Cabinet
19 January 2021
Budget strategy report

For Decision

Portfolio Holder: Cllr G Suttle, Finance, Commerical & Capital Strategy

Local Councillor(s): Cllr

Executive Director: A Dunn, Executive Director, Corporate Development

Report Author: Jim McManus

Title: Budget strategy

Tel: 01305 221235

Email: jim.mcmanus@dorsetcouncil.gov.uk

Report status: Public

Recommendation:

Cabinet is asked to agree and to recommend to Council:

1. the revenue budget summarised in Appendix 1;
2. the increase in general council tax of 1.997% and to levy 2.995% (3%) as the social care precept, providing a band D council tax figure for Dorset Council of £1,779.39;
3. the capital strategy set out in Appendix 3 and the capital programme set out in Appendix 4;
4. the treasury management strategy set out in Appendix 5;
5. the assumptions used to develop the budget strategy and Medium-Term Financial Plan (MTFP) as set out throughout this report and summarised in Appendix 6;
6. the recommended balances on earmarked reserves and on general funds, including the minimum level of the general fund;
7. in making these recommendations Cabinet is requested to consider and agree the responses to the recommendations and comments made as part of the budget scrutiny process (Appendix 7).

Reason for recommendation:

The Council is required to set a balanced revenue budget, and to approve a level of council tax as an integral part of this. A balanced budget is essentially one where expenditure is funded by income without unsustainable use of one-off, or short-term sources of finance.

The Council is also required to approve a capital strategy, a capital programme and budget, and a treasury management strategy, each of which are included with this report.

The draft budget proposals have been considered (and endorsed) by the Place and Resources Scrutiny Committee and by the People and Health Scrutiny Committee.

1. Executive summary

This report sets out proposals for Dorset Council's 2021/22 revenue and capital budgets and summarises the medium-term financial plan (MTFP) which covers the following four years to 2025/26. The report also includes the capital strategy and treasury management strategy.

The budget proposals are built around the priorities identified in the Dorset Council Plan and were considered by the Dorset Council Scrutiny Committees on 11 December 2020. This paper contains details of Cabinet's responses to the matters raised by those Scrutiny Committees.

This budget reflects a continuation of the theme of previous Dorset Council budgets, to redirect resources from support services into front line services wherever possible.

2. Financial implications

Financial information and impact are set out throughout this report and its appendices.

3. Well-being and health implications

None specific.

4. Climate implications

Since declaring a climate and ecological emergency at its first meeting in May 2019, the Council has given careful consideration to the declaration in all its business. The strategy and action plan are currently out for public consultation.

The Council is mindful of the impact of its work, and in making decisions it is required to consider climate and ecological concerns.

However, this report is concerned with financial strategy which will enable continued debate around the Council's priorities within a balanced budget framework rather than driving or delivering climate and ecological policy itself.

The majority of the Council's climate and ecological actions require significant capital investment and will need specific funding from Government to deliver. Whilst councils are in a unique position to lead this work, it is not something that they can deliver on their own.

However, the Council also has established governance arrangements around the capital programme and a number of bids that would help deliver the climate change action plan are being progressed through that route and will come to Cabinet for consideration, in due course. Many parts of the revenue budget proposals carried forward are already actively delivering on climate and carbon reduction objectives. However, there is no additional revenue budget identified at this time proposals at this time.

5. Other implications

None specific.

6. Risk assessment

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

Current Risk: High

Residual Risk: High

Significant additional resources have been incorporated into the budgets for people services being delivered to Dorset Council's residents. However, the unpredictability and volatility of demand and the price sensitivity of some of the complex services provided means that the budget can be significantly impacted by small changes to (for example) the numbers of looked-after-children or the numbers of adults needing support to live well at home.

On top of these risks, we continue to manage our way through the Covid-19 pandemic, the single biggest risk to this Council's financial performance and position in memory. More detail on the pandemic's impact is set out below and in other papers prepared for Cabinet during 2020/21.

The short-term nature of the Spending Review 2020 (SR20), the local government finance settlement and continuing uncertainty around the impact of the UK's exit from the European Union are further, significant risks to the Council's budget.

There is a well-developed risk-management process which will continue to frame our financial monitoring and corporate plan reporting during the year.

7. Equalities impact assessment

The budget is a framework for the Council to achieve its priorities and the requirement to achieve a balanced budget is delivered through a number of key assumptions and the delivery of programmes of transformational change.

The overall budget framework has not been the subject of a separate equality impact assessment but the programmes and changes upon which delivery of the budget will depend will themselves be assessed.

8. Appendices

1. High-level revenue budget summary;
2. Council tax resolution (for the Council report only);
3. Capital strategy 2021-2026;

4. Capital programme budget summary and financing;
5. Treasury management strategy 2021/22;
6. Summary of financial planning assumptions;
7. Response to the issues raised by the Scrutiny committees.

9. Background papers

Budget strategy report 2020/21

Quarterly financial management reports to Cabinet; July & November 2020 and January 2021

Budget strategy report for Scrutiny Committees December 2020

10. Budget priorities and background to budget development

10.1 Dorset Council adopted the Dorset Council Plan 2020-24 in February 2020. The priorities for Dorset set out in that plan are:

- economic growth - we will deliver sustainable economic growth, increasing productivity and the number of high-quality jobs in Dorset, creating great places to live, work and visit;
- unique environment - we will help to deliver sustainable development while protecting and enhancing Dorset's environment;
- suitable housing - we will work with registered housing providers, community land trusts and local housing partners to deliver affordable, suitable and decent housing;
- strong, healthy communities - we will work with residents and partners to build and maintain strong communities where people get the best start and lead fulfilling lives;
- staying safe and well - we will work with all of our residents to have a good quality of life.

10.2 Aligned to the Dorset Council Plan, Cabinet approved the Transformation Plan, which described the approach that the Council would take to redesign services, so that the Council's priorities can be met with the funding available.

10.3 Significant progress has been made in delivering on these priorities. However, the Covid-19 pandemic has been a huge challenge. The Council has risen to this challenge, in providing urgent support to vulnerable residents in the wake of the lockdown and shielding restrictions. Looking forward to the recovery phase has brought into focus the importance of making sure our priorities as a council are going to help Dorset and its residents move forward, rather than returning to the way things were.

10.4 The impact of Covid-19 on the Council's financial position continues to be dramatic as income levels have fallen significantly whilst expenditure has increased. There is still a substantial amount of risk and volatility around our assumptions, but our current forecast for 2020/21 is improving and the recent Spending Review 2020 (SR20) announced some additional funding for councils that might provide further financial support to the package of measures already being implemented. These could improve financial prospects further for 2020/21 and for 2021/22. More detail is provided further on in this report.

10.5 It is also worth reminding ourselves of the financial efficiency from becoming a unitary council, saving £10m from the pay bill alone when compared with predecessor councils. Further convergence savings are still being realised in the budget 21/22 process, but despite cost reductions, efficiency and council tax increases, the sustained growth in demand and costs of delivering services remains extremely challenging.

10.6 The challenge for 2021/22 and beyond is clear; for the Council to balance the budget whilst continuing to provide high quality services for the residents of Dorset. The challenge is amplified by the uncertainties caused by the effects of the pandemic on Dorset and the wider national economy, and the UK's exit from the European Union. These are extremely challenging times.

11 Local and national contexts, the impact of Covid-19, SR20 and the provisional local government finance settlement

11.1 This budget has been prepared against a backdrop of unprecedented levels of uncertainty and risk. There are hugely influential matters in progress which will impact not just on Dorset Council, but globally.

11.2 The challenges facing councils around demand, funding and transformation continue and are well rehearsed. Against that backdrop, we also have the complexity of a pandemic and the challenges inherent in building a budget based on a current cost base which is complicated by the difficulty in assessing "pure-Covid-19" costs and assessing whether they should be included.

11.3 Nationally, £1.55bn has been made available for the early months of 2021/22 to fund Covid-19 pressures. Dorset Council's share of this is £8.6m. This is not included in the budget and will be added to contingency to allocate against specific costs as and when these arise. There is no flexibility to support existing costs within that allocation and risk that it might need to be returned to Government if it is not required for the purposes intended.

11.4 The Spending Review 2020 (SR20) was broadly in line with expectations and the detail of the provisional local government finance settlement appears still to support initial thoughts that it was more positive for Councils than some had been anticipating. However, the spending review was still for a single year rather than a multi-year deal, so a significant amount of risk rolls forward into future funding levels in the MTFP. We are also still waiting for confirmation of some other significant grants which are announced outside of the settlement process, often by other government departments.

