

Shadow Dorset Council

Date of Meeting	21 August 2018
Officer	Jason Vaughan, Interim Section 151 Officer
Subject of Report	Financial Strategy
Executive Summary	The report sets out the Financial Strategy that is being used to develop the 2019/20 budget proposals.
Impact Assessment:	Equalities Impact Assessment: None
	Use of Evidence: None
	Budget: None
	Risk Assessment: Having considered the risks associated with this decision using the LGR approved risk management methodology, the level of risk has been identified as: Current Risk: HIGH Residual Risk MEDIUM
	Other Implications: None
Recommendation	1. To approve the Financial Strategy as a basis of balancing the 2019/20 budget.

	<p>2 That the Shadow Executive supports the proposals in the Finance Settlement Technical consultation for removal of negative RSG for 2019/20 and tasks the interim Section 151 Officer with responding to the consultation.</p> <p>3. That the approach to Member engagement on the budget as set out in the report is approved.</p>
Reason for Recommendation	To enable the development of budget proposals that will balance the 2019/20 budget.
Appendices	Appendix A – Financial Strategy
Background Papers	Reports to the Budget Task & Finish Group
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1. Background

- 1.1 The new unitary Dorset Council comes into existence in April 2019, however, the budget will need to be set in February 2019. This requires the finances of 6 existing councils to be combined to give the overall position. However, the position is further complicated with the disaggregation of the County Council functions for Christchurch and the creation of a new town council in Weymouth.
- 1.2 The 6 sovereign councils are in very different financial positions in relation to budget gaps, reserves and future years' demands. There are 4 different finance systems, finance teams, budget setting processes and Section 151 Officers across the 6 councils. Therefore producing a single unified 2019/20 budget is going to be challenging.

2. Budget Task & Finish Group

- 2.1 At the meeting in March 2018, the Joint Committee received a high-level medium term financial forecast, based on the published plans of the County Council and the five district/borough councils. The Joint Committee indicated it wanted the work on the medium term financial plan for Dorset Council to be developed, as a lead-in to the main budget preparation work, which will take place during the summer of 2018. The Joint Committee formed a task and finish group of Councillors to assist with the development of the budget and to assist in identifying ways of closing the projected budget gap for the new Council. It is the responsibility of the Shadow Executive to recommend a budget to the Shadow Council.

3. Medium Term Financial Forecast

- 3.1 As part of the budget setting process for the current year, each council produced a forecast of the budget gap for 2019/20. These were based upon the individual councils continuing and are therefore the starting point for producing the Dorset Council forecast for 2019/20. Although the individual council forecasts were produced using slightly different assumptions, the Section 151 Officers have reviewed them and concluded that the differences are quite minor and not material. Therefore the starting point in producing a forecast for the new Dorset Council is to add the individual council forecasts together.

Medium Term Financial Forecast

	2019/20	2020/21	Total
Forecast	£000's	£000's	£000's
Dorset CC	16,500	7,600	24,100
East Dorset DC	527	466	993
North Dorset DC	648	315	963
Purbeck DC	360		360
West Dorset DC	188	198	386
Weymouth & Portland BC	890	411	1,301
Budget Gap	19,113	8,990	28,103

- 3.2 The individual council forecasts assume the maximum council tax increases allowed under the referendum principles and in line with government funding assumptions. The issue of council tax harmonisation for the new Dorset Council needs to be agreed at both

local and national level. The potential loss of council tax if the approach of maintaining the total amount of council tax collected from the individual councils is not adopted is estimated to be just over £6m to the on-going base budget. The situation is further complicated with the establishment of a Town Council for Weymouth which will have an impact upon council tax levels and yield for 2019/20.

