



Date of Meeting: 30 July 2019

Lead Member: Cllr Tony Ferrari – Lead Member for finance, commercial and assets

Local Member(s): N/A

Lead Officer: Aidan Dunn

Executive Summary:

This report updates Cabinet on Dorset Council's financial performance, position and forecasts at the end of the first quarter of the new financial year.

Initial analysis of the expenditure information for the first three months of the year suggests that Dorset Council is currently forecasting a year end overspend of £7.1M on its directly controlled budgets, and up to £5.5M on funding for schools and education.

If necessary, the risk associated with this overspend can be funded by general reserves held by Dorset Council without exposing the Council to unnecessary financial risk. These general reserves have increased following the closure of the accounts from the predecessor authorities and are now higher than when the budget was agreed in February 2019.

Clearly reserves can only be spent once, and a continued overspend into 2020/21 is not sustainable. The following work is underway to address the forecast overspend:

- a) completion of the new staffing structures to achieve the planned savings identified by bringing the councils together;
- b) as the newly appointed finance team takes shape, a focus on review the budget, income and expenditure to identify further savings through the harmonisation process;
- c) implementation of the Children's and Adults services' improvement plans to improve services whilst reducing costs;
- d) continued focus on developing an organisation-wide transformation plan for 2020-24.

Equalities Impact Assessment:

This report does not deal with any new strategy or policy issues that would trigger the need for an impact assessment.

Budget:

Financial information is set out in this report.

Risk Assessment:

Having considered the risks associated with this decision, the level of risk has been identified as:

Current Risk: HIGH

Residual Risk: HIGH

There is material risk around some of the savings plans incorporated into the 2019/20 budget, especially concerning activities driving spend in Children's Services, Adult Services social care budgets and the High Needs Block (HNB) of the Dedicated Schools Grant (DSG).

There is less (and reducing) risk around convergence savings being delivered from reorganisation.

Climate implications:

N/A

Other Implications:

Recommendation:

Cabinet is asked to:

1. Note the Senior Leadership Team's forecast for Dorset Council's position at the end of quarter 1;
2. Note the context around the budget that was set for the year;
3. Comment on the actions/proposals to improve the position during the year;
4. Consider further actions needed to bring down spend during the year;
5. Note the impact that any overspend will have on reserves and the general fund;
6. Note the work going into reviewing Dorset Council's reserves and balances;
7. Note the approach to work to develop sustainability of the base budget position for 2020/21 and beyond;
8. Note and comment on the work going on around capital strategy and the capital programme and financing.

Reason for Recommendation:

Cabinet needs to consider the forecast position and risks potentially impacting over the remainder of the year. Support and/or challenge is needed for actions being taken in 2019/20 to balance the budget and consider the adequacy and use of reserves and to support transition and convergence.

2019/20 is a critical year for establishing the base budget for Dorset Council to enable an accurate, medium-term financial plan to be delivered alongside a longer-term, sustainable financial strategy.

Appendices:

None

Background Papers:

Budget paper 2019/20 approved by Shadow Council 20 Feb 2019

Officer Contact:

Name: Jim McManus

Tel: 01305 221235

Email: jim.mcmanus@dorsetcouncil.gov.uk

1. Introduction

- 1.1 Dorset Council's budget for 2019/20 was approved by the Shadow Council on 20 February 2019. It was built using the base budgets of the six predecessor councils and incorporated targets for staff savings and efficiencies from "de-duplication" where this could be identified. The level of the general fund reserve was set at £25.5m, safely above the £14.5m minimum recommended by the Chartered Institute of Public Finance and Accountancy (CiPFA).
- 1.2 The council plans to use 2019/20 as a transitional year of consolidation to release the savings from bringing the councils together, whilst developing medium and long-term service and financial plans for the future. The money identified to be released through the consolidation has been reinvested in front line service budgets.
- 1.3 Since 1 April, officers have been working to consolidate the predecessor councils' budgets and simplify them, to reflect the evolving structures of Dorset Council. This work will take some time to complete, but progress is being made and savings are accruing as we rebase the 2019/20 budget.

2. Outturn and the starting position

- 2.1 The outturn position for 2018/19 was positive with all six councils performing well against their revenue budgets. This means that the general fund reserve increased to approximately £29M (subject to disaggregation). This improvement gives some headroom to enable officers time to review the inherited budgets and spend, whilst coming to terms with the continuing growth - in particular in Children's Services spend.
- 2.2 There are other earmarked reserves that the council can use to support service delivery during the year. These were noted as being adequate in the

budget report. Officers are currently carrying out a review of *all* reserves to determine if they are still required for the purposes required.

3. Further budget context

- 3.1 2019/20 was always going to be an extremely challenging year to develop anything other than a single-year budget. It is the final year of four that were included in a longer-term funding settlement offered by Government following the last Comprehensive Spending Review (CSR2015).
- 3.2 It is still Government's aim to continue with longer-term funding arrangements to give councils greater planning certainty but since June 2016, a significant amount of parliamentary time has been consumed by arrangements for leaving the European Union. This means the quantum of funding available for public spending remains unclear and Government is not yet able to give us certainty over longer-term funding options.
- 3.3 The 2019-20 budget was set prudently and included the most accurate data available at the time. Despite this, the budget report still acknowledged that there were risks and pressures; most notably in Children's Services where a national picture of escalating demand is being replicated in Dorset. This is evident not just across social care budgets but also in the High Needs Block (HNB) of the Dedicated Schools Grant (DSG).
- 3.4 Additional funding was made available in the 2019/20 budget, especially for Children's Services but even at that time it was noted that there were further budget pressures building in the system. A base budget review was therefore recommended, and this is being progressed as part of the "baseline" work currently in progress with newly appointed managers. Further funding was also included in contingency and the forecast shows that a portion of this is currently not committed (£2.5m) and is available to support the areas experiencing most pressure.

4. Action in the current year

- 4.1 A review of reserves is under way. All six predecessor councils did this regularly, so it is consistent with previous approaches and is good practice. The purpose is to ensure all reserves are still required for their original purposes and where they are not, the reserve can be either re-purposed or released to the general fund.
- 4.2 In setting a budget for a single year, it was clear that a strategy for delivering longer-term financial stability and sustainability would need to be developed. There is more information on the Medium Term Financial Plan (MTFP) later in this report. However, against the context set out above and given that transition to a single council had to be done within 13 months, 2019/20 was identified as a transitional year. Within these constraints the council set the best budget it could, building-in contingency to support risks and reviewing reserves and balances to support in-year transition costs while going through a proper process to design and build a modern, efficient council for the residents of Dorset.
- 4.3 Within this turbulent and dynamic local context of reform and modernisation, and against the national backdrop of increasing demand and cost pressures it is inevitable that this first year will be challenging. Some of that challenge is

emerging and is reported in the numbers and narrative below. But work continues to converge, streamline and modernise the organisation.

- 4.4 It is right that the council pursues the convergence savings; they are essential in continuing to deliver resources to front line services. We aim to save £5.2m in 2019/20 and £10m in a full-year this way – and we are making good progress. We also need to remove duplication, build on our digital work to date and ensure the work to baseline our budgets this year gives us adequate resources for the services needed for Dorset's residents.

5. Forecast v budget

- 5.1 At the end of quarter 1, the council is forecasting an overall overspend of £7.1m excluding the DSG budgets. There are some key reasons for this which are set out in the analysis and narrative below; the narrative covers material areas only.

Directorate	Net Budget	Forecast Outturn	Forecast (Overspend)/ Underspend	
	£k	£k	£k	%
People - Adults	111,918	114,341	(2,422)	(2.16%)
People - Children's	65,815	72,727	(6,912)	(10.50%)
Place	70,285	70,631	(346)	(0.49%)
Corporate Development	23,532	23,879	(347)	(1.47%)
Legal & Democratic	7,204	7,246	(42)	(0.58%)
Insight & Corporate Communications	5,319	5,129	190	3.58%
Public Health	0	0	0	0.00%
Total Service Budgets	284,073	293,952	(9,879)	(3.48%)
Central Finance	(283,863)	(286,638)	2,775	(0.98%)
Whole Authority	209	7,313	(7,104)	

6. Analysis by Directorate

People Services – Adults & Housing

Executive Director Mathew Kendall; Cabinet Members Laura Miller, Graham Carr-Jones

- 6.1 The People Services - Adults budget is projected to overspend by £2.4m (2.16%).

People Services - Adults	Net Budget	Forecast Outturn	Forecast (Overspend)/ Underspend	
	£k	£k	£k	%
Adult Care Packages	87,730	89,751	(2,021)	(2.30%)
Adult Care	15,205	15,413	(208)	(1.37%)
Commissioning	5,344	5,904	(561)	(10.49%)
Director's Office	622	637	(15)	(2.41%)
Housing Services	3,018	2,635	383	12.69%
Total Directorate Budget	111,918	114,341	(2,422)	(2.16%)

- 6.2 Adult Social Care Packages are currently forecast to be overspent by £2m (2.3%). £825k of this is due to movements since the service budgets were disaggregated a year ago. There is also additional base budget pressure of

£500k. The remaining overspend reflects an increase in Residential, Supported Living and Direct Payment spend.

- 6.3 The Adult Care budget is currently forecast to overspend by £208k (1.37%), principally on staff budgets. Establishment control measures are in place to reduce this overspend as the year progresses.
- 6.4 The Commissioning area is forecast to overspend by £561k (10.49%). The majority of this is driven by the increased projections on the Integrated Community Equipment Store (ICES) pooled budget and the Dorset Accessible Homes Service (DAHS) contract. There are also some residual pressures to manage from budget disaggregation.
- 6.5 Housing Services are forecasting an underspend of £383k due to vacancies and lower than expected use of B&B accommodation. Detailed work is currently taking place to review and rationalise these budgets.
- 6.6 The overall savings target for the Directorate for 2019-20 is £5.1m. Of this, £2.3m has already been achieved and the forecast assumes that the plans in place for the remaining £2.8m will be successful. These are reviewed at the monthly Cost Reduction Board.

People Services – Children

Executive Director Sarah Parker; Cabinet Member Andrew Parry

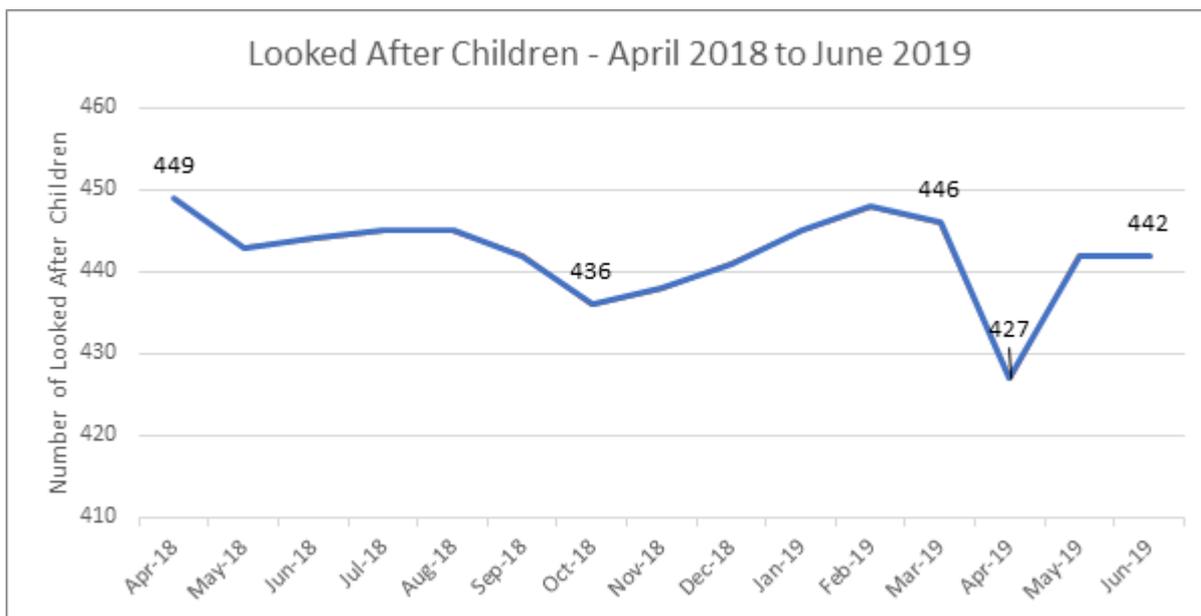
- 6.7 The People – Children’s Services revenue budget is projected to overspend by £6.9m (10.5%). The Dedicated Schools Grant (DSG) is forecast to overspend by £5.5m.

People Services - Children	Net Budget	Forecast	Forecast (Overspend)/	
	£k	Outturn	Underspend	
		£k	£k	%
Care and Protection	40,445	45,991	(5,545)	(13.71%)
Commissioning and Partnerships	9,192	9,091	101	1.10%
Director’s Services	3,469	4,276	(807)	(23.26%)
Education and Learning	12,708	13,369	(661)	(5.21%)
Total Directorate Budget	65,815	72,727	(6,912)	(10.50%)

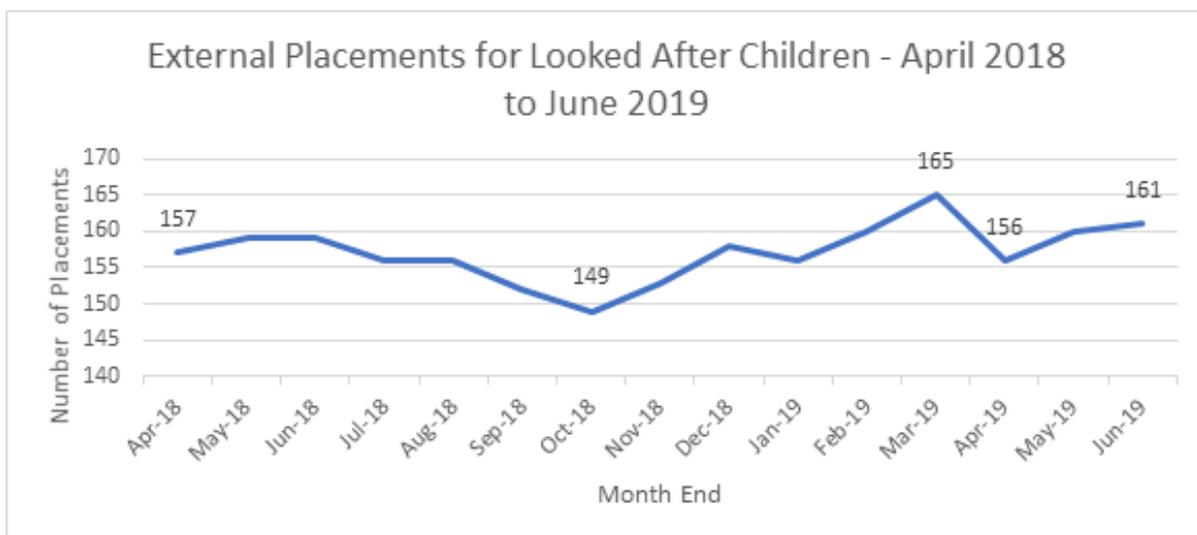
Dedicated Schools Grant budgets	(386)	5,128	(5,514)
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- 6.8 The 2019/20 People Directorate – Children’s revenue budget was set with an increase of £9.9m on the 2018/19 base budget inherited from Dorset County Council in order to address known pressures such as the increasing cost and number of external placements, associated SEN transport costs, investment in additional social care staff and on increasing in-house foster carer recruitment.
- 6.9 The Care and Protection Service is responsible for children’s social care in Dorset. Following the transfer of 33 children to the Bournemouth, Christchurch and Poole Council on 1 April 2019, there were 413 Looked After

Children in Dorset at the start of the financial year. At 30 June 2019 there are 442 Looked After Children; an increase of 29 in the first quarter.



6.10 Looked After Children live in a variety of settings sourced internally and externally, for example, residential care, foster care and independent accommodation. In the last 15 months an average of 36% of the Looked After Children placements have been sourced externally.



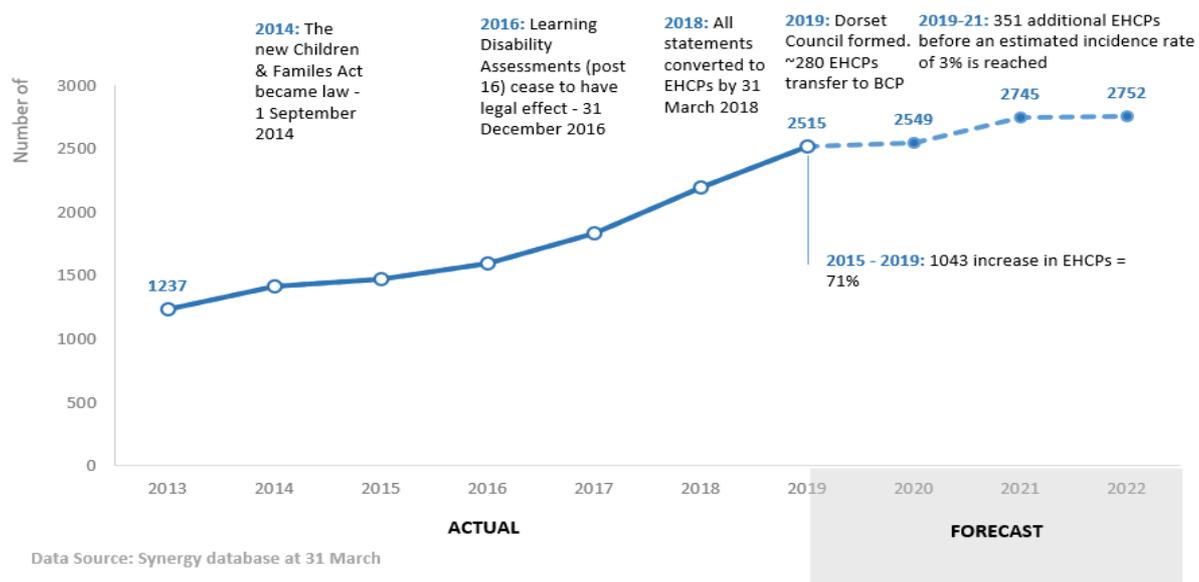
6.11 On 1 April 2019 15 children in external placements were transferred to the Bournemouth, Christchurch and Poole Council, leaving 150 Dorset children in these placements at the start of the financial year. As at 30 June 2019 there are 161 children with external providers; an increase of 11 in the first quarter. The current cohort of 161 children are forecast to overspend the External Placements budget by £5.5m.

6.12 Residential care placements are mainly required for adolescents that are highly vulnerable or that might present a danger to themselves or others. Costs range between £3,000 and £8,250 per week, this has increased significantly over the past 2 years. There has been a net increase of five new residential care placements in the first three months of 2019/20. A fortnightly

high cost placements panel has now been set up to review practice and approve the suitability and value for money of all newly proposed placements.

- 6.13 There are 199 children placed with in-house foster carers and this is below the budgeted placement level for 2019/20. The recruitment and retention of foster carers continues to be a priority for the service. The forecast underspend on the in-house Fostering budget will offset budget pressures in other areas, for example Community Resource Workers, Independent Living and Unaccompanied Asylum Seeking Children.
- 6.14 The Commissioning & Partnerships and Director's Services budgets are forecast to overspend by £0.7m. The main part of the overspend is savings for which plans are still being finalised.
- 6.15 The Education and Learning service comprises areas funded from Dorset Council revenue budgets and the (DSG). This area provides:
- Educational services to schools including early years and post 16 settings.
 - Traded / trading services including the Dorset Music Service and Governor Support services.
 - Sufficiency and School Organisation including school admissions, SEN Transport and early years funding.
 - SEND (Special Education Needs and Disabilities) Services 0-25 including specialist teaching services, SEN Assessment team and Educational Psychology.
- 6.16 The major issues impacting Education and Learning are:
- Rising numbers of children and young people with SEND requiring an Education, Health and Care Plan (EHCP). This causes pressure on the statutory services that administer EHCPs and the EHCP process – DC revenue funded - plus the demand-led SEN Transport. This also drives demand for services and education provisions, for example high cost placements, funded from the HNB, part of the DSG. The graph shows the increase in EHCPs since the introduction of the Children and Families Act in 2014.
 - School funding decreasing and the increase in academy conversions (>50% of schools will be academies by the end of the 2019-20).

Number of Statements / EHCPs over time



- 6.17 The DSG is forecast to overspend by £5.5m. There is a further £2.9m of risk. This would mean the overall cumulative DSG deficit would be £23.7m (this will reduce slightly once the LGR disaggregation transfer to BCP takes place).
- 6.18 £0.476m of the risk is due to a decision to return this amount to maintained schools. This was a transfer from the Schools Block to the High Needs Block as part of the 2019/20 DSG budget setting process.
- 6.19 The remainder of the risk, £2.4m, concerns EHCP growth being 194 EHCPs over the 351 budgeted increase level. The 194 is based on the current request for EHCP assessment level, used as a basis for future demand. The 194 growth is a risk and not part of the main forecast because there are several variables, including the yet unknown education provision for the child or young person and the associated cost.
- 6.20 The Dorset Council budgets within Education and Learning are forecast to overspend by £0.66m. This includes £300k of stranded costs because of Local Government Reorganisation, approximately £0.15m due to forecast under recovery of traded income (purchases below budgeted) and £0.16m due to demand pressures on the alternative provision pupils, part of the SEN Transport budget. There could be additional pressures within the SEN transport area, however this will be known once contracts and new routes have been set up in September.

Other budgets

- 6.21 Expectations for other areas are not materially different from the budget at this stage except some additional New Homes Bonus funding (£275k) and the £2.5m uncommitted contingency budget in the central finance line of the table.
- 6.22 Convergence savings also mentioned earlier are held within these budgets until the restructure work is complete. £5.2m is anticipated and the council is making good progress with this work. Savings from LGR are being realised

and are on-track and are flowing through to support delivery of services to residents.

7. Capital programme, strategy and budget

- 7.1 The council also approved the capital budget for 2019/20 at its meeting on 20 February. The programme was established through the Budget Working Group, which took approved projects from the predecessor councils. There was no new bidding and the budget included only projects that were due to start on or after 1 April 2019. The programme is predicted to cost £65.3m and is funded from capital grants, other contributions (such as from developers through S106 agreements), revenue contributions and borrowing.
- 7.2 The approved programme excluded slippage of unfinished schemes from 2018/19. Any slippage will already be financed as part of being approved in 2018/19 or earlier so the budget impact will be net nil. Officers are working through the slippage calculations to ensure cash flow estimates are accurate and any funding that needs to be drawn down is available when required. It is also important to define the level of capital receipts in reserves that is required to support the programme alongside other sources of finance.
- 7.3 As well as the capital receipts work, Executive Directors and the Cabinet member for Finance are also establishing governance arrangements to ensure that the emerging vision and priorities are supported by a capital programme and that the overall plan is affordable and well managed.
- 7.4 The February 2019 budget report set out that £13.5m would be needed to fund LGR implementation costs. No support from Government has been provided to meet these costs, so they will need to be funded from our own resources using capital receipts. There is currently £6.5m available in the capital receipts reserve and plans are well developed to fund the balance of £7M through planned in year asset sales.

8. Savings plans/targets

- 8.1 A number of savings were incorporated into the 2019/20 base budget. These ranged from straight forward, de-duplication (like subscriptions) right through to more complex change projects such as fairer charging, renegotiation of block contracts, demand management initiatives and restructuring.
- 8.2 Each Directorate Leadership Team monitors its own savings targets and performance through a cost reduction board (or similar). South West Audit Partnership (SWAP) is also undertaking a three-part review of financial management in these early stages of the year to provide valuable assurance as well as advisory work. Whilst officers continue to include assumptions about savings achieved/likely/unachieved in their forecasts, SWAP will also provide some independent evaluation of the processes and outcomes as we seek to build a revised 2019/20 base budget for use in the MTFP.

9. Risks – and opportunities

- 9.1 There are clearly risks in the short and longer-term. In 2019/20, the council should be robust enough to mitigate and manage these risks, through a combination of prudent use of reserves, management action and making in-year savings. But there is also risk to our ongoing, base position. The 2019/20 budget rebasing exercise is in progress and will be a cornerstone of our longer-term sustainability and the starting point of the MTFP.
- 9.2 It is likely that the re-basing work, as well as highlighting risks, will also identify opportunities. For example, early indications in our quarter 1 forecasting work suggest there is scope for further income to accrue from fees and charges and in treasury management. We have not built-in material changes for these items at this stage as it is prudent to deal with the council's cost base as well as looking at opportunities to realise additional income. However, a clear schedule of likely opportunities is being drawn-up and officers will be tasked with developing options for base budget improvements as they are appointed to positions in the new structure.

10. Planning/impact on budget 2020/21 and MTFP

- 10.1 Work is under way to build the new MTFP for Dorset Council. Beyond the model itself, there are significant uncertainties around the implementation and timing of the *Fair Funding Review* and *Business Rates Retention*. This uncertainty means that creating a picture of funding beyond this year is more challenging and may need more time for Government to finalise and implement. It would also appear likely that the next spending review is becoming more of a short-term settlement than a formal spending review.
- 10.2 There have also been changes to recent council tax referendum limits, with 2018/19 and 2019/20 being allowed to increase by up to 3% rather than 2% in previous years, before a referendum would be required. The referendum limits for 2020/21 are not currently clear.
- 10.3 Despite this lack of certainty we will continue to develop the longer-term financial strategy of the council, supported by a MTFP. The MTFP will be driven by and will underpin the resources to deliver the corporate plan. Clearly there are pressures to manage in the current year and this report sets out some of the strategies being deployed to mitigate and manage these. But they cannot be tackled without major reform of our operating model, systems, processes and most importantly our culture.
- 10.4 This council remains confident that it has the resources available to overcome short-term pressures while it continues to refine the vision, strategies and operating model that will deliver the sustainable, dynamic and innovative organisation that Dorset's residents need.

Aidan Dunn

Executive Director, Corporate Development