11.5 This is an unprecedented year, and this is borne out by the potential volatility in our financial planning assumptions. Many of these have moved quite significantly during the months of budget development. The latest budget assumptions are shown in Appendix 6 and generate the budget gap over the five-year period of the MTFP as shown in the table, below.

Medium Term Financial Plan summary					
	MTFP Yr1 **2021-22** £m	**MTFP Yr2** **2022-23** £m	**MTFP Yr3** **2023-24** £m	**MTFS Yr4** **2024-25** £m	**MTFP Yr5** **2025-26** £m
Council tax	263.905	271.197	278.691	286.392	294.303
Business rates (NDR funding)	44.312	44.534	44.756	44.980	45.205
Other grants treated as general funding	4.177	3.515	2.475	2.475	2.475
Total funding	**312.394**	**319.245**	**325.923**	**333.847**	**341.983**
Budget requirement	312.394	328.199	345.100	362.984	381.416
Budget gap (cumulative)	0.000	(8.954)	(19.177)	(29.137)	(39.434)

11.6 Clearly, while the gap for the current year has been closed, there is still work to do around future projections and we will continue to keep the model up to date and report frequently to Cabinet. Work also continues to deliver the tactical and transformational savings required to balance the budget. Delivery of these is key to future financial sustainability and resilience.

11.7 During 2020/21, councils have received a number of packages of support from Government. Most of those are set out in the Q3 financial management report and are not repeated here. However, it is worth mentioning two areas in particular where support will continue into 2021/22, namely the sales, fees and charges scheme and the tax income guarantee scheme. We are still waiting for exact details of how the schemes will work but they will both offer some support to next year's budget.

11.8 There are also a number of grants in our funding for 2021/22 which are not yet baselined and are therefore at risk in future spending reviews.

These include, for example, the improved better care fund and the social care support grant; the latter of these having been increased by £0.3bn national, although only £426k of that came to Dorset as much of the funding was applied to "equalisation". This approach reinforces the point made elsewhere that councils with relatively high council tax are forced to raise it further still (through the social care precept) because they do not get a proportionate or equitable share of additional grant.

12 2020/21 performance and context

12.1 The budget has been built using experience of 2020/21, so it is important to understand this before moving forward. There are several strands of financial performance to address when considering the current year.

12.2 The budget for 2020/21 set a number of financial targets which would be possible for the converging councils. We targeted savings from further convergence of systems, processes and structures, increased income from commercial sources and critically, £3m of savings from transformation and a further £3m from improved supplier and contract management, and procurement.

12.3 It is pleasing to be able to report that many of the cost reductions from reorganisation that were built into the budget are being achieved. These include (amongst other things) reduced internal and external audit costs, reduced councillors' expenses and, most significantly, employee cost reductions from the convergence of support services. However, the impact of Covid-19 has meant many of our resources have been redeployed to support response and recovery work, and although our transformation programme is being refreshed and energised, planned savings from transformation and better supplier management cannot be delivered in the current financial year (2020/21).

12.4 Despite the good work already completed and still in progress in 2020/21, this has been a year of further pressure on the revenue budget with an overspend still likely this year. We have done our best to analyse this between the impact of Covid-19 and other causes, but this is not a straightforward task for every line of income or expenditure. The position being forecast for 2020/21 is an overspend of £18.6m. More detail on this is set out in the Q3 financial management report that is on the same agenda as this report, so that detail is not repeated here.

12.5 It should be noted that there is still volatility and risk in the forecast for this year and some of this inevitably rolls into next year, so we must manage risks proportionately and monitor performance closely. However, we should remind ourselves that this will be the case in any year; 2021/22 is not unique in being a year where this Council, or its predecessors have faced significant risks. Since 2009, Councils have been required to deliver large-scale annual savings from their revenue budgets and Dorset Council's predecessors are no exception, having saved well over £100m from their annual budgets in the last decade.

12.6 The Council will continue to transform to deliver services sustainably within budget. But transformation takes time and while residents of Dorset need services to be delivered in the meantime, this Council will use reserves prudently during the current year to support additional demand as it develops new and innovative solutions to deal with a level of demand which outpaces funding currently available. We are also investing in transformation, with a £5m fund being deployed to support transformation.

13 Budget and MTFP development

13.1 The budget and MTFP approved in February 2020 presented a total budget gap, including planned savings, of £31m from 2021/22 to 2025/26, of which £7.4m arose in 2021/22.

13.2 However, revisiting our assumptions and the financial impact of Covid-19, caused the budget gap to increase, as set out in the report to Cabinet on 6 October 2020.

	£k
Budget gap from 2020/21 MTFP	7,434
Reduction in tax base growth	1,924
Reduction in business rates yield	1,000
Change in inflation assumptions on pay, non-pay & income	1,324
Adult Services & Housing 2020/21 continuing budget pressures	6,584
Children's Services 2020/21 continuing budget pressures	625
Place Directorate 2020/21 continuing budget pressures	2,208
Corporate Services 2020/21 continuing budget pressures	294
Corporate savings not achieved in 2020/21 *	6,392
Adult Services & Housing new budget pressures	1,955
Children's Services new budget pressures	7,142
Place Directorate new budget pressures	2,730
Corporate Services new budget pressures	2,287
Revised budget gap	41,899

* corporate savings that the Council was unable to deliver due to resources required to be diverted to the Covid-19 pandemic.

13.3 It was clear that Covid-19 was having a dramatic impact on the MTFP, increasing the budget gap to £71.4m over the five-year MTFP period, with a revised gap of £41.9m in the first year. Cabinet gave a clear steer to officers that they should work with portfolio holders and lead members to identify a range of transformational options and tactical savings that would help to close this budget gap over the autumn.

13.4 The approach to setting a balanced budget in 2021/22 was underpinned by eight principles:

i) the budget should be driven by the Dorset Council Plan and priorities

ii) front line services should be protected

iii) where possible, 'back office' costs should be reduced

iv) maximise the savings from becoming a unitary council

v) accelerate our transformation programmes

vi) take a more commercial approach

vii) mitigate the impact on jobs where possible

viii) be open to invest to save opportunities.

13.5 Using the principles listed above, along with continuing to keep the MTFP up to date with new information, the budget gap was closed as set out in the budget report presented to Scrutiny Committees on 11 December 2020.

13.6 More detail on budget movements is shown in the appendices to this paper and these should be read alongside the directorate updates, below.

14 Directorate plans and budgets

14.1 Overall budget information is set out in Appendix 1. More detail on individual directorates' budget pressures, savings was also included in the report prepared for Scrutiny Committees on 11 December 2020. That detail is not reported again in order to make the volume manageable.

Adult Services and Housing

14.2 The Directorate's financial pressures were set out in the detail at appendix 1 to the scrutiny report. There will continue to be underlying increases in demand for services and cost pressures for providers due to Covid-19.

14.3 After ten years of funding constraints, efficiency is becoming increasingly challenging. Health budgets are strained as never before, and limited funds are passported to social care to support the acute health sector.

14.4 Increases in unemployment and numbers accessing benefits will cause increased poverty and homelessness, and families and individuals in distress will lead to higher demand for emergency accommodation and support.

14.5 Longer-term impacts of Covid-19, such as delays in treatment in the health system are likely to lead to more people in crisis arriving at the Adult Social Care 'front door', requiring more intense and expensive support. We are already seeing people being discharged from hospital earlier in their recovery, with increasing complexity of care need. There is also now in place a mandatory seven-days-a-week service to support the Health Service.

14.6 The Directorate's priorities are to recover from the immediate impact of the pandemic and deliver a balanced budget in 2021/22 through the following actions:

- the five locality teams returning to strength-based conversations to ensure that care is appropriate and maximises long-term independence
- commissioners strategically supporting a fragile care market back to stability and to be prepared for the changing needs of Dorset residents. Working with communities to make the most of Dorset's strengths and assets, and to increase opportunities for people to live a better life
- working together with Health to rebalance costs in the system to sustainable levels, removing ineligible Covid-19-related costs (self-funders) and negotiating with our providers
- moving on from emergency housing arrangements and helping people move from bed and breakfast to more stable housing arrangements.

Public Health

14.7 Public Health Dorset is a shared service established to provide public health functions to the two unitary authorities; Dorset Council and BCP Council. In order to fulfil statutory duties to improve health and wellbeing, and reduce inequalities in health, both Councils receive a ring-fenced grant from the Department of Health and Social Care. This is passed to councils via the Ministry for Housing, Communities and Local Government. The grant must be used to provide mandated public health services, but it can also be used to support wider interventions to improve health and wellbeing.

14.8 Each of the Councils retains part of the grant to deliver services outside the scope of the shared service agreement, but still within grant conditions. In previous years, savings and efficiencies in the shared service have been passed back to the Councils using a population-based allocation formula.

14.9 The Joint Public Health Board agreed a new partnership agreement for the shared service in November 2020. This will consider using the budget in a new way, with contributions to the shared service agreed in advance. The budget will be considered in February 2021 by the Joint Board, leaving the Councils to invest any remainder outside of the shared service but within the grant conditions.

14.10 It is likely that around £0.5m will be passed back to each Council for underspend that is accruing during 2020/21, using a formula based on the proportions of grant contributed to the partnership. The budget assumes that Public Health Dorset can deliver a similar outcome for 2021/22.

Children's Services

14.11 These proposals set out an increased budget of almost £3.7m for Children's Services. This reflects the pressures seen in the current year of approximately £8m, largely due to children in care numbers and placements, and significantly affected by the Covid-19 pandemic. The budget also includes tactical savings of just over £3m and transformation savings of almost £1.9m. The cost of staff salary increments has also been funded, at almost £0.6m.

14.12 The budget aligns with the aims of the new three-year strategy; the Children, Young People and Families plan. The six strands of that strategy are not explored here, but the document is available online.

14.13 The budget is of course being set against a background of the Covid-19 pandemic. The implications for Children's Services are:

- increasing complexity of demand, including parental mental health, substance misuse, and domestic abuse;
- increasing financial hardship for families;
- loss of access to education and therapy services;
- reduced availability of care placements;
- loss of respite provision, meaning more family stress;
- limited opportunities for the employment of young people.

14.14 The savings focus on decreasing the numbers of children in care and the unit cost of placements, and only delivering good care provision. We aspire to bring our numbers in line with statistical neighbours by better planning across our new localities, new processes, and refreshed oversight and focus on the right permanence plans. We will establish a new provision in Weymouth called The Harbour. Unregistered provision will be eliminated.

Place

14.15 In Place-Based Services the largest budget pressures are a result of increasing volumes of household waste and market conditions impacting on waste disposal contracts, though next year significant pressures will also arise across all services due to loss of income due to Covid-19 this year. Savings will be generated largely from income generation across harbours, country parks, fleet maintenance, registration and bereavement services. There will also be more income generated from trade waste and garden waste to cover service costs, and further savings as a result of waste behavioural campaigns and convergence in seasonal street cleansing and regulatory services.

14.16 In Economic Growth and Infrastructure, the focus of the service is through the transformation of the planning system and implementing professional charges, refocusing the operating model within Dorset Travel and providing consistency of parking charges across Dorset. Next year significant pressures will also arise across all services due to loss of income due to Covid-19 this year.

14.17 For the Assets and Property Service, the focus in the coming financial year is on delivering the Property Strategy & Asset Management Plan in order to improve the management of the Council's property portfolio and deliver the transformational benefits envisaged within the Council Plan whereby social, commercial and economic benefits will be delivered through rationalisation and re-purposing of the Council's property estate and the disposal - where appropriate - of surplus assets.

14.18 In Libraries, Archives and Customer Services and also in Economic Development, savings will be achieved substantially through service efficiency costs by the removal of vacant posts. A number of budget lines not adequately provided for in the budgets from the predecessor authorities have also been corrected as pressures.

Corporate Services

14.19 The corporate Services team consists of the Corporate Development Directorate combined with the Business Insight, intelligence and communications team and the Legal and Democratic teams.

14.20 The role of Corporate Services is threefold:

- to provide direct support and services to residents (eg the Revenues and Benefits team and the Land Charges Service);
- to support colleagues in the Place Directorate, in Childrens Services and in the Adults and Housing Directorate so they can provide the best services they can within financial and legal constraints;
- to provide those essential corporate services required of an organisation of our size and scale.

14.21 Corporate Services was launched in January 2020 following an extensive staffing restructure which was required to bring six Councils into one. Through that process the corporate services budget was rebased, contributing to savings of over £10m per year. During 2020/21 the department has continued to establish itself whilst providing crucial services which have enabled the Council to continue to function throughout the Covid-19 pandemic.

14.22 The budget proposals for 2021/22 have identified a further net reduction of £1.5M (4.9%). The majority of these savings come from reductions in contract spend, further convergence opportunities and reductions in staffing budgets as the Council continues to benefit from becoming a unitary authority.

Central budgets & funding

14.23 Central budgets include capital financing, interest payable on borrowing, interest receivable on treasury management activities, repair and maintenance of assets, grants receivable and a contingency fund. Funding from council tax, business rates, and grants treated as general funding are also centrally held budgets.

14.24 There has been a net increase in central budgets for 2021/22, most notably due to £6m of savings from transformation and better procurement/contract management that were not achieved. This is because resources required to deliver these savings needed to be deployed to support the organisation to deal with the reaction to the Covid-19 pandemic, as mentioned earlier in this report.

14.25 Other net changes largely offset each other and include changes to capital financing following LGR and the predecessor councils coming together and other adjustments to the contingency fund.

Dedicated Schools Grant (DSG)

14.26 Members may recall that in previous financial reports, mention has been made of the overspend on the High Needs Block (HNB) of the DSG. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020 prescribed accounting treatment for DSG overspends that were accruing to an increasing number of Councils at that stage.

14.27 The Regulations require that the overspend be shown as a negative reserve and that this is not the responsibility of the Council. However, this is only for a time-limited period and after three years, any residual deficit on the DSG overspend will revert to the Council.

14.28 Dorset Council has a deficit reduction strategy and continues to develop this with schools and other partners. In recent weeks, work has also started with representatives from the Department for Education who are supporting the deficit reduction work whilst developing the sufficiency strategy and SEND capital strategy work. Cabinet will be updated on progress.

15 Council tax strategy, recommendations and Local Council Tax Support Scheme (LCTS)

15.1 The Chancellor of the Exchequer presented the Government's one-year spending review on 25 November 2020. Councillors have been briefed on the details - and more on this and the local government finance settlement is set out elsewhere in this report.

15.2 The Chancellor announced that the social care precept would continue for 2021/22 and that this could be up to 3%. The referendum limit for increases to council tax (excluding the social care precept) was also confirmed at 2%. Due to historic, low levels of funding from Government, it is necessary for Dorset Council to implement both of these increases and Cabinet is asked to agree – and to recommend to Council - increases of 1.9967% in core council tax and 2.9951% for the social care precept; a

4.9918% increase overall. The council tax charges proposed for each property band, for Dorset Council only, are set out in the table below.

2021/22	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Core	£1,062.72	£1,239.84	£1,416.96	£1,594.08	£1,948.32	£2,302.56	£2,656.80	£3,188.16
Social Care Precept	£123.54	£144.13	£164.72	£185.31	£226.49	£267.67	£308.85	£370.62
Total	£1,186.26	£1,383.97	£1,581.68	£1,779.39	£2,174.81	£2,570.23	£2,965.65	£3,558.78

15.3 This increase will enable the Council to balance the budget against a backdrop of significant cost and volume pressures, whilst delivering tactical and transformation savings of £18.6m and £9.1m respectively.

15.4 As well as the increases in the headline rates of council tax and the social care precept, there is also a change (generally an increase) in the tax base each year. There are many factors involved in the calculation of the tax base, the most significant usually being the increase in the housing supply from newly built homes that are required to pay council tax for the first time.

15.5 However, the calculation also includes changes in reliefs and discounts, and in 2020/21 these changes have been significant (and impact negatively on growth) as residents' circumstances have been impacted by Covid-19, meaning many have found it more difficult to pay and have accessed support and discounts. This, and a slightly lower expected collection rate mean we are predicting a very small contraction of the tax base for 2021/22, from 148,410.8 to 148,319.7 band D equivalent properties (0.06%).

15.6 Last year, Cabinet also approved policy changes around council tax charges for empty properties that were facilitated initially by the Local Government Finance Act 2012 and which were intended to encourage owners of long-term empty properties to return these homes to use. No further changes are required to that policy, but it is worth reminding Cabinet of the premiums that are charged on empty, unfurnished properties, in each case as a premium on top of core council tax:

- 100% for properties empty and unfurnished for at least two years;
- 200% for properties empty and unfurnished for at least five years;
- 300% for properties empty and unfurnished for at least ten years.

15.7 The last banding will be implemented from 1 April 2021, the others are already in place.

Local council tax support scheme

15.8 Dorset Council was established on 1 April 2019 and since then, has applied a 90% local council tax support scheme (LCTS) as agreed by the Shadow Executive and Shadow Council.

15.9 In preparing this budget strategy report, consideration has been given to the current scheme to assess if it is still fit for purpose. Officers have reviewed the scheme and propose no changes for 2021/22. We have given full consideration to the effectiveness of the scheme and the impact of Covid-19 on our customers and are satisfied that no proposals for change should be made at this time.

15.10 We will keep evaluation of the scheme in our work programme and when we have more data for 2021/22, we can reconsider the policy to ensure it remains effective and affordable.

16 Risk and mitigations

16.1 There is risk in any budget proposal. We are facing a future where we are unclear how the impact of Covid-19 will play out. Like every council – and Government itself - we are facing a number of potential scenarios each of which carry varying levels of volatility and uncertainty in our planning assumptions.

16.2 We are limited in what we can do at this stage to mitigate that, but we will remain focused on delivery of the work programmes required to support services to Dorset's residents, within the budget we have available. Continuous monitoring of the agreed budget will be key to ensuring we keep abreast of the operating environment and make important, well-informed, timely decisions about our activities and their consequences.

16.3 Dorset Council is fortunate in that local government reorganisation meant it has reduced its cost base and has adequate reserves to see it through 2020/21 – and there are indicators that our financial position is improving slightly. But reserves are not a sustainable source of finance; we can only spend them once and doing so reduces our capacity to mitigate the risks that reserves provide for, as well as reducing resilience against unknown future events.

16.4 Even without the impact of Covid-19, there is considerable risk around our planning assumptions for growth in demand and price-sensitivity in the market, especially where providers are small and are operating on the fringes of viability. The budget gap quoted in this paper is after allowing for reasonable forecasts of growth in demand for Adults' Services and Children's Services but, both locally and nationally, demand for people services continues to challenge capacity and budgets. This will become even more pressing if the impact of national or local measures to contain the impact of Covid-19 mean that councils are required to deliver more or different services to safeguard residents. Some funding for Covid-19 support for the early months of 2021/22 has already been announced and is referenced elsewhere in this report.

17 Capital programme, capital strategy and budget

17.1 The total capital programme approved for 2020/21 was £66.1m. Slippage from 2019/20 and increases in external funding after the budget date added £67.2m bringing the total programme to £133.3m. £70.8m of this is externally financed with the remainder coming from the Council's own resources.

17.2 The 2021/22 programme as currently defined is set out in Appendix 4. It should be noted that £15m has been included at this stage and is financed in the revenue budget, but the detail of this programme is still being refined and is progressing through the Council's Capital Strategy and Asset Management Group (CSAMG) before recommendations come separately, to Cabinet for consideration.

17.3 The proposals also include a £2m capital contingency fund and a small capital works budget of £500k. Experience since 1 April 2019 is that there are a number of relatively minor capital projects that need to be carried out each year, ranging from physical access improvements to library equipment and a separate fund, which can be managed through CSAMG, will remove the need for more cumbersome governance arrangements for relatively small amounts to be approved. Amounts of up to £50k will be approved through a mechanism to be agreed by CSAMG (most cost centre managers already have authority to spend this money within our scheme of financial management) and the capital contingency fund will be administered in the same way as the revenue contingency fund, by approval of the S151 Officer, upon referral from CSAMG with amounts above £500k still being subject to Cabinet approval.no

17.4 The programme continues to be analysed according to the sources of funding. This involves classification of the programme into three categories:

- projects that are fully funded from external sources eg Department for Transport (DfT) grant. These projects received a relatively lighter-touch review to ensure funds were being spent in accordance with the grant conditions and were spent on highest priority projects, giving best value and outcomes.
- Projects that were partially funded from external sources e.g. partial grant funding, S106 agreements etc. These projects received an intermediate level of scrutiny to ensure that the Council was still getting best value from the contribution made from its own resources as well as securing optimum levels of external contribution for the projects chosen.
- Projects that are fully funded from the Council's own resources. These projects received detailed scrutiny and challenge to ensure they were giving best value, were affordable and were still aligned to the emerging Dorset Council corporate plan, themes and objectives.

17.5 At this stage it is not clear how much of the capital programme will slip from 2020/21 into 2021/22 but the base budget provides for the financing of that programme. Any programme slippage will deliver a saving in the capital financing budget as we are seeing in the current year's forecast position set out in the Q3 financial management report.

18 Other factors affecting planning and budget strategy

18.1 The Council's Transformation Plan has been refreshed and was approved at the November Cabinet meeting. We will need to make sure that spend to save opportunities continue to be integrated into the financial planning process to ensure investment comes at the right time to ease pressure on the revenue budget. We should also be mindful of the impact that the pandemic has had on our previous plans and how the diversion of resources to support residents and businesses through the response and recovery meant that the Council was unable to deliver the programme of work that would have generated savings in our cost base.

18.2 The *Asset Management Strategy* was also approved at the November Cabinet Meeting, detailing the opportunities and approach that the Council will take to right-size its estate after convergence of the predecessor councils' property portfolios. The plan describes the options to acquire, retain and divest property that will help us deliver transformed services, generate capital receipts, reduce running costs and help the Council operate in a modern and efficient way

18.3 The Asset Management Strategy dovetails with the *Dorset Workplace Strategy* which was adopted in October and which enables the Council to deliver better services more flexibly in a range of ways to meet Dorset residents' needs.

18.4 The requirement to alter the Council's estate and modernise workspace to meet the future needs of agile working and the aims of the Dorset Workplace is referenced in Dorset Council's Property Strategy & Asset Management Plan. The Council's response to the Covid 19 pandemic has accelerated the organisation's transformation to new, more agile ways of working.

18.5 As such it is proposed to undertake a process of consolidation of office buildings commencing in the fourth quarter of 2020/21 which will result in fewer, better office properties, thereby releasing properties in locations where there is more than one multifunctional office and thus generate revenue savings, capital receipts or potential income.

18.6 Within the 2021/22 budget is a saving provision for office property costs of £672k which includes for the consolidation of staff within County Hall from offices in Dorchester including South Walks House and Princes House together with the termination of leases at Allenview House and Lynch Lane. A paper on the Dorchester office estate and options for future use is due to be considered by Cabinet in April 2021.

18.7 Delivering better value will also be the aim of our emerging *Commercial Strategy*. Cabinet has recently approved a new *Procurement Strategy* and we now look to strengthen our commercial approach further – not just through better procurement and contract management, but also through more effective income management and better relationships with our customers and our supply chain.

18.8 Dorset Council's *climate and ecological emergency strategy and delivery plan* is currently being consulted upon. Delivery could involve significant investment over the MTFP period and beyond and the results will need careful consideration. At this stage nothing is built into the budget or MTFP, and capital funding will be required for whatever level of investment is agreed. Bids are currently being considered by CSAMG as well as being the subject of a bid to Government.

19 Treasury management strategy

19.1 The treasury management strategy is attached at Appendix 5 for Cabinet's approval and recommendation to Council. As well as this strategy, a mid-year update and an outturn report for treasury management are seen by the Audit & Governance Committee.

19.2 Many of the treasury gains available through convergence of predecessor councils have already been taken in previous budget rounds. However, the Council continues to work with its adviser, Arlingclose, to review and monitor opportunities to improve its performance and position.

19.3 During 2020/21 the Council continues to implement its arrangement for a single provider of banking services. Moving to a single banking provider, is likely to deliver cost reductions close to £200k and these are built into the budget and MTFP.

20 Reserves, balances, contingency and resilience

20.1 The balance of Dorset Council's general fund closed at £28.2m on 31 March 2020 (still subject to audit confirmation). The projected overspend in the current year will impact on that balance unless it is financed via the use of other reserves.

20.2 In 2018 the shadow Council commissioned an independent report from the Charted Institute of Public Finance and Accountancy (CIPFA) which recommended that the Council should retain as a minimum, 5% of its budget requirement as a general fund reserve. Cabinet is therefore recommended to agree a minimum level for the general fund of £15.7m.

20.3 However, as in previous years, prudence would suggest that it would be better to hold a higher level of general reserves to provide for risks which are not mitigated through specific earmarked, reserves. Cabinet is therefore recommended to set a level of general reserve at double the value of the minimum level (£31.5m) and that the operating range be set at £20m to £30m. The operating range is the level at which intervention would be required to lower or raise the general fund balance.

20.4 As well as the general fund, the Council has other earmarked reserves which are set aside to mitigate against risks that may arise during the year. These reserves cannot be repurposed without impacting on the risk profile of the organisation, but it is possible that once we are safely through the 2019/20 audit, some further release of reserves might be possible.

20.5 It is prudent for any organisation to set a contingency budget to provide for unforeseeable circumstances arising during the year. The key is to set the contingency budget as accurately as possible, so it strikes a good balance between allowing the organisation to manage risk whilst not causing a diversion of material funds away from front line services where there are clearly continuing pressures.

20.6 The level of the general fund balance, the raising of the lower limit, the additional funding being put into directorate budgets and the review and consolidation of the Council's reserves will all strengthen the organisation's resilience. Work is also ongoing as part of the review of the Council's resilience indicators as published by CIPFA.

21 Consultation, communication and equality

21.1 Dorset Council's 2020/21 budget was approved by Full Council in February 2020. Members have been updated on the Council's financial performance throughout 2020/21 through quarterly finance reports to Cabinet, and through regular updates at all-member seminars. An all-day budget seminar for all members was held in December 2020.

21.2 In October 2020 Cabinet received a paper outlining the initial, high-level budget assumptions for 2021/22, and these assumptions have continued to be refined as the budget setting process has developed through the autumn.

21.3 The 2021/22 budget proposals are driven by the Dorset Council Plan. The Plan was agreed by Council in February 2020 following wide consultation with partners, the public, local businesses, Town and Parish Councils, employees and other stakeholders throughout Dorset. More than 1,600 responses were received through the consultation, and these were used to shape - and continue to shape - the new Council's priorities, as reflected in the Budget proposals.

22 S151 Officer assurance

22.1 Part 2 of the Local Government Act 2003 requires officers with responsibilities under s151 of the Local Government Act 1972 to make a statement regarding the robustness of estimates and the adequacy of reserves at the time the budget is set.

22.2 There are 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 requires 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;
- the assessment of the financial performance and standing of the authority by the external auditors, who give their opinion on the council and the value for money it provides as part of their annual report to those charged with governance.

22.3 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 Council's scheme of financial management sets out the responsibilities of all those involved in managing budgets and incurring commitments on behalf of the Council.

22.4 Whilst financial projections are based on realistic assumptions, known demand and well-formed models, 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 for provision for adults with complex needs. Some activity is also subject to much more volatility and things can change very quickly and unexpectedly.

22.5 It is also generally not appropriate or affordable to increase budgets simply to reflect overspends in current or previous years. 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.

22.6 The Council has well-developed arrangements for financial monitoring during the year. Budget performance is reported quarterly through the Cabinet and scrutinised by a number of other committees, including Audit & Governance Committee. There is also a well-defined model of finance staff working as business partners alongside service managers to support financial management and control. The Council's financial management system also operates on a self-service basis, enabling all officers to interrogate financial information at any point in time. Finance business partners routinely report to directorate leadership teams each month and the S151 Officer meets weekly with the Lead Member for Finance, Commercial and Capital Strategy.

22.7 Member involvement in budget development has been exercised, particularly through meetings of the Performance Leadership Board, regular update reports to the Lead Member, Leader and Deputy Leader, the wider Cabinet and in all-member briefings. There was also a significant programme of induction and training for all Councillors following the elections in May 2019.

22.8 The budget itself has also been subjected to all-councillor scrutiny, firstly through an all-day briefing session, led by Portfolio Holders and Executive Directors, then more formally through the Place and Resources, and People and Health Scrutiny Committees which were both held on 11 December 2020.

22.9 These budget proposals have been developed by the Council's officer group, led by the Executive Directors with significant input from members, and co-ordination by the finance team.

22.10 In order to gain further assurance about the affordability of the Council's strategy and plans, each Executive Director is taking personal responsibility for their budget through a formal sign-off process which will also form part of their performance assessment during the year.

22.11 Taking all these factors into consideration, I consider that the estimates prepared in line with the strategy explained in this report are robust. I also consider the levels of reserves to be adequate as set out earlier in this report.

22.12 Despite the steps taken to gain assurance and the processes, controls and monitoring that the Council has in place, the challenge and complexity of managing activity and associated expenditure within these estimates should not be underestimated. Against the backdrop of Covid-19 and our inability to be more certain over funding arrangements beyond the first year of our MTFP, the future will therefore remain challenging and balancing future years' budgets will require sustained transformation. Close monitoring will be required during the year and prompt action will be needed if performance and forecasts vary materially from budget.

23 Summary and conclusions

23.1 The financial climate remains extremely challenging, though the Spending Review and settlement were perhaps slightly more positive than we had been anticipating. There are challenges ahead meaning the Council started planning for 2021/22 early to develop and implement robust plans to fit within our assumed budget envelope.

23.2 Despite an overspend in 2019/20 and another being predicted for 2021/22, the Council's predecessors' decision to reorganise and become a unitary council mean that savings were generated in advance of the pandemic and further efficiency and cost reductions continue to be implemented this year and in the budget. Consolidating our risks and reserves has also given us a better starting point than we would have had as individual councils.

23.3 Despite this, there is still significant risk and volatility ahead. The 20201/22 budget provides further strengthening of people services budgets, both for adults and children. The data in Appendix 1 show that both of these budgets are proposed to increase by more than 5%. Against this, Place budgets have contracted by 7.87% and Corporate by 4.89%.

23.4 Members of the two scrutiny committees have considered these budget proposals and their input to the process is set out at appendix 7, with proposed responses for Cabinet to agree alongside the other recommendations in this paper.

Aidan Dunn

<u>Executive Director, Corporate Development</u>

Footnote:

Issues relating to financial, legal, environmental, economic and equalities implications have been considered and any information relevant to the decision is included within the report.

Appendix 1 – Summary Budget 2021/22

Appendix 1a — Subjective analysis

	Original Budget		2021-22			
	£'000 Pay	£'000 Non-Pay	£'000 Fees & Charges	£'000 Grants /Funding	£'000 Movement in Balances	£'000 Net Budget (2021-22)
People Services - Adults	**23,045**	**152,534**	**(41,104)**	**(6,082)**	**0**	**128,394**
Service user related	0	133,598	(30,191)	(865)	0	102,542
Adult Care Ops	16,968	1,371	(4,715)	(107)	0	13,516
Commissioning	2,441	10,747	(3,199)	(3,798)	0	6,191
Director Office	631	2,005	0	0	0	2,636
Housing	3,005	4,815	(2,999)	(1,311)	0	3,510
Corporate Development	**23,319**	**80,692**	**(10,957)**	**(69,276)**	**0**	**23,778**
Finance & Commercial	8,711	75,062	(7,778)	(69,048)	0	6,946
Human Resources	4,630	319	(2,123)	0	0	2,826
Digital & Change	1,814	114	(20)	0	0	1,909
ICT Ops	4,627	4,073	(1,030)	0	0	7,670
Director	187	(442)	0	0	0	(255)
BI & Perfromance	1,048	11	0	0	0	1,059
Comms & Engagement	977	189	(6)	0	0	1,160
Community Grants	169	979	0	0	0	1,148
Superfast Broadband	395	38	0	(228)	0	205
Chief Executive Office	762	172	0	0	0	934
Dorset Care Record	0	177	0	0	0	177
Place	**51,955**	**73,006**	**(57,105)**	**(4,183)**	**(605)**	**63,068**
Economy, Infrastructure, Growth	16,764	30,522	(24,292)	(3,161)	(425)	19,407
Place	25,904	33,578	(22,718)	(644)	(231)	35,888
Customer Services, Libraries, Archiv	5,439	2,236	(864)	(333)	0	6,478
Growth & Economic Regeneration	609	429	(471)	0	51	619
Directors Office	501	91	0	0	0	592
Assets & Property	2,739	6,150	(8,761)	(44)	0	84
People - Children	**39,397**	**47,367**	**(6,981)**	**(3,142)**	**0**	**76,641**
Care & Protection	16,166	36,837	(1,182)	(612)	0	51,208
Commissioning & Partnerships	6,935	2,893	27	(393)	0	9,462
Education & Learning	13,671	7,635	(3,995)	(1,846)	0	15,465
Director's	2,626	3	(750)	(291)	0	1,587
Schools	0	0	0	0	0	0
DSG Recharge	0	0	(1,080)	0	0	(1,080)
Children's control	0	0	0	0	0	0
Legal & Democratic	**4,248**	**2,739**	**(1,168)**	**0**	**0**	**5,819**
Assurance	787	504	(14)	0	0	1,278
Democratic & Electoral	958	2,034	(104)	0	0	2,887
Land Charges	261	19	(849)	0	0	(569)
Legal	2,242	182	(201)	0	0	2,223
Public Health	**3,432**	**25,440**	**(15,417)**	**(13,455)**	**0**	**0**
Public Health	3,432	25,440	(15,417)	(13,455)	0	0
Central Finance	**1,705**	**19,046**	**(4,197)**	**(21,821)**	**19,962**	**14,694**
General funding	0	6,073	(197)	(21,709)	0	(15,833)
Capital financing	0	9,560	(4,000)	0	10,391	15,951
Contingency	0	0	0	0	9,570	9,570
R&M	0	2,655	0	0	0	2,655
Precepts	0	738	0	(112)	0	626
Capital	0	0	0	0	0	0
Control	0	0	0	0	(0)	(0)
Retirement Costs	1,705	19	0	0	0	1,725
DC-wide savings	0	0	0	0	0	0
Total Budget	147,102	400,824	(136,930)	(117,958)	19,357	312,394
Business Rates Top Up						(44,312)
Council Tax Surplus						(263,905)
New Homes Bonus						(1,702)
Rural Services Delivery Grant						(2,475)
						(312,394)

Appendix 1b – Cost Type Analysis

Cost Type	Original Budget £'000
Internal Charges (Expenditure)	7,429
Authority (Democratic)Costs	1,763
Pay Related Costs	147,102
Premises Related Costs	20,029
Transport Related Costs	20,468
Supplies and Services	101,723
Transfer Payments	111,938
Levies & Precepts	738
Third Party (Contracted Out) Payments	135,857
Net Schools Budget	878
Contingency and movement in reserves	19,357
Gross Expenditure	**567,282**
Government Grants (Specific)	(117,958)
Income, Fees & Charges	(136,930)
Gross Income	**(254,888)**
Budget Requirement	**312,394**
Council Tax	263,905
Business Rates	44,312
New Homes Bonus	1,702
Rural Services Delivery Grant	2,475
Total Funding	**312,394**

Appendix 1c – Changes in Budget from 2020/21 to 2021/22

	2021/21 Base Budget	Changes	2021/22 Base Budget	% change
People - Adults & Housing	£122,253,222	£6,141,032	£128,394,254	5.02%
Corporate Development & Legal	£31,120,112	(£1,523,072)	£29,597,040	(4.89%)
Place	£68,456,066	(£5,387,801)	£63,068,265	(7.87%)
People - Children's	£72,978,419	£3,662,292	£76,640,711	5.02%
Contingency, capital financing & central	£9,412,263	£5,281,646	£14,693,909	56.11%
Total	£304,220,082	£8,174,097	£312,394,179	2.69%
Funding	(£304,220,082)	(£8,174,097)	(£312,394,179)	2.69%

Appendix 1d – Adult Services

	£
Opening Base Budget 20/21	**122,253,222**
Extra cost of Care and Operations	7,449,000
Cost of Increments	295,000
Inflation on sales, fees & charges	(395,622)
Pathways to employment	11,000
Housing benefits in excess of Govt cap	1,000,000
Adult Care packages	5,208,076
Building Better Lives	355,000
Respite Care	600,000
Introduction of assistive technology	(375,000)
Increased income from self-funders	(31,000)
Less reliance on contracted care (current arrangements)	(833,500)
Reduction of Learning and Development budget @10%	(45,000)
Flexible and remote working - less travel	(30,000)
More efficient brokerage pathways and digitising of routine tasks	(60,000)
Administrative savings	(25,000)
Reduction in housing benefit costs through capital investment	(400,000)
Fewer people going into residential and nursing care	(3,700,000)
Helping people do more for themselves, less reliance on home care	(1,181,922)
Development of more flexible and responsive menu of day opportunities	(500,000)
Realignment of long-term health and care costs within the system	(1,200,000)
Proposed 2021/22 budget	**128,394,254**

Appendix 1e – Corporate Development & Legal Services

	£
Opening base budget 20/21	**31,120,112**
Cost of Increments	320,199
Inflation on sales, fees & charges	(48,741)
Pathways to employment	11,000
Trade Union Secondees	140,000
McFarlane telephone, cyber security	205,000
Hive - staff survey	48,000
Licences for Power Business Intelligence	50,000
Treasury Management	50,000
Lost income for Dorset Magazine	50,000
Legal Services - case management software	50,000
Members allowances	89,315
Finance & Commercial Convergence savings	(608,000)
Finance & Commercial Establishment savings	(247,000)
Finance & Commercial other savings	(38,000)
ICT operations efficiency savings	(449,150)
ICT operations savings	(48,400)
ICT Operations establishment savings	(176,624)
HR and OD Convergence savings	(30,000)
HR and OD efficiency savings	(63,000)
HR and OD establishment savings	(102,000)
Assurance Convergence savings	(26,500)
Assurance efficiency savings	(51,000)
Assurance other savings and audit fee savings	(211,561)
Assurance training and travel savings	(4,000)
Democratic & Electoral convergence savings	(144,400)
Democratic & Electoral efficiency savings	(122,500)
Democratic & Electoral establishment savings	(13,000)
Democratic & Electoral training and travel savings	(6,600)
Legal convergence savings	(13,900)
Legal efficiency savings	(3,400)
Legal other savings and audit fee reduction	(27,000)
Legal training and travel savings	(6,000)
Business Intelligence efficiency savings	(5,000)
Business Intelligence training and travel savings	(13,000)
Communications efficiency savings	(5,000)
Communications training and travel savings	(2,590)
Chief Executive Office convergence savings	(36,550)
Chief Executive Office efficiency savings	(2,700)
Chief Executive training and travel savings	(28,220)
Community grants - efficiency savings	(750)
Community Grants - training and travel savings	(2,000)
Proposed 2021/22 budget	**29,597,040**

Appendix 1f – Place

	£
Opening base budget 20/21	**68,456,066**
Cost of Increments	810,216
2020/21 existing budget pressures in Place	1,850,000
Transfer of SEN Travel Team to Place	123,718
Inflation on sales, fees & charges	(642,195)
Move Waste Asset Financing to Central Finance	(3,570,527)
Pathways to employment	11,000
Unfunded TIC's	60,000
Increase in property costs	200,000
Gully clearance	400,000
Increase in school transport costs	750,000
Waste pressures	796,000
CCTV replacement programme	25,000
Harbour base budget adjustment	65,000
Loss of café income at Durlston	20,000
Harbour dredging	85,000
Streetlighting contract prices	400,000
Service redesign of Property and Assets Service	(850,000)
Ex RCCO Revenue Maintenance Budget	(187,500)
Dorset Innovation Park-Insource CBRE Services	(64,000)
Increased income Housing Support	(50,000)
Reduction in property costs	(672,000)
Reprofile support to Dorset LEP	(52,500)
Community economic development (formerly North Dorset DC)	(12,144)
Delete currently vacant positions - Economic Growth	(57,344)
Service efficiencies across the Parking Service	(136,590)
Car Parking Phase 1 Project	(788,800)
Street Lighting LED energy savings	(160,000)
Service efficiencies across the Highways Service	(4,000)
Change of operating model for Fleet Services (Dorset Travel)	(880,000)
Service efficiencies across Dorset Travel	(163,935)
Increase in Commercial Income across Harbours, Coast and Greenspace and Fleet Maintenance	(245,000)
Managed reduction in transport costs	(20,000)
Income generation for listed building and EPC pack	(25,000)
Income generation for Neighbourhood Plan support service	(15,000)
Income generation for discretionary planning services (pre-app and Planning Performance Agreements)	(250,000)
Planning transformation	(490,000)
Behavioural change - Right Stuff Right Bin Campaign	(187,250)
Trade Waste - increased income	(100,000)
Garden Waste - increased income	(330,000)
Convergence of service budgets	(43,353)
Waste disposal technical consultancy budget reduction	(25,000)
Reduction of vacant posts and running costs of Customer Services	(244,254)
Service efficiencies in Libraries	(155,000)
Service redesign of the remaining TIC's	(52,000)
Leisure centres - reduce casual and zero hours staff with revised service offer 21/22	(115,000)
Service efficiencies across the Outdoor Education Service	(80,000)
Increased income across the Regulation Service	(152,500)
Regulatory convergence and transformation	(70,000)
Reduction in travel budget - 30%	(55,843)
Reduction in training budget - 20%	(37,000)
Proposed 2021/22 budget	**63,068,265**

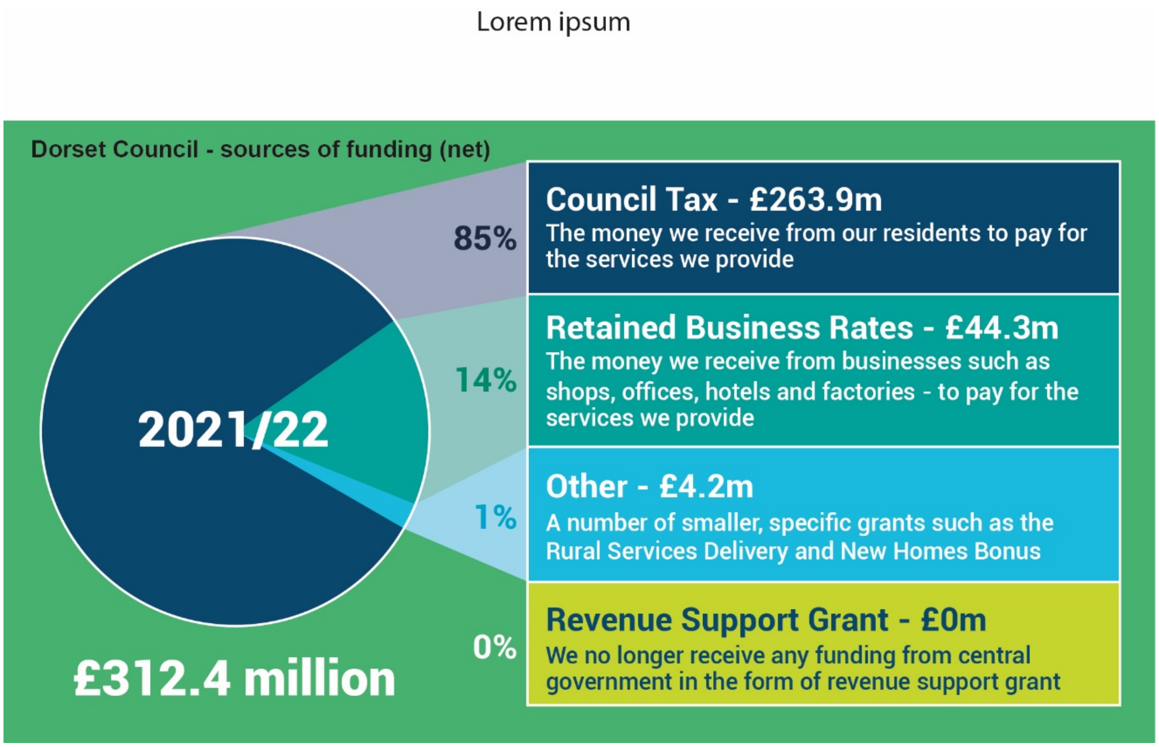
Appendix 1g – Children's Services

	£
Opening base budget 20/21	**72,978,419**
Cost of Increments	550,000
Add in additional pressures from overspend	625,000
Transfer of SEN Travel to Place	(123,718)
Inflation on sales, fees & charges	(36,983)
Pathways to employment	11,000
Increase in no. and costs of external Placements	6,171,293
SEND Transport	1,000,000
Weymouth residential home project staffing	345,000
Blueprint for Change pay protection	(8,300)
MASH savings - relocation and redesign of front door operations	(100,000)
Review Short Breaks programme and increase wraparound offer	(125,000)
Reduce staff travel budgets by 10%	(132,000)
Remove 15% from all training budgets	(64,000)
Increase trading charges by 10% in targeted areas	(100,000)
Review and reduce subscription spend	(30,000)
Review and decrease external room usage	(50,000)
Review Early Years sector qualification support	(150,000)
Reduction in recharges to Dedicated Schools Grant (DSG)	(1,000,000)
Review information, advice and guidance delivery model	(400,000)
Redesign of Family Contact delivery model	(150,000)
Additional contributions from Health and Education to Placements	(500,000)
Review support packages for families with SGO and Troubled Families arrangements	(200,000)
Review of existing CIC internal and external placements	(1,470,000)
Development of Family Hubs	(400,000)
Proposed 2021/22 budget	**76,640,711**

Appendix 1h - Capital Finance, Contingency and Repairs & Maintenance

	£
Opening base budget 20/21	**9,412,263**
Shortfall in savings 20/21	6,000,000
Cost of funding increments from contingency	(1,975,415)
Waste Asset Financing transfer to Capital Finance	3,570,527
Increase in cost pressures held in contingency	1,504,534
Allocation of inflation held in contingency	2,000,000
Increase in R&M costs	268,000
Increase in MRP calculation	250,000
Increase in Pension costs	252,000
Increase in grant funding	(588,000)
Reduction in overall asset financing	(3,000,000)
Public Health adjustment	(500,000)
Reduction of contingency budget	(2,500,000)
Proposed 2021/22 budget	**14,693,909**

Appendix 1i. Sources of funding



Appendix 1j. How the budget is spent

Appendix 2

Council tax resolution

(Council paper only, blank for Cabinet paper)

Appendix 3

Capital Strategy 2021-2026

1. Introduction

1.1. This capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.2. Decisions made this year on capital and treasury management will have financial consequences for the Council for many years to come. They are therefore subject to both a national regulatory framework and a local policy framework, summarised in this report.

2. Capital expenditure and financing

2.1. Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what is treated as capital expenditure, for example, land and building assets costing less than £25k are generally not capitalised and are instead charged to revenue in the year of purchase.

2.2. In 2021/22, the Council is planning capital expenditure of £63m as detailed in Appendix 4 and summarised below.

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £m

	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget
Projects with full external funding	54	15	0	0
Projects with partial external funding	32	9	3	0
Projects with no external funding	48	39	12	15
TOTAL	**134**	**63**	**15**	**15**

2.3. The introduction of International Financial Reporting Standard 16 (IFRS16) *Leases* for the 2022/23 financial year, requires all 'right of use' assets to be shown on the balance sheet. The impact of this change in accounting treatment is currently being formulated.

2.4. Capital investments include loans and shares made for service purposes and property to be held primarily for financial return in line with the definition in the CIPFA Treasury Management Code.

2.5. Service managers bid annually for approval of capital projects. A sum of £15m has been set aside in the capital programme as an investment fund against which new bids can be submitted. This amount is affordable within the capital financing budget.

2.6. Bids are collated by the Finance Policy & Compliance team who calculate the financing cost (which can be net nil if the project is fully externally financed). The Capital Strategy and Asset Management Group (CSAMG) appraises all bids based on a comparison of service priorities against financing costs and makes proposals to Cabinet. The final capital programme is then presented to Cabinet and then to Council for approval.

2.7. Capital projects with the most beneficial impact on the revenue budget will be prioritised. The Council also intends to repurpose assets for better service delivery.

2.8. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is summarised below:

Table 2: Capital financing in £ millions

	2020/21 Forecast	**2021/22 Budget**	**2022/23 Budget**	**2023/24 Budget**
Grants and contributions	72	19	0	0
Capital receipts applied	0	0	0	0
Reserves	0	0	0	0
Minimum Revenue Provision (MRP)	9	10	10	10
Other revenue contributions	0	0	0	0
Debt	53	34	5	5
TOTAL	**134**	**63**	**15**	**15**

2.9. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance.

2.10. The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £53m during 2021/22. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 3: Prudential Indicator: Estimates of Capital Financing Requirement in £m

	31-Mar-20 Actual	**31-Mar-21 Forecast**	**31-Mar-22 Budget**	**31-Mar-23 Budget**	**31-Mar-24 Budget**
Capital Financing Requirement	320	373	407	412	417

2.11. When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2022/23. The Council forecasts that £2m of capital receipts will be received in 2020/21.

Table 4: Capital receipts receivable in £m

	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget
Asset sales	2	0	0	0

2.12. The capital programme does not assume any capital receipts as financing beyond 2019/20, though clearly where the asset management strategy indicates that a property is surplus and disposal is the correct option, the asset will be disposed of in the best way. A decision about the use of any capital receipts that do accrue will be taken by Cabinet in 2020/21 as they can either be used to finance new capital expenditure, or flexibly to finance revenue transformation costs.

3. Treasury Management

3.1. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.

Borrowing strategy

3.2. The Council's main objective when borrowing is to achieve a low and certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between relatively inexpensive short-term loans (currently available at annual interest rates of approximately 0.2%-0.5%) and long-term, fixed-rate loans where the future cost is known but higher (currently available at annual interest rates of approximately 2% to 3%).

3.3. Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases and transferred debt) are shown below, compared with the capital financing requirement. Clearly these are subject to change as the Council's capital programme for the future develops.

Table 5: Prudential Indicator: Capital Financing Requirement and Gross Debt in £m

	31-Mar 2020 Actual	31-Mar 2021 Forecast	31-Mar 2022 Budget	31-Mar 2023 Budget	31-Mar 2024 Budget
Capital Financing Requirement	**320**	**373**	**407**	**412**	**417**
External Debt (incl. PFI & leases):					
External borrowing	216	239	283	298	313
Long-Term PFI Liabilities	24	23	22	21	20
Obligations under Finance Leases	3	3	3	3	3
Total Debt	**243**	**265**	**308**	**322**	**336**
Internal Borrowing	**77**	**108**	**99**	**90**	**81**

3.4. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. The Council expects to comply with this requirement in the medium-term, as shown in the table above.

3.5. To compare the Council's actual borrowing against an alternative strategy, a 'liability benchmark' has been calculated based on the lowest possible level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £20m at each year-end and may not be possible to implement in practice due to constraints on the Council's ability to repay existing borrowing.

Table 6: Borrowing and the Liability Benchmark in £m

	31-Mar 2020 Actual	31-Mar 2021 Forecast	31-Mar 2022 Budget	31-Mar 2023 Budget	31-Mar 2024 Budget
Outstanding borrowing	216	239	283	298	313
Liability benchmark	128	149	198	213	228
Difference	88	90	85	85	85

3.6. The table above shows that the Council expects to remain borrowed above its liability benchmark by approximately £90m over the medium-term.

3.7. The Council is legally obliged to set an affordable borrowing limit (also termed the "authorised limit" for external debt) each year, and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the authorised limit. The Council's total operational boundary has been set at £25m above the CFR, with the total authorised limits a further £25m higher.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget
Authorised Limits:				
Borrowing	386	421	427	433
PFI and leases	37	36	35	34
Total External Debt	**423**	**457**	**462**	**467**
Operational Boundary:				
Borrowing	366	401	407	413
PFI and leases	32	31	30	29
Total External Debt	**398**	**432**	**437**	**442**

3.8. The authorised limit and operational boundary for 2022/23 and subsequent years may need to be reviewed when the impact of the changes in accounting for leases under IFRS 16 are more fully understood.

Treasury investments strategy

3.9. Treasury investments arise from receiving cash before it is paid out again. Investments made for service or commercial reasons are not generally considered to be part of treasury management (see paragraphs 4 and 5 below).

3.10. The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the Government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation.

3.11. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Cash and treasury investments in £m

	31-Mar 2020 Actual	31-Mar 2021 Forecast	31-Mar 2022 Budget	31-Mar 2023 Budget	31-Mar 2024 Budget
Cash & cash equivalents	31.5	35	30	30	30
Treasury investments	76.1	75	75	75	75
Total Investments	**107.6**	**110**	**105**	**105**	**105**

3.12. The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses.

3.13. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Section 151 Officer and staff, who must act in line with the treasury management strategy approved by Council each year. The Audit and Governance Committee is responsible for scrutinising treasury management decisions, and regular reports on treasury management activity are presented to this committee.

3.14. The Council's treasury management strategy includes further details of the Council's borrowing and treasury investments.

4. Investments for Service Purposes

4.1. The Council may make investments to assist local public services, including making loans to or investing in local service providers, including its own subsidiaries. In light of the public service objective, the Council may be willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs.

4.2. Decisions on service investments must be made in line with the criteria and limits laid down in the investment strategy to be approved by Council.

5. Commercial Activities

5.1. The Council may invest in property or other commercial activities purely or mainly for financial gain. As financial return is the main objective, the Council may accept a higher level of risk on commercial investments than with treasury investments. The value and risks of commercial investments must remain proportionate to the size of the Council, and contingency plans must be put in place should expected yields not materialise.

6. Revenue Budget Implications

6.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. Estimated financing costs are summarised in the table below.

Table 9: Estimated financing costs in £m

	2020/21 Forecast	**2021/22 Budget**	**2022/23 Budget**	**2023/24 Budget**
Interest Payable	8.3	8.3	9.5	9.8
Minimum Revenue Provision (MRP)	9.0	10.0	10.0	10.0
Gross Financing Costs	**17.3**	**18.3**	**19.5**	**19.8**
Less Investment Income	-3.6	-3.8	-3.8	-3.8
Net Financing Costs	**13.7**	**14.5**	**15.7**	**16.0**

6.2. The table below compares estimated financing costs to the Council's estimated net revenue stream i.e. the amount funded from council tax, business rates and general government grants.

Table 10: Prudential Indicator: Proportion of financing costs to net revenue stream

	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget
Net financing costs (£m)	14	15	16	16
Proportion of net revenue stream	4.5%	4.6%	4.9%	4.9%

6.3. MRP is calculated with regard to the Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance), most recently issued in 2018. In accordance with this guidance, where capital expenditure was incurred before 1 April 2008, MRP will be charged at 4% of the outstanding capital financing requirement, and for capital expenditure incurred on or after 1 April 2008, MRP will be charged based on the expected useful life of the assets funded from this borrowing.

6.4. Financing costs for 2022/23 and subsequent years will need to be reviewed when the impact of the changes in accounting for leases under IFRS 16 are more fully understood.

6.5. Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years may extend many years into the future. The Section 151 Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable.

7. Knowledge and skills

7.1. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council supports junior staff to study towards relevant professional qualifications.

7.2. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite. Arlingclose are employed as the Council's treasury management advisers.

Appendix 4

Capital programme budget summary and financing

Part I - projects with full external funding	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	21/22-25/26 Total £000
Funding source						
Capital grant DfT/DfE/other	(15,101)					(15,101)
Total funding	(15,101)	0	0	0	0	(15,101)
Projects						
Local Transport Plan programme of works	15,101					15,101
Total spend	15,101	0	0	0	0	15,101
Net expenditure	**0**	**0**	**0**	**0**	**0**	**0**

Part II - projects with partial external funding	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	21/22-25/26 Total £000
Funding source						
Section 106 Agreements/Contributions/Growth Deal						0
Contribution from MHCLG (Blandford)						0
Total funding	(3,891)	0	0	0	0	(3,891)
Projects						
Dorset History Centre original bid	2,334	165				2,499
DWP Infrastructure - Blandford site	1,948	2,902				4,850
Schools Basic Need programme	4,491					4,491
Total spend	8,773	3,067	0	0	0	11,840
Net expenditure	**4,882**	**3,067**	**0**	**0**	**0**	**7,949**

Part III - projects with no external funding	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	21/22-25/26 Total £000
Projects						
Schools Access Initiative	200	200	200	200	200	1,000
Property Improvements Programme	6,000	6,000	6,000	6,000	6,000	30,000
Dorset Council Fleet Replacement Programme	4,781	2,983	6,024	5,770	4,890	24,448
Weymouth Peninsula including Harbour Walls (W&PBC)	4,946					4,946
ICT minor capital works and projects	2,000	2,000	2,000	2,000	2,000	10,000
ITS replacement programme	200	200	200	200	200	1,000
Acquisition of temporary accommodation	1,650					1,650
Healthy homes Dorset	75	75	75			225
Compulsory purchase of long-term empty property	489					489
Residential sufficiency in Weymouth	1,072					1,072
Minor capital works	500					500
Capital contingency	2,000					2,000
Investment fund	15,000					15,000
Total spend	38,913	11,458	14,499	14,170	13,290	92,330
Net expenditure	**38,913**	**11,458**	**14,499**	**14,170**	**13,290**	**92,330**

Summary of net expenditure and funding	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	21/22-25/26 Total £000
Total expenditure	**62,787**	**14,525**	**14,499**	**14,170**	**13,290**	**119,271**
Full external funding	(15,101)	0	0	0	0	(15,101)
Partial external funding	(3,891)	0	0	0	0	(3,891)
Dorset Council part funding (borrowing)	(4,882)	(3,067)	0	0	0	(7,949)
Dorset Council funding (borrowing)	(29,013)	(1,308)	(4,099)	(3,520)	(2,390)	(40,330)
Dorset Council funding (reserves)	0	0	0	0		0
Dorset Council funding (capital receipts)	0	0	0	0		0
Minimum Revenