settlement Funding Assessment ²	73.3	56.1	43.6	38.6	29.3
Compensation for under-indexing the business rates multiplier	0.5	0.5	0.5	0.8	1.2
Council Tax of which;	195.9	204.9	217.1	232.0	240.8
<i>Council Tax Requirement excluding parish precepts (including base and levels growth)</i>	195.9	201.0	206.8	214.7	223.0
<i>additional revenue from referendum principle for social care</i>	0.0	3.9	10.3	17.2	17.9
<i>Potential additional Council Tax from £5 referendum principle for all Districts</i>	0.0	0.0	0.0	0.0	0.0
Improved Better Care Fund	0.0	0.0	7.4	9.8	11.8
New Homes Bonus ³	1.6	2.0	1.6	1.0	0.8
New Homes Bonus returned funding	0.1	0.1	0.1	0.0	0.0
Rural Services Delivery Grant	0.3	1.5	1.2	1.2	1.2
Transition Grant	0.0	3.0	2.9	0.0	0.0
The 2017-18 Adult Social Care Support Grant	0.0	0.0	1.9	0.0	0.0
Core Spending Power	271.8	268.2	276.4	283.3	285.1
Change over the Spending Review period (£ millions)					13.3
Change over the Spending Review period (% change)					4.9%

- 2.5 As part of the settlement the Government also announced additional flexibility around council tax, raising the limit for local referendums to 3% for the next two years. The County Council's MTFP now assumes council tax of 2.99% in 2018-19 and 2019-20, with a 1.99% annual increase after that. In addition to "core" council tax our plan also assumes social care precept of 3% in 2018-19 and nothing thereafter, in line with the 6% total allowed by Government over that three-year period.
- 2.6 The settlement also included some key announcements about future funding prospects for local government. The first of these was that there will be a new funding formula in place ready for 2020-21. The consultation on the relative needs and resources aspect of this has already been launched and the County Council will be working closely with fellow SCT members to ensure the government receives both shire county and Dorset County Council input into the development of a new formula.
- 2.7 2020-21 will also see the implementation of 75% retention of business rates. The retention of more business rates will see a compensating reduction in Revenue Support Grant, Rural Services Delivery Grant and Public Health grant.
- 2.8 Spring will also see the launch of a consultation on negative RSG, a move which is warmly welcomed by the County Council. The settlement documentation announced that "*The Government will look at fair and affordable options for dealing with 'negative RSG'...*". The County Council looks forward to contributing to the debate on this subject. At present our 2019-20 position is negative £10.1m RSG.
- 2.9 The Government also used the settlement to set out a commitment to publish a green paper by summer 2018 which will set out proposals for a sustainable settlement for social care. Government has already started a process of initial engagement through which it will work with experts, stakeholders and users to shape the green paper's proposals for long-term reform.
- 2.10 Grant information included in the settlement was broadly neutral for us, though there were changes in individual line items. For example, Rural Services Delivery Grant was £281k better than anticipated while New Homes Bonus was £230k lower.

Collection fund surpluses and growth in the base

- 2.11 Members will recall the most recent update around assumed growth of 0.75% in the Council Tax base and the use of £0.5m of surpluses to be declared on the collection funds for 2018-19. Actual figures from district colleagues mean we can revise our assumptions around growth to 1.26%. Collection Authorities have also told us that £4.1m will be distributed to us from surpluses in council tax collection funds as set out in Appendix C.
- 2.12 Much of this surplus is already included within previous financial assumptions around the need for one-off funding, however, so it is not new money. Members have previously been alerted to the need for short-term funds to manage the reduction in Education Services Grant (ESG) and to deal with the costs of looked-after-children as we transition to increased in-house fostering provision. These monies have therefore been treated as transfers to reserves in this budget round so they do not impact on the base budget and cause confusion when making comparisons between years. Money will be transferred from reserves as part of budget management in 2018-19, rendering this money one-off funding.

Flexible use of capital receipts

- 2.13 We continue to assume the use of £1m of capital receipts to help fund transformation costs and thereby contribute towards balancing the budget in 2018-19. The Government has also announced the extension of the flexible use of capital receipts for a further three years to 2021-22.
- 2.14 Cabinet has already approved £5m of capital receipt flexibility in the three years to 31/03/2019. £1.4m of this was applied in 2016-17 and further use is forecast in 2017-18. Our capital receipts strategy will therefore need to be revised in coming months and a paper on this subject will come back to Cabinet for approval in due course.

Base budget issues resolved

- 2.15 The additional funding provided by the flexibility around council tax has enabled base budget issues for the Coroner's Service to be resolved and also for additional funding to be provided for looked after children.

Pay award

- 2.16 The employers' pay offer of 2% plus higher increases for staff at lower pay points was higher than the 1% used in the development of the budget. There are further increases in 2019-20 which also need more detailed work. However, the additional cost in 2018-19 was around £1.5m, which has been built into the budget being presented to Members.
- 2.17 Provision has been made for National Living Wage costs in the MTFP and now the employers' offer for 2019-20 is clearer, more detailed work can be carried out to develop the next iteration of the budget and MTFP.

3 Council tax strategy

- 3.1 Cabinet has been clear and consistent in its strategy for council tax throughout recent budget rounds. The sustained reductions in funding from Government have meant

that Cabinet had found it necessary to continue to increase council tax by 1.99% each year.

- 3.2 However, the additional flexibility – prompted by higher inflation – that was announced in the settlement means that Cabinet has now agreed to 2.99% annual increases in council tax in 2018-19 and in 2019-20. After that, the assumed increase reverts back to 1.99% in line with longer-term expectations around inflation and the flexibility allowed by Government.
- 3.3 In addition to this core council tax assumption, Cabinet has agreed to levy 3% Social Care Precept in 2018-19 and 0% in 2019-20. This will bring the total increase in this precept to the 6% agreed by Government over the three-year period to 2019-20. All funding delivered through the Social Care Precept must be used for adult social care. This does not, however, mean that the Adult & Community Services budget simply increases by this amount. This budget remains the highest area of the Council's spend and clearly cannot be protected from either efficiency savings or other budget reductions, such is the continuing magnitude of the funding change.

4 Contingency, reserves and balances

- 4.1 The 2017-18 base budget for contingency was £2.3m. As usual, it has been subject to a broad range of calls this year but the December CPMI is positive in anticipating an underspend of around £1.25m. This position could improve further, depending on any further calls on the fund. The core contingency budget for 2018-19 is at a similar level.
- 4.2 £1.7m was released from reserves during the year as the funding was no longer required for the reasons originally anticipated. This was added to the balance of the general fund which now sits at £14.1m. This is above the lower end of our operating range of £10m, however any residual overspend in 2017-18 will reduce this figure.
- 4.3 An analysis of the County Council's reserves, as at 31 March 2017 was prepared for Members in December. This will be reviewed and reissued to take account of this year's closing reserves figures after we have produced the accounts for 2017-18.

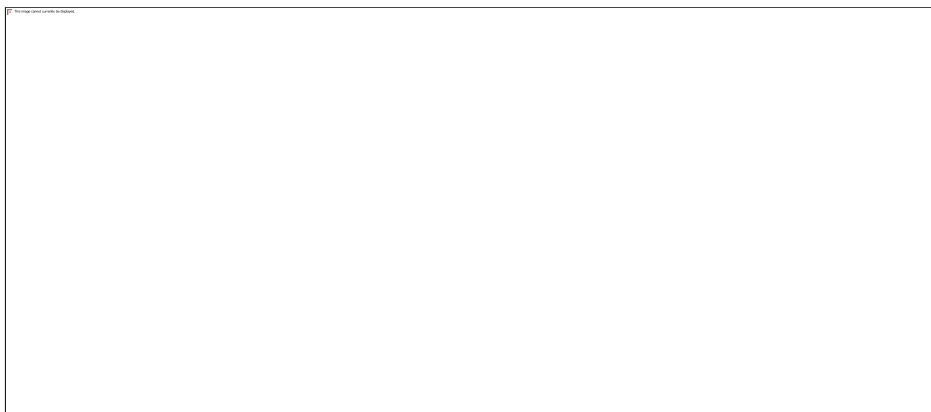
5 Forward Together position and prospects

Adult & Community Services

- 5.1 The Adult & Community Services budget is forecast to overspend by £1.15m. The overspend reflects £2.0m where more work is needed to achieve the Forward Together targets and £900k underspend in other areas of the Directorate.
- 5.2 The forecast is a reduction from the previous reported position and is due to vacant posts and in-year delays in recruiting to additional posts arising from the application of £1m for additional Social Care staff from the improved Better Care Fund. Pressure continues in the Service User related spend where the budget is forecast to be £2.7m overspent.
- 5.3 The Directorate has a savings target of £7.1m of which £5.6m is 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 brokerage function, £1m additional income and £400k relating to improved use of technology.
- 5.4 There is slippage in the programme savings of £2.0m due to the complexity of some of the cases being reviewed. There is also further risk around the assumed savings from Dorset Care contract, that came into force in December 2017 and how much

impact that can have on the cost of care for the remainder of this year. It is for these reasons that it is still prudent to assume a high level of risk associated with savings going forward.

- 5.5 Moving in to 2018-19, the Directorate's budget will increase by approximately £2.4m. This is due to the Adult Social Care Precept (£6.7m) and an additional improved Better Care Fund (iBCF) allocation (£2.3m), offset by a previous Forward Together commitment of £6.6m. However, due to the underlying pressures within the service user budget (see para 5.2) and estimated inflation within the care market budgets of £2.5m (2.5%) the Forward Together savings requirement to meet the budget in 2018-19 will need to increase from £6.6m to £9.382m.
- 5.6 The proposed savings plan is shown in Appendix 2 with an appropriate risk rating against each area. Good progress is already being made towards some of the savings lines for 2018-19 with full-year effects of this year's work contributing towards reducing the cost of packages of care and additional income.
- 5.7 The wider directorate budget savings reflect both transformation strategy and a shift to ensuring that management costs are managed effectively. The reduction in planned spend in Libraries includes a reduction in the book fund of £225,000. This reflects a growing use of the digital offer and the increasing role of libraries beyond loaning books to a well-being and community facility.
- 5.8 In other areas there is much more risk associated with the programme through a combination of complexity and timing to achieve a full year effect in year. The savings include plans to improve the efficiency and value for money of Tricuro. This is the Local Authority Trading Company, where through individual assessment of eligible service users, current care packages in day services will be reviewed and may lead to a change in the day services offered with a focus on meeting outcomes and value for money. In addition, non-adult social care functions such as catering within the company will have subsidy removed and more efficient use of capacity in residential care will be implemented.
- 5.9 The directorate transformation programme promotes a greater focus on personalisation, including offering all service users the opportunity to take a direct payment to pay for their care, enabling them to have more control and flexibility in how their care needs will be met. This, alongside commissioning focused on outcomes and demand management, agreeing prices with the market reflecting value for money and meeting the requirement for high quality care and greater community capacity, will contribute to the delivery of savings.
- 5.10 Members are also asked to approve the proposal to increase fees and charges for non-residential, adult social care services by 5% in 2018-19 (subject to financial assessment and only those who can afford to pay will pay). The proposal was discussed at the Executive Advisory Panel for Pathways on 4th December, as reflected in the minutes presented to the Cabinet on 17th January. The Panel resolved that a 5% increase was appropriate for the Cabinet to consider and asked for some examples to be provided. The examples are set out in the following table:



- 5.11 Members will be aware that nationally adult social care is facing unprecedented demands, and in Dorset the combination of rurality, aging population and increasing focus from the NHS on reducing costs in Continuing Care, and discharging people from hospital is having a significant adverse impact on ability to contain costs

Children's Services

- 5.12 Children's Services is forecasting an overspend in 2017-18 of £6.8m, this is despite additional one off funding of £2.4m. The reasons behind this overspend are well documented but in short are mainly due to the cost of children in care. Although the overall number of looked after children has reduced as planned from a peak of 506 in August 2016 to 446 in December 2017, it has not reached the best-case scenario that was budgeted for of 400. In addition, the mix of high cost/low cost placements has not seen the change expected with lower cost placements being replaced with higher cost placements in Independent Sector Fostering agencies and Residential Care Providers. This accounts for £7.8m of the overspend. There are other financial pressures within the Directorate around the increased costs associated with the use of agency Social Workers of £0.7m, the additional legal costs due to the increased numbers of Children in Care £0.2m and SEN Transport £0.7m.
- 5.13 The Medium Term Financial Plan has already considered and approved an additional £3.2m base budget increase to reflect the cost of rebasing numbers of Children in Care from 400 to 440, and an additional £1m invest to save programme to recruit an additional twenty Social Workers. Based on current spending requirements the Directorate has identified an additional budget requirement of £8.1m in 2018-19. In order to meet this requirement a savings programme totalling £6.3m has been identified, this will still leave the Directorate with a known shortfall of £1.8m in 2018-19 which will be funded by one-off collection fund balances.
- 5.14 Details of the Directorates savings programme can be found in Appendix 2 of this report. The modernising fostering strategy considered by Cabinet in September requested members to consider the use of transformation funding of £110k to facilitate the transformation of the fostering service and in particular the recruitment of 74 additional foster carers over the year, the use of this funding is vital to the delivery of the planned savings of £2m. 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. Delivery of this savings programme will represent a significant turnaround of an inbuilt and substantial overspend.

Dedicated Schools Grant

- 5.15 The pressure on the DSG budget continues with the High Needs Block now expected to overspend by £4.3m in 2017-18. The overspend is being driven by two main factors, the continued growth in the numbers of Education Health and Care Plans (EHCPs) rising by over 40% since March 2014 which has a direct impact on demand in the top up, independent school places and post 16 budget areas; and changes to the SEN code of practice in 2014 which means the local authority is now responsible for the education of young people with SEN up to the age of 25 rather than 19, having a direct impact on the post 16 budgets as the cohort of children increases each year.
- 5.16 The Schools Forum considered the DSG budget for 2018-19 at a meeting on 12th January. A proposal to transfer £1.1m from the Schools Block to the High Needs Block was previously rejected by the Schools Forum and we currently await the outcome of our appeal to this decision by the Secretary of State, the 2018-19 budget build assumes this appeal will be upheld. To bring the budget back to a balanced position a programme of savings/budget reductions totalling £3.3m has been developed. The Schools Forum accepted these proposals in principle asking for some more detail and clarity to be brought back to their meeting in February.
- 5.17 The DSG carried forward a net deficit of £4.1m into 2017-18, adding to this the expected overspend this year of £4.3m results in a total estimated deficit at the end of 2017-18 of £8.4m. It has been made clear to the Schools Forum that the Local Authority cannot bear this deficit and the risk involved means a recovery programme must be put into place as soon as possible. A five-year budget plan has been built and this will be considered as part of the deficit recovery plan at the February meeting of the Schools Forum. Further cost reductions will need to be found, this means the schools forum, schools at large and the local authority will need to consider carefully and imaginatively methods to dampen demand and reduce costs against the high needs block further.

Environment & Economy

- 5.18 The Environment Directorate is forecasting an underspend in 2017-18 of £52k. This is due to underspends in Economy, Planning and Transport and in the Highways areas of Network Management, Network Development and Fleet Services. The main cause of these underspends is due to vacancy management, savings coming to fruition as part of a two-year savings plan and an increase in external income.
- 5.19 The main risk areas in 2017-18 is in Dorset Travel where contracts have needed to be retendered and the part year effect on the initial contracts which came into effect in September 2017, so there is still some uncertainty in 2017-18 which will continue into 2018-19.
- 5.20 For 2018-19 the Directorate has developed detailed savings plans which are shown in Appendix 2. When continuing surplus in budget areas have been found, these have been used as part of the savings plan going forward. The risk areas for the Directorate is in Dorset Travel, Economy, Planning and Transport and IT Services.
- 5.21 Dorset Travel budget may be significantly impacted in 18-19 due to the retender of contracts which is currently unknown.

- 5.22 Economy, Planning and Transport planning fees are low in 2017-18 but have been offset by underspends in other areas. Should this continue in 2018-19 the service would not have the capacity to meet this under recovery of income.
- 5.23 Capital income recovery from projects in IT Services is a significant risk area in 2018-19 and work is being carried out to mitigate the risk.

Public Health

- 5.24 The Public Health grant allocation for 2018-19 has been reduced by 2.5% to £33.4m. There are no planned changes to the elements that are retained within the individual local authorities.
- 5.25 Public Health Dorset recognises the budget challenges both to the central public health grant and the wider local authority budgets and continues to work to deliver savings. As a consequence, grant reductions in 2018-19 should be manageable without compromising existing local authority commitments.

Dorset Waste Partnership

- 5.26 DWP is projecting an underspend of £1.483m (County Council share £954k) mainly due to waste tonnage figures being more favourable than predicted in the budget and favourable recyclate costs/prices. There is increasing risk that recyclate business could move against us due to recent market changes brought about by changes in China's policy.
- 5.27 The budget for 2018-19 represents a cash standstill and also involves the application of £383k from the equalisation reserve to fund the costs of the employers' pay offer that emerged after the budget had originally been drafted assuming 1% pay inflation. A number of more challenging assumptions are inherent in the 18-19 budget which were not included previously. There is therefore risk around these areas which the Senior Management Team and the Joint Committee will keep under review during the year.

Chief Executive's Directorate

- 5.28 The Directorate is forecasting a very small net overspend of £14k. The most significant area of budget variance is the Way We Work property programme is still forecasting £163k 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.
- 5.29 The main budget pressure in the Directorate in 2018-19 is the Way We Work savings plan where £500k of savings will need to be harvested but should there be any slippages, this would impact on this target.

Local Government Reorganisation

- 5.30 We are currently waiting for an announcement from the Secretary of State regarding the *Future Dorset* proposals. In the meantime, the County Council's Finance Team is working with service managers across all councils to build models for disaggregating costs of services delivered in Christchurch. Progress so far is positive but there is plenty still to do.

- 5.31 At the same time as we are reviewing the revenue costs and funding implications of service delivery we are also considering the impact of balance sheet disaggregation. Whilst this is relatively straight forward exercise for items like land and buildings, it becomes increasingly complex for items such as roads, infrastructure, loans, capital financing and reserves.

6 Updated financial position and recommended budget summary

- 6.1 Working all of our assumptions and plans through the financial model delivered a gross budget gap of £11.7m. We had previously assumed that £0.5m of this would be funded from collection fund surpluses and a further £1m from the flexible use of capital receipts.
- 6.2 The remaining £10.2m will be funded by the savings measures from the Forward Together programme, set out in Appendix 2. Appendix 2 targets a significantly higher figure than this £10.2m as it also needs to deal with whatever base budget overspend is carried into 2018-19. We will not know the final position until the current year finishes so an update will need to be brought to Cabinet early in the new year to give assurance that savings are sufficient to balance the budget in the new year including any carried-forward pressures.

<u>Provisional budget summaries for 2018/19 to 2020/21</u>					
<i>Assumed council tax increase</i>		5.99%	2.99%	1.99%	
<i>Band D equivalent tax</i>		£1,406.34	£1,448.37	£1,477.17	
		2018/19	2019/20	2020/21	
		£M	£M	£M	
Previous year's budget		264.1	275.7	271.0	
Move in specific grants applied as general funding		3.0	-1.6	3.2	
Commitments provided for:					
- Resource Allocation Model		2.5	3.0	3.6	
- Other central commitments		13.6	10.0	0.6	
- Collection Fund surplus		4.1			
Total budget requirement before savings		287.4	289.0	278.5	
Estimated budget available		275.7	271.0	270.9	
Savings required	3-year total:	-37.3	-11.7	-18.0	-7.6
Savings found by:					
- Forward Together programme		-10.2			
- Use of Collection Fund/Balances (One Off)		-0.5	-0.5		
- Use of Capital Receipts (One Off)		-1.0	-1.0		
- Remainder still to be found to avoid scaling		0.0	-16.5	-7.6	

7 Consultation and equality

- 7.1 This high-level update of the budget strategy itself does not involve a change in strategy and therefore does not require an impact assessment. However, as the strategy for managing within the available budget is developed and as particular courses of action are formulated and consulted upon, Directorate Leadership Teams

will take forward specific impact assessments for relevant equality groups and consult with overview and scrutiny committees where necessary.

8 Risk assessment

8.1 A number of risks have been identified and reviewed during this annual update of the MTFP and budget setting round, which include:

- the possibility that the Forward Together programme (including the inclusion of unsolved base budget issues carrying forward for 2017-18) fails to provide transformation at the level that is required over the MTFP to deliver the necessary savings, or that the programme needs additional investment to realise the savings that have been identified;
- economic performance does not match the expectations of central Government plans and even more austerity measures are applied to our funding;
- continuing risks from the Business Rates Retention scheme as the risks lie materially with local authorities, not with central Government;
- improved Better Care Fund – there are significant risks with this funding due to the performance targets with the health service to which it is now linked. There is also a significant risk beyond 2019-20 where there is currently no guarantee of on-going funding.
- the risk of an increase in the numbers of Unaccompanied Asylum Seeking Children which will bring budget pressures with them if sufficient support funding is not made available from Central Government. ;
- focus on LGR could easily deflect from delivery of the savings programme;
- the risk any further overspends on service budgets in the context of the reduced level of our general balances.

9 Statutory declarations

9.1 Section 25 of the Local Government Act 2003 requires all financial officers with responsibilities under s151 of the local Govt Act 1972 to make a statement regarding the robustness of estimates and the adequacy of reserves at the time the budget is set. The Council has a statutory duty to “have regard to the report when making decisions about the calculations”.

9.2 There are also other safeguards aimed at ensuring local authorities do not over-commit themselves financially. These include:

- the Chief Financial Officer's powers under section 114 of the Local Government Act 1988, which require a report to the Cabinet and to all members of the local authority if there is or is likely to be unlawful expenditure or an unbalanced budget;
- the Local Government Finance Act 1992, which requires a local authority to calculate its budget requirement for each financial year, including the revenue costs which flow from capital financing decisions. The Act also requires an authority to budget to meet its expenditure after taking into account other sources of income. This is known as the *balanced budget requirement*;
- the Prudential Code, introduced under the Local Government Act 2003, which has applied to capital financing and treasury management decisions from 2004-05;

- the assessment of the financial performance and standing of the authority by the external auditors, who give their opinion on the financial standing of the authority and the value for money it provides as part of their annual report to those charged with governance.
- 9.3 The robustness of the budget critically depends on the maintenance of a sound financial control environment including effective financial management in each of the Council's service directorates. Dorset's Scheme of Financial Management sets out the responsibilities of all those involved in managing budgets and incurring commitments on behalf of the County Council. It was substantially reviewed and rewritten to coincide with the introduction of DES and updated again several times, most recently in 2014 to reflect the changes made to Contract Procedure Rules and the Scheme of Delegation. Under the scheme, managers are required to identify savings to offset overspends elsewhere on budgets for which they are responsible. I will be writing to each Director and Head of Service to remind them of their obligations under the County Council's *Scheme of Financial Management*. This is timely in that the scheme is under review again at the time of writing.
- 9.4 Whilst budgets are based on realistic assumptions, some budgets are subject to a degree of estimating error as actual expenditure can be determined by factors outside the Council's control, for example demand-led budgets such as provision for adults with a learning disability. It is also generally not appropriate or affordable to increase budgets to reflect overspends in the previous year. A reasonable degree of challenge to manage within the resources available is necessary and monitoring of expenditure, in order to take corrective action if necessary, is particularly important during a time of budget reductions.
- 9.5 The Council has well-developed arrangements for the monitoring of budgets during the year, which are reported through the Corporate Performance Management Information system (CPMI), published via SharePoint. A system of dashboards has also been introduced in 2017-18 alongside refresher training on budget management in DES for managers.
- 9.6 Technical aspects of the budget process applied for 2018-19 have been similar to recent years. The Resource Allocation Model (RAM) again provides a robust starting point for addressing inflationary, demographic and volume pressures in an open and fair manner. It provides a sound platform on which to build and develop future medium term financial strategies and budgets.
- 9.7 Member involvement in budget development has been exercised particularly through meetings of the Forward Together Board, regular update reports to the Cabinet and all-member briefings. There was also a significant programme of training during the spring and summer 2017 due to a significant number of newly-elected Members to the Council.
- 9.8 In addition to the above and discussions at committees, members have had access to the earlier, detailed budget reports which have provided the national and local context for the medium term financial plan and budget strategy. These reports included an update for the provisional local government finance settlement. The budget strategy has also been covered in meetings of the Audit and Governance Committee.
- 9.9 Taking all these factors into consideration, I consider that the estimates prepared in line with the strategy explained in this report are robust. However, the challenge of managing expenditure within them should not be underestimated; particularly given

our short-term use of one-off funding and the need to deliver significant savings through transformation. Close monitoring will be required during the year and prompt corrective action must be taken whenever planned savings are not being delivered and progress toward a balanced budget for 2018-19 is not sustained. The position outlined above, regarding the authority's projected general fund balance makes achievement of our savings targets critical.

Richard Bates
Chief Financial Officer
January 2018

Appendix 1

CPMI – December 2017

Cost Centre Management Budget Monitoring Summary	Responsible Officer	Year		October	November	December	Forward Together	Other
		2017-18		Projected Under/(Over)	Projected Under/(Over)	Projected Under/(Over)	Projected Under/(Over)	Projected Under/(Over)
		'Above Line' Net Budget Only £000's	Forecast £000's	Spend £000's	Spend £000's	Spend £000's	Spend £000's	Spend £000's
Children's Services Directorate								
Childrens Service Budget								
Care & Protection	Vanessa Glenn	33,013	41,618	(7,988)	(8,522)	(8,605)	0	(8,605)
Design & Development	Patrick Myers	11,671	11,367	259	323	304	(400)	704
Director's Services	Nick Jarman	2,359	2,469	(102)	(104)	(110)	(150)	40
Prevention & Partnerships (DCC)	Jay Mercer	13,045	13,836	(706)	(841)	(792)	(150)	(642)
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)		62,486	69,290	(6,139)	(6,745)	(6,804)	(700)	(6,104)
Prevention & Partnerships (DSG)	Jay Mercer	44,854	49,258	(3,773)	(4,325)	(4,404)	0	(4,404)
P&P DSG Funding	Jay Mercer	(44,867)	(44,867)	0	0	0	0	0
Directors Services (DSG)	Nick Jarman	400	400	0	0	0	0	0
Directors Services DSG Services	Nick Jarman	(400)	(400)	0	0	0	0	0
DSG Services	Jay Mercer	(1,357)	(1,357)	0	0	0	0	0
Total Children's Services Budgets (DSG)		(1,370)	3,034	(3,773)	(4,325)	(4,404)	0	(4,404)
DSG Adjustment		0	0	0	0	0	0	0
Children's Services (DCC + DSG) Total		61,116	72,324	(9,912)	(11,070)	(11,208)	(700)	(10,508)
Adult & Community Services Directorate								
Adult Care Service User Related	Harry Capron	73,960	76,670	(2,284)	(2,905)	(2,710)	(1,903)	(807)
Adult Care	Harry Capron	12,304	11,569	455	474	735	0	735
Commissioning and Safeguarding	Diana Balsom/Sally Wernick	34,252	33,798	496	436	455	0	455
Early Help & Communities	Paul Leivers	9,270	9,075	37	232	194	(100)	294
Director's Office	Helen Coombes	3,383	3,207	134	138	176	0	176
Adult & Community Services total		133,169	134,319	(1,163)	(1,624)	(1,150)	(2,003)	853
Environment and the Economy Directorate								
Economy, Planning & Transport	Maxine Bodell	2,312	2,203	93	71	108	0	108
Dorset Travel	Chris Hook	14,329	14,423	110	98	(95)	(190)	95
Business support Unit	Matthew Piles	359	407	(58)	(60)	(48)	(48)	0
Coast & Countryside	Phil Sterling	2,504	2,563	(59)	(50)	(59)	(36)	(23)
Buildings & Construction	David Roe	138	167	23	15	(29)	0	(29)
Pooled R&M	David Roe	137	137	0	0	0	0	0
Network Management	Simon Gledhill	1,128	962	127	166	165	0	165
Network Development	Tim Norman	1,040	1,008	5	4	32	0	32
Network Operations	Martin Hill	4,075	4,067	5	8	8	0	8
Fleet Services	Sean Adams	(163)	(180)	27	1	17	0	17
Emergency Planning	Simon Parker	214	212	7	7	2	0	2
Director's Office	Mike Harries	828	823	6	5	5	0	5
Streetlighting PFI	Tim Norman	3,862	3,862	0	0	0	0	0
ICT	Richard Pascoe	5,171	5,225	(115)	(95)	(54)	(38)	(16)
Environment and the Economy Directorate Total		35,934	35,881	172	169	52	(312)	364

Page 18 – Medium Term Financial Plan (MTFP) and Budget 2018-19 to 2020-21

Cost Centre Management Budget Monitoring Summary		Year	2017-18		October	November	December	Forward Together	Other
		Responsible Officer	'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	(4)	(4)	(4)	0	(4)	
Partnerships	Karen Andrews	189	157	27	32	32	0	32	
Communications	Karen Andrews	247	247	(0)	0	0	0	0	
Policy and Research	Karen Andrews	440	438	0	1	1	0	1	
Commercial Services	Karen Andrews	431	431	(1)	(1)	0	0	0	
Governance and Assurance	Mark Taylor	657	657	(2)	0	0	0	0	
Legal & Democratic Services	Jonathan Mair	2,876	2,872	8	8	4	0	4	
Financial Services	Richard Bates	2,891	2,837	73	30	54	0	54	
County Buildings	Peter Scarlett	(1,469)	(1,370)	(103)	(95)	(100)	0	(100)	
WWW Property Savings	Peter Scarlett	(441)	(278)	(164)	(164)	(163)	(164)	1	
Human Resources	Sheralyn Towner	1,335	1,182	104	104	153	0	153	
Cabinet	Richard Bates	3,325	3,318	30	(1)	7	0	7	
Chief Executives Total		10,757	10,771	(32)	(89)	(14)	(164)	150	
Partnerships									
Dorset Waste Partnership	Karyn Punchard	19,702	18,748	992	882	954	0	954	
Public Health	David Phillips	300	300	0	0	0	0	0	
Partnerships Total		20,002	19,048	992	882	954	0	954	
Central Finance									
General Funding	Richard Bates	(24,009)	(24,009)	0	0	0	0	0	
Capital Financing	Richard Bates	24,594	22,999	793	1,494	1,594	0	1,594	
R&M	Richard Bates	1,287	1,287	0	0	0	0	0	
Contingency	Richard Bates	606	(644)	1,250	1,250	1,250	0	1,250	
Precepts/Ley	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		(260,978)	(263,822)	2,043	2,744	2,844	0	2,844	
Total Above Line Budgets		0	8,521	(7,900)	(8,989)	(8,521)	(3,179)	(5,342)	
Excluding DSG Budgets		1,370	5,487	(4,127)	(4,664)	(4,117)	(3,179)	(938)	

Appendix 2

Forward Together Programme savings

Savings Measure	18/19	Forward Together RAG rating				
			Green	Yellow	Amber	Red
Adult & Community Services						
Managing our Income	1,300,000	Green/Yellow	600,000	700,000		
Increased income & efficiencies in Early Help & Community Services	200,000	Yellow		200,000		
Maturing our LATC	1,500,000	Yellow		1,500,000		
Pathway Modernisation and Demand Management	400,000	Yellow		400,000		
Adult Social Care Ops Delivery	4,000,000	Green/Yellow	652,000	3,348,000		
Contract changes	250,000	Yellow		250,000		
Maximising efficiency in housing related support	832,000	Green	832,000			
Library Services	314,000	Green/Yellow	225,000	89,000		
Early Help	20,000	Green	20,000			
Trading Standards	161,900	Green/Yellow	29,100	132,800		
Policy, Finance, Welfare	60,100	Yellow		60,100		
Early Help & Communities General	193,300	Yellow/Amber		14,000	179,300	
Business Development & Performance	150,700	Green/Yellow	20,700	130,000		
	9,382,000		2,378,800	6,823,900	179,300	0

Savings Measure	18/19	Forward Together RAG rating				
			Green	Yellow	Amber	Red
Chief Executives Department						
Early Retirement costs	50,000	Yellow		50,000		
Review of South West Audit Partnership (SWAP) days	15,000	Amber			15,000	
Human Resources	65,000	Amber			65,000	
Review of Communications	50,000	Amber			50,000	
Financial Services	55,000	Amber			55,000	
Review of Programme Office	60,000	Amber			60,000	
Other intra departmental Services efficiencies	5,000	Amber			5,000	
Cross Department Efficiencies	50,000	Green	50,000			
Estate & Assets - additional income and property service changes	110,000	Amber			110,000	
'Way we work' property programme - rationalisation of property	504,000	Amber			504,000	
	964,000		50,000	50,000	864,000	0

Savings Measure	18/19
Children's Services	£
Modernising Fostering - new strategy	2,000,000
Reduce numbers of Looked after children	1,500,000
Commissioning Review	500,000
Safeguarding	100,000
SEN Transport - Personal Travel Budgets	483,000
Review of residential care placements	1,200,000
Adoption	50,000
Payment of support arrangements	500,000
Total	6,333,000

Forward Together RAG rating				
Green - Achieved				
Yellow - On course				
Amber - More work required				
Red - Currently unlikely to be achieved				
	Green	Yellow	Amber	Red
Yellow		2,000,000		
Amber			1,500,000	
Amber			500,000	
Green	100,000			
Amber			483,000	
Green/Amber	600,000		600,000	
Amber			50,000	
Amber			500,000	
Total	700,000	2,000,000	3,633,000	0

Savings Measure	18/19
Environment and Economy	£
Environment - additional income, non-pay efficiencies and grant reductions	300,000
Highways - additional income, operational efficiencies and innovations	392,000
Economy - Planning and Transport - additional income and staffing efficiencies	202,000
Business Support Unit - operational efficiencies and innovations	50,000
Dorset Travel - additional income, fleet efficiencies and innovations	170,000
ICT – Full year effect of 2017/18 service efficiencies on 2018/19	313,000
ICT – operational efficiencies and innovations	127,000
Directors Office - operations efficiencies (staffing) including BSU	85,000
Total savings required	1,639,000

Forward Together RAG rating				
Green - Achieved				
Yellow - On course				
Amber - More work required				
Red - Currently unlikely to be achieved				
	Green	Yellow	Amber	Red
Amber			300,000	
Amber			392,000	
Yellow		202,000		
Yellow		50,000		
Amber			170,000	
Green	313,000			
Amber			127,000	
Amber			85,000	
Total	313,000	252,000	1,074,000	0

Total Transformation Savings	18,318,000
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3,441,800	9,125,900	5,750,300	0
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Not part of main DCC Transformation Programme -

Savings Measure	18/19
	£
Dorset Waste Partnership - changes in budget assumptions - DCC share	455,000
Total Transformation Savings	18,773,000

Forward Together RAG rating				
Green - Achieved				
Yellow - On course				
Amber - More work required				
Red - Currently unlikely to be achieved				
	Green	Yellow	Amber	Red
Yellow		455,000		
Total	3,441,800	9,580,900	5,750,300	0

Appendix 3

Provisional budget and precept summary 2018-19

Provisional Precept and Budget Summary 2018-19					
			£	£	
Budget Requirement: -				275,687,165	
To be met from: - Start-up Funding Assessment				38,571,000Cr	
Council Taxpayers				237,116,165	
Estimated Surplus on Collection Funds				4,124,568Cr	
Precept required in 2018-19				232,991,596	
PRECEPTS					
District Councils	Tax Base	Estimated Surplus on Collection Funds	Precept	Tax Base	Precept
	2018-19	2017-18	2018-19	2017-18	2017-18
		£.p.	£.p.		£.p.
CHRISTCHURCH	19,948.00	259,677.00Cr	28,053,670.32	19,624.00	26,038,496.88
EAST DORSET	37,708.00	427,841.00Cr	53,030,268.72	37,043.00	49,151,245.41
NORTH DORSET	26,057.10	510,721.00Cr	36,645,142.01	25,910.10	34,379,334.39
PURBECK	19,182.31	95,566.09Cr	26,976,849.85	19,052.10	25,279,659.93
WEST DORSET	41,782.20	1,547,153.00Cr	58,759,979.15	41,255.60	54,740,817.97
WEYMOUTH & PORTLAND	20,994.70	1,283,610.00Cr	29,525,686.40	20,721.30	27,494,471.33
	165,672.31	4,124,568.09Cr	232,991,596.45	163,606.10	217,084,025.91
COUNCIL TAX					
	BASIC AMOUNT	2018-19		2017-18	
		1,406.34		£1,326.87	
				5.99% increase	
	BAND A	937.56		884.58	
	BAND B	1,093.82		1,032.01	
	BAND C	1,250.08		1,179.44	
	BAND D	1,406.34		1,326.87	
	BAND E	1,718.86		1,621.73	
	BAND F	2,031.38		1,916.59	
	BAND G	2,343.90		2,211.45	
	BAND H	2,812.68		2,653.74	