

# Shadow Dorset Council

Date of Meeting	15 October 2018
Officer	Jason Vaughan, Interim Section 151 Officer
<b>Subject of Report</b>	<b>2019/20 Budget &amp; Medium Term Financial Forecast</b>
Executive Summary	The report sets out the latest position in respect of the 2019/20 budget and the approach for ensuring a balanced budget proposal in February 2019. It outlines the future financial forecast and the strategic approach being taken to ensure sustainable finances for the new council which will enable it to deliver sustainable services to the people of Dorset.
Impact Assessment:	<p>Equalities Impact Assessment: An EqIA will be undertaken as part of the budget process.</p>
	<p>Use of Evidence: The report has been built upon a variety of information from the 6 sovereign councils including the latest budget monitoring for 2018/19, internal and external audit reports, the medium term financial forecasting model, the Local Partnerships business case and the PWC Case for Change.</p>
	<p>Budget: It is a statutory requirement under the Local Government Finance Act 1992, as amended by the Localism Act 2011, for the Council to set a balanced revenue budget. The 2019/20 budget will be set by the Shadow Council in February 2019 and together with the Capital Investment Programme and Treasury Management Strategy it sets the resource framework and limits within which services must be delivered.</p>
	<p>Risk Assessment:</p>

	<p>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  The key risk areas are around the delivery of convergence savings, reducing stranded costs and containing demand led services within the budget estimates,</p>
	<p>Other Implications:  None</p>
Recommendation	<p>1. That the Shadow Executive notes the current financial forecast for 2019/20 and approves the strategy for balancing the budget of focusing on convergence savings.</p> <p>2 That the Shadow Executive notes the outline forecast for futures years and work being undertaken to ensure future financial sustainability.</p>
Reason for Recommendation	To enable the development of budget proposals for 2019/20 that will set the foundations to creating a financially sustainable council.
Appendices	None
Background Papers	Reports to the Budget Working Group
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## **1. Background**

- 1.1 All Councils are under significant financial pressure and Dorset is no different. According to the National Audit Office, there has been a 49% real-term reduction in government funding for local authorities in the last six years.
- 1.2 Dorset has taken the proactive and nationally leading edge response of creating a new unitary council which comes into existence in April 2019. The new Dorset Council will replace the 6 existing councils and provide a platform for delivering significant efficiency savings from converging six councils into one. It will also provide a basis to enable significant transformational change in the way in which services are delivered going forward. This is essential in creating a financially sustainable council that can continue to deliver services to its residents.
- 1.3 The Shadow Council will set the 2019/20 budget for Dorset Council in February 2019. The finances of 6 existing councils will be combined on 1 April 2019. 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. The 6 sovereign councils are in very different financial positions in relation to budget gaps for 2019/20, reserves and future years' demands. The financial information is currently contained with the sovereign councils through 4 different finance systems, 4 separate finance teams in 4 different locations. Against the background of reduced resources, producing a single unified 2019/20 budget is going to be challenging.

## **2. Budget Working Group**

- 2.1 Recognising the challenges ahead the Joint Committee set up 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. This has recently been renamed the Budget Working Group and is made up of councillors from each of the sovereign councils. The Budget Working Group has considered a range of financial issues and will continue to meet and help shape the 2019/20 budget proposals. It is the responsibility of the Shadow Executive to recommend a budget to the Shadow Council.

## **3. Financial Strategy**

- 3.1 The Shadow Executive Committee approved the Financial Strategy in August. It set out some key financial principles which will be used in developing the 2019/20 budget proposals. They are:
  - To set a balanced budget for 2019/20 – This involves not using once off sources of funding to support on-going expenditure.
  - Adopting a Medium Term financial planning horizon – Not just focusing on one financial year but looking forward over the medium term and developing plans to address the resourcing gap. The Medium Term Financial Forecast shows the costs and funding from 2019/20 to 2024/25.
  - Setting solid financial foundations - Although 2019/20 presents some unique challenges the new council needs to ensure that it focuses upon creating a financially sustainable council that can deliver sustainable services to its residents.

- Convergence – Delivering the estimated £13.6m savings from the convergence of the 6 councils into one new organisation and delivering the benefits set out in the savings from the ‘convergence’ phase identified in the business case produced by Local Partnerships<sup>1</sup>. Also ensuring that the £13.2m estimated implementation costs are provided for.
- Transformation - Ensuring there is enough resources and funding to carry out ‘transformation’ which will be required in order to deliver future years savings and increased income so that the budget is balanced to 2025.

#### 4. **Medium Term Financial Forecast (MTFF)**

- 4.1 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 balanced 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 Medium Term Financial Forecast (MTFF) has been developed which estimates and model resources to 2024/25. This timescale fits in with some of the national financial modelling that the LGA is currently producing and takes into account the 5 year term for the new council.
- 4.2 Forecasting resources over the medium term is always difficult but it does 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.
- 4.3 The starting point for producing a financial forecast for Dorset Council is the individual forecasts made by the 6 sovereign councils as part of the budget setting process for the current year. These were based upon the individual councils continuing and therefore the individual council forecasts were produced using slightly different assumptions. These forecasts assume the maximum council tax increases allowed under the referendum principles and in line with government funding assumptions. They showed that the Budget Gap for 2019/20 was £19.113m and a further gap of £8.990m in the following year.
- 4.4 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.
- 4.5 The work on service disaggregation of the Dorset County Council budget has been completed is in line with the Local Partnership model. Work is continuing on the disaggregation of the balance sheet and the development of a TUPE list which has

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<sup>1</sup> It is recognised that these figures are now 18 months old but still provide a useful reference

highlighted the issue of 'stranded' costs. These are costs that remain with the council but for which there is no funding. Currently these are estimated to be in the region of £6.2m which is made up of £5.7m staffing cost and £0.5m of other costs mainly from systems. Reducing these is a priority as they represent potential increased overheads upon the new council. The position with East Dorset is the reverse and it is estimated that this will reduce the total of stranded costs down to a total of £5.4m.

- 4.6 In setting their 2018/19 budget Dorset County Council built in significant savings from the Forward Together Programme. Some of these savings will not be delivered and some are delayed in achieving their savings targets. This has an adverse impact upon the 2019/20 budget for Dorset Council and estimates for their impact have been built in as part of the Known Commitments.
- 4.7 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 and the financial forecast has been built on this basis.

4.8 The table below summarises the latest financial forecast which is based upon information available in September. The figure will continue to change and the forecast updated as updated information becomes available.

	2019/20 £'000s	2020/21 £'000s	2021/22 £'000s	2022/23 £'000s	2023/24 £'000s	2024/25 £'000s
Base Budget	319,828.7	289,667.8	293,278.9	301,136.3	309,340.5	318,013.4
Disaggregation Adjustment for once offs/use of balances	(33,300.0)					
	(3,630.9)					
Adjusted base	282,897.8	289,667.8	293,278.9	301,136.3	309,340.5	318,013.4
Price Changes	6,039.2	2,410.1	2,515.4	2,627.9	2,728.7	2,835.6
Pay adjustments	6,135.7	4,334.2	4,454.5	4,512.1	4,585.8	4,698.9
Known Commitments	10,118.7	5,687.8	5,674.4	5,659.1	5,673.8	5,683.6
Stranded Costs (net)	5,400.0					
Efficiency Savings	(4,318.0)	(731.0)	(700.0)	(700.0)	(700.0)	(700.0)
Increased Income	(1,154.2)	(120.6)	(75.9)	(77.1)	(79.4)	(80.7)
	<b>305,119.1</b>	<b>301,248.2</b>	<b>305,147.3</b>	<b>313,158.4</b>	<b>321,549.4</b>	<b>330,450.9</b>
<b>Funded by:</b>						
Council Tax	240,970.1	248,143.2	255,529.8	263,136.3	270,969.2	279,035.3
Retained Business Rates	43,702.4	44,607.4	45,516.2	46,432.9	47,347.9	48,281.4
Tariff Adjustment	0.0	(3,100.0)	(3,100.0)	(3,100.0)	(3,100.0)	(3,100.0)
Rural Funding	1,892.3	1,892.3	1,892.3	1,892.3	1,892.3	1,892.3
New Homes Bonus	3,103.0	1,736.0	1,298.0	979.0	904.0	904.0
	<b>289,667.8</b>	<b>293,278.9</b>	<b>301,136.3</b>	<b>309,340.5</b>	<b>318,013.4</b>	<b>327,013.0</b>
<b>Budget Gap</b>	<b>(15,451.3)</b>	<b>(7,969.4)</b>	<b>(4,011.0)</b>	<b>(3,817.8)</b>	<b>(3,536.0)</b>	<b>(3,437.9)</b>

4.9 There is significant changes for councils in 2020/21 due to the Comprehensive Spending Review (CSR), introduction of 75% business rates retention scheme, business rates reset and the Fair Funding review. The MTFF assumes that the estimated funding of £48.235m in 2020/21 will be reduced by £3.1m per annum through a Tariff Adjustment over the period of the MTFF. There is also an estimate for a reduction in New Homes Bonus from £3.1m in 2019/20 to £904,000 in 2024/25. Council tax remains the strategically most important income source to the council and is predicted to increase from 83% to 85% of total funding by 2024/25.

4.10 The current focus is upon developing the 2019/20 budget but it will be essential to continue to focus upon future years. In terms of the budget process this will need to change once the new council is established to ensure that the process is outcome

focused and linked to the organisation's transformation plan. Part of this will require the significant areas of spend to be subject to a detailed review and rebased accordingly. The forecasts in future years does allow for demographic and demand changes but these will need to be reviewed and updated in the light of current years budget positions.

## **5. Developing the 2019/20 Budget**

- 5.1 The Medium Term Financial Forecast has identified that the budget gap for 2019/20 is £15.451m at this stage having taken account of disaggregation, cost pressures, stranded costs, efficiency savings and increased income.
- 5.2 The Budget Working Group have been meeting regularly and considered a range of options to balance the 2019/20 budget. The clear focus is to protect frontline services by delivering the convergence savings from being one council and addressing the Stranded Costs. Local Partnerships estimated that £13.6m of annual savings could be achieved through convergence with the majority of this being delivered from reducing staffing. This comprised a reduction 30 Senior Managers, 127 Mid-Level Managers and 65 posts in corporate functions such as Finance, HR&OD, Legal, IT and Democratic Services. Their figures were produced in 2016 and assumed a 2 year implementation period at a once off implementation cost of £13.2m.
- 5.3 The Chief Executive has recently been appointed and the process for Tier 2 is underway. These are expected to deliver £1.590m of savings in a full year. Based upon an average costs of £50,000 per post (including on-costs) and implementing the reductions from July would yield savings of £4.763m from the 127 Mid- Level Management Posts. A further £1.706m could be delivered from the 65 Corporate posts if fully implemented by July. The Convergence Workstream will enable these estimates to be refined but for financial planning purposes savings of £6m to £8m can be reasonably built into the budget proposals. The Convergence Workstream will also look to reduce the £6.2m of stranded costs within Dorset County Council.
- 5.4 The Local Partnerships business case also identified savings from having a reduced number of members and from having one external auditor. At present it is estimated that savings of £400,000 could be built into the budget from these areas. The business case also identified that capital receipts of between £8.5m and £12.5m could be achieved from assets rationalisation and the recently set up Asset Working Group will review this.
- 5.5 As well as driving out efficiency savings work is progressing on increasing income to the new Dorset Council through Business Rates, Treasury Management and fees & charges. The council has submitted a bid to become a business rates pilot for the 75% rates retention scheme which could deliver £800,000 of additional income. Further modelling of business rates is being undertaken and it is estimated that additional income of £1m can be built into the budget proposals. Work has identified that the current treasury management portfolio is made up of external debt £255m (excludes internal borrowing) and investments £188m. Increased income of £1m to £2m could be achieved through treasury activities which will be set out in the Treasury Management Strategy for the new council.
- 5.6 Through the delivery of increased income, convergence savings and reductions of stranded costs the Council should be in a position to have a balanced budget for 2019/20 providing there are no significant changes in the 2018/19 budgets of the sovereign councils which impacts upon 2019/20.

5.7 The current approach to balancing the 2019/20 budget gap which is summarised in the table below:-

<b>Item</b>	<b>Potential Savings</b>
Reduction of Stranded Costs	£2m to £5.7m
<b>Convergence Savings</b>	
Reductions in Senior Managers, Mid- Level Managers & Corporate Posts	£6m to £8m
Democratic Savings	£200,000
Audit Savings	£200,000
<b>Increased income</b>	
Business Rates, Treasury Management and Fees & Charges	£2m to £4m

5.8 The budget figures will continue to be refined and updated over the next few months with the final budget proposals being considered by the Shadow Executive Committee on 11 February 2019 and the Shadow Council on 20 February 2019.

## 6. Capital Budget

- 6.1 Work is currently being 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. Capital receipts flexibility is the permission that Government has granted, by regulation and on a time-limited basis, to apply capital receipts income to transformational activity that would otherwise fall to be funded from the revenue budget. The use of capital receipts has otherwise normally been constrained to funding capital expenditure only.
- 6.2 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.
- 6.3 The capital programme must be considered alongside the revenue budget: they both support the delivery of the Council's objectives and the consequences of borrowing for capital expenditure are a factor in the revenue budget.
- 6.4 During the autumn months, in preparation for the 2019/20 budget and MTF, further work will be undertaken in regard of ongoing commitments against capital receipts so that the Council can agree an appropriate strategy at the time of agreeing the forward year's budget.



## 7. Reserves

- 7.1 The availability and use of reserves and the revenue contingency is critical in being able to manage peaks in demand and costs incurred. This report recognises the need for such reserves and contingencies and aims to adopt a reasonable approach to maintaining both.
- 7.2 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. There is currently some work being undertaken on benchmarking the level of reserves held by unitary councils. 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.
- 7.3 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. Currently there is just over £2.5m of funds held for this purpose.
- 7.4 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.
- 7.5 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.
- 7.6 The Council will also need to consider setting up invest to save / innovation funds that will enable investment to be made that deliver future on-going savings. A full review of all reserves including earmarked reserves such as the Dorset Waste Partnership equalisation reserve to allow for fluctuations in prices due to the volatile nature of the recycle market will be undertaken once the sovereign councils have closed their 2019/20 accounts.

## 8. Information still not finalised

- 8.1 There are a number of areas where significant financial information is not finalised. These include:-
  - Finance Settlement - The outcome of the technical consultation on negative RSG and New Homes Bonus funding as a part of the finance settlement for the new Dorset Council
  - Disaggregation – Finalising of the balance sheet items including debt with BCP and the disaggregation of services to the new Weymouth Town Council.
  - Stranded Costs – The updated position following the finalising of TUPE staff transfer list.
  - Convergence – Both the savings and estimated implementation costs (also still subject to change control approval, detailed elsewhere on this agenda).

## 9. **Member Engagement**

- 9.1 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.
- 9.2 There is a series of 3 Budget Briefings which will be open to all members of the Shadow Council and the first of these was held on 19 September. Further sessions are planned for 12 December and 12 February with each briefing being repeated so that there is both a day time and evening event.