- 3.3 The work on service disaggregation of the Dorset County Council budget has been completed and identified that £1.291m of net costs that would fall upon the new Dorset Council unitary. This is in line with the Local Partnership model.
- 3.4 Work is continuing on the disaggregation of the balance sheet and the development of a TUPE list. This has highlighted the issue of 'stranded' costs and initial work has identified that these could be in excess of £7m. Work is currently being undertaken on identify solutions in order reduce the financial impact upon the council.
- 3.5 The initial forecast assumes the full delivery of any savings programmes built into individual council's 2018/19 base budgets and that there are no overspends due to the existing base budget being inaccurate. The latest budget monitoring report (month 2) for Dorset County Council indicates a potential overspend of £3.7m for the current year which is largely linked to the non-delivery of items in the Forward Together Programme. This could have an adverse impact upon the forecast budget gap for 2019/20 if this is not addressed during the current year. Monitoring of all councils 2018/19 budgets will therefore be vital and tackling any underlying issues will be essential if further savings are to be avoided.
- 3.6 A key financial discipline for the new Council will be to plan its finances over the medium term rather than focusing on annual budgeting. It is recognised that there are significant practical difficulties in doing this for 2019/20 given our unique circumstances of bringing 6 organisations together in a short timeframe and the requirements to set a robust budget by February 2019. However, this should remain the ambition as it is an essential part of creating a financially sustainable organisation. Once the 2019/20 budget has been set and the new organisation created in April 2019 it will be essential to develop financial forecasts and plans for future years. In order to help assess the picture going forward a financial model is being developed with which will estimate and model resources to 2024/25. This timescale fits in with some of the financial modelling that the LGA is currently trialling.
- 3.7 Forecasting resources over the medium term will provide an outline of the resourcing envelope which then helps shape the pace and direction of the transformation plans. This will then ensure that the two are combined and dovetail in order to deliver the political vision developed for the new organisation.

4. Financial Strategy

- 4.1 The Financial Strategy needs to reflect both the political vision and organisation design principles. The Strategy should also link with and reflect the organisation transformation plan. Given these unique circumstances that we currently find ourselves in, the Financial Strategy is based upon delivering the following:
 - A balanced 2019/20 budget
 - Setting the financial foundations in order to build a successful and financially sustainable council

- Funding the costs of converging 6 councils into one new organisation and delivering the benefits set out in the savings from the 'convergence' phase identified in the business case provided by Local Partnerships
- Ensuring there is enough resource clearly identified to carry out future 'transformation' which will be required in order to deliver future years savings and increased income so that the budget is balanced to 2025.

4.2 The intent of the Financial Strategy is to set out the themes and categories that we will look to further develop as a means of delivering the budget and any underlying actions that need to be taken. The headings in the financial strategy are:

- Efficiency Savings – are made when you are able to provide the same level of service at a reduced cost by removing duplication, improved performance from contract spend etc. So a major feature of this for Dorset Council will be the delivery of the savings from converging 6 Councils into one which Local Partnerships estimated to be £13.6m over a period of time.
- Service Levels – is concerned with making strategic choices over what level of service is required. Some services that the Council provides are classed as being statutory i.e. the Council has a legal duty to provide them, whereas others are discretionary in that the Council actively chooses to provide them. With all services regardless of whether they are statutory or discretionary, there is usually a choice over the service standard that is to be provided. There is an issue of the sovereign Councils currently providing different levels of service which will need to be addressed.
- Alternative Service Delivery – is about focusing on a current service and reviewing if that service could be provided in a different way and produce savings as a result
- Asset Management – is concerned with how the Council manages its assets effectively and efficiently
- Financing of Activities – is concerned with looking at the options for the funding of activities such as reserves, revenue, capital, borrowing, forward funding etc.
- Income Generation - is concerned with income from all sources including fees & charges, investment income, business rates and council tax

4.3 The Financial Strategy is set out in Appendix A.

5. **Member Engagement**

5.1 The formal budget setting process will involve members on the Shadow Executive and the Shadow Scrutiny Committee considering the budget proposals prior to them being considered by the Shadow Council in February 2019. The approval of the budget in February is the subject of a recorded vote and it is therefore vital that there is a good level of member understanding and engagement.

- 5.2 It is therefore proposed that there is a series of 3 Budget Briefings which will be open to all members of the Shadow Council. These will be on 19 September, 12 December and 12 February with each briefing being repeated so that there is both a day time and evening event. If the Shadow Executive approves this approach then dates and arrangements will be set up and members notified shortly.
- 5.3 A consultation process for the 2019/20 budget is being developed to ensure appropriate public, business and stakeholder engagement.

6. Developing the 2019/20 Budget

- 6.1 Each council has its own budget setting process, supported by its own finance team using their own financial systems. The task facing Dorset Council is to join this up prior to the formation of the new organisation. This will be done by the formation of a 'virtual' budget group made up of staff from all of the Councils working together to ensure a consistent approach. The group has met and agreed upon the assumptions underpinning the detailed 2019/20 budget estimates.
- 6.2 Work is currently being progressed across all councils to update their financial estimates and develop an initial draft budget. This will be considered by the Budget Task & Finish Group during September and reported to this Committee in October.
- 6.3 On 24 July MHCLG published a technical consultation on the 2019/20 local government finance settlement with a deadline of 18 September 2018. For Dorset Council the proposal to remove negative Revenue Support Grant (RSG) would have a financial benefit of £11m. There is also a proposal to increase the 'deadweight' used in the calculation of New Homes Bonus funding but there are no details of final proposals. It is likely that this would have an adverse impact but until the national picture is assessed we do not know. A briefing on the consultation paper was provided at the Budget Task & Finish Group meeting on 1 August.
- 6.4 The clear focus of the 2019/20 budget will be to protect frontline services as far as possible by delivering the efficiency savings from being one council and increasing income.

7. Capital Budget

- 7.1 Work will shortly be undertaken to bring together existing programmes from each of the sovereign councils. Part of this process will be to identify future disposals and the level of capital receipts available. The options around flexible use of capital receipts to support transformation will be explored.
- 7.2 Work will also start on identifying any potential new schemes for Dorset Council. These will need to be prioritised and assessed against the level of funding available. It is important that during this period of substantial change schemes are assessed against the Committee priorities given the limited availability of funding.

8. Reserves

- 8.1 An initial estimate of the risk based assessment of the minimum level of general reserves has been undertaken and identified that the minimum level of reserves should be set at £20m for the new council. This estimate will be reviewed and refined as part of the

budget setting process and will need to reflect the risks within the final 2019/20 budget proposals.

- 8.2 As part of developing the budget proposals it would be prudent to allow for a contingency within the base revenue budget. This approach is designed to enable the risks associated with the uncertainty and process to be effectively managed.
- 8.3 The business case produced by Local Partnerships identified once-off costs associated with the convergence of the 6 Councils into one were in the region of £13.2m. This estimate will be reviewed in the light of the 2019/20 budget proposed. Some allowance for the convergence costs has been made within the sovereign council's plans and the current level of uncommitted reserves would mean that this could be fully funded.
- 8.4 In addition the PWC case for change identified that once-off costs of investing in transformation would be £18m to £27m. The initial analysis shows that there are not enough reserves to fully fund this. Consideration is therefore needed as to how the transformation programme could be funded.

9. **Financial Sustainability**

- 9.1 The National Audit Office recently produced a report on the financial sustainability of local authorities which set out how councils had responded to reductions in funding over the decade. The various reports into Northamptonshire County Council highlight some of the issues and challenges facing local authorities. There are concerns about a small number of councils' financial sustainability going forward. CIPFA are currently consulting upon a local authority financial resilience index which will assist in identifying authorities at 'risk'. It is important that Dorset Council deals with this issue and adopts approaches that should ensure its future financial sustainability.
- 9.2 For Dorset Council, the approach it adopts to balancing the 2019/20 budget, will set the foundations for its future financial sustainability. A key principle is that on-going expenditure should not be supported from once-off sources of funding. It should therefore adopt the approach of medium term financial planning rather than viewing the budget as an annual process. These basic financial disciplines are at the heart of creating a financially sustainable organisation.

Dorset Council

Appendix A

Financial Strategy

July 2018

Financial Strategy

Introduction

1. The Financial Strategy sets out how Dorset Council will plan its finances in order to meet its strategic priorities. The strategy sets out the actions that need to be undertaken in order to deliver a balanced budget for 2019/20.
2. This Medium Term Financial Strategy (MTFS) provides a framework for budget setting. It explains the financial context and the targets, as well as the financing mechanisms available to the Council. This strategy does not detail how individual savings will be made, nor how categories of additional income will be achieved. Nevertheless it describes the scope of the work required, and taking place, to balance the budget.
3. The overriding principle will be to deliver a balanced budget for 2019/20 and to set the solid foundations which will enable longer term financial sustainability. The Strategy recognises that 2019/20 will be an unusual year as it brings the 6 sovereign councils together in a short timeframe.
4. In developing a balanced budget it is important that once-off sources of funding are not used to fund on-going expenditure and this will create further pressure in the following year and will limit the Councils ability to fund its transformation programme.
5. The Strategy will help Dorset Council establish a culture of excellent financial management and a strategic approach to medium term financial planning rather than having a short term annual focus.
6. The £13.6m annual savings identified by Local Partnerships were based upon the efficiencies that could be achieved by convergence of the 5 district/borough councils and county council into one organisation. They do not include any transformation savings and the estimated implementation costs were £13.2m
7. The Case for Change report prepared by Price Waterhouse Coopers suggested the transformation of services could increase the savings from the reorganisation to £22m or even £33m per annum by the once-off investment of £18m or £27m respectively.
8. Whilst Members have indicated their desire for the transformation of services, the delay in the decision from the Secretary of State will affect the ability of the new Council to transform its services at the same time as the transition to the new Council. Therefore the strategy for 2019/20 is to focus upon convergence and the savings and opportunities that come from these. Future years will then build in the transformational savings as we develop the full plan and align this to the Medium Term Financial Forecast up until 2025.

Efficiency Savings

9. This part of the strategy focuses on savings made from the removal of duplication as a result of converging the 6 councils into 1 new organisation plus changes such as digital and improved contract management. These are new savings available from creating a single organisation and could not be achieved within the existing councils.

Staffing

10. The Business Case from Local Partnerships identified the biggest saving item of £10.1million on an on-going basis would be achieved by reducing the consolidated staffing basis of the councils forming the new Dorset Council. The saving is a combination of avoiding duplication in the cost of management and through economies of scale in service delivery. It was recognised in the business case that this would take 2 years to fully achieve.
11. The proposals in this section are being used for financial planning purposes only and should not be seen as prejudicing the independent consideration of the organisation structure and its associated harmonised pay and grading arrangements.
12. At this stage the complete salary information upon which to base the 2019/20 budget is being worked on and will be finalised at the end of August. This is due to the dependency upon the disaggregation process for the Christchurch area and Weymouth Town Council. Staff savings protocols will need to be confirmed once all of the relevant information is available and an assessment of how much can be built into the 2019/20 budget and future years will be required.
13. In order to facilitate the savings from this area a vacancy control process will be put in place. This will seek to ensure that the 12.5% natural reduction in posts that would otherwise be made redundant is achieved in line with the Local Partnerships business case. It will also seek to mitigate any short term service needs that need to be addressed.
14. The use of a voluntary/deferred redundancy process is an important management tool in achieving the savings targets. Any process does however, need to be used carefully and directed at appropriate areas in order to ensure value for money is achieved and that any approvals are in line with the policy once established.
15. The business case from Local Partnerships assumed that a new pay and grading structure would be cost neutral in the medium term. An assessment will need to be made to determine any impact upon the 2019/20 budget.

Democratic Representation

16. The reduction in the number of councillors following the election in May 2019 was estimated to achieve savings of £600,000 by Local Partnerships. This will need to be reviewed and updated in the light of the decisions of the remuneration panel.

Base Budget Review

17. Each of the sovereign councils has now closed down their 2017/18 accounts. Therefore the finance teams in each council are now able to review this detail, alongside previous years' data to identify any on-going savings or increased income that could be built into the 2019/20 budget. The process should help identify duplication within budgets such as external audit fees, subscriptions etc. which can be removed and taken as savings.

18. This process will also ensure that the base budget assumptions in each sovereign council are robust and that the 2019/20 budget is built upon solid foundations.

Common Financial Policies

19. This element will focus upon establishing the optimum financial policies for the new council within the requirements of the financial orders which is likely to be within 2 years. It covers such things as Local Council Tax Support Scheme, Business Rates Discounts and Reliefs, charges for empty properties and second homes.

Service Levels

20. This element of the Financial Strategy is concerned with making strategic choices over what level of service is required. Some services that the Council provides are classed as being statutory i.e. the Council has a legal duty to provide them, whereas others are discretionary in that the Council actively chooses to provide them. With all services regardless of whether they are statutory or discretionary, there is usually a choice over the service level that is to be provided and the manner in which it is delivered.
21. It is recognised that any changes to services need to be managed and carried out as part of a transformation programme. Local Partnerships identified through service benchmarking that £2.3m of savings could be achieved. The breakdown of the service convergence savings that they identified was:-

Savings from Services:-	
Planning	0.4
Cultural & Related Services	0.1
Environment & Regulatory Services	1.6
Waste	0.2

Alternative Service Delivery

22. This element of the Financial Strategy is about focusing on a current service and reviewing if that service could be provided in a different way and produce savings as a result. This work is clearly part of a transformation programme and therefore no specific savings targets have been set for 2019/20. This will be reviewed once the political Vision and new organisation has agreed its operating model. Once this has been developed savings for future years can be included within the Financial Strategy.

Asset Management

23. This element of the Financial Strategy is concerned with how the Council manages its assets effectively and efficiently.
24. The business case produced by Local Partnerships identified that annual savings of £200,000 from property could be achieved. It further identified that capital receipts across the 2 unitaries could be achieved from the rationalisation of accommodation. It would be reasonable to estimate that based upon 50% of this being for Dorset Council that capital receipts of between £8.5m to £12.5m could be achieved. The generation of capital receipts and commercial income returns are a key element for the funding of the future Transformation Programme.

Financing of Activities

25. This element is concerned with options for funding activities such as the use of reserves, revenue, capital, borrowing, forward funding etc.

26. The Local Partnerships business case identified convergence costs of £13.2m and the work by PWC identified transformation costs of a further £18m to £27m. By managing its finances on an 'holistic' basis the new Council will need to identify the most appropriate way of funding these items.

Income Generation

27. This covers the whole spectrum of income to the Council from all sources including government grant, fees & charges, investment income, business rates and council tax.

Negative Revenue Support Grant (RSG)

28. The Government has previously announced that it will be consulting on the issue of negative RSG. For 2019/20, this amounts to £11m of reductions in funding for Dorset Council. Therefore, this is a key area of the financial strategy where the approach should be to lobby and campaign to get this removed for 2019/20. Nationally this would benefit 158 local authorities and cost the government £153m. It is unlikely that this could be removed on a permanent basis given the on-going cost combined with the planned significant funding changes in 2020/21.

Council Tax

29. Council tax harmonisation in 2019/20 is worth £6m for the new Dorset Council. Discussions are on-going with MHCLG about maintaining the total amount collected by the individual sovereign councils for the benefit of Dorset Council.
30. Operational activities such as undertaking reviews of Single Person Discounts, direct debit campaigns and e-billing will continue.

Business Rates Retention

31. Moving from 6 councils into one enables and requires a review of provisions and budgets across the councils and provides some opportunities to build in further business rates income for 2019/20. LG Futures have been engaged to model the impact and review options.
32. There is also the potential to bid to the Government to be a business rates retention pilot authority for 2019/20. As part of their work LG Futures will also assess this option.

Fees & Charges

33. Fees and charges are either set nationally or determined locally by the individual sovereign council. Where they are set locally they need to be aligned where possible in order to ensure that there is the same charge for the same service e.g. building control, pre-planning advice and land charges. This does not mean that all parking charges will be aligned as there are already different charges depending on the location and there will need to be integration between on and off-street parking. This will be considered as part of the transformation phase.
34. All general fees and charges that are locally determined would be expected to be increased by the September CPI figure unless there is specific reason for not doing so.

Treasury Management

35. There is a significant variation in the investment income generated by the sovereign councils. Dorset Council will need to set out its risk appetite which will be used to align current practices and provide opportunities to increase income.

New Homes Bonus

36. The sovereign councils have adopted slightly different accounting approaches to how much of the funding from this that they incorporate within their budgets. A consistent approach will be adopted for Dorset Council. There is also the opportunity to improve future years funding by undertaking an exercise to reduce the number of empty properties recorded in each council at the end of October 2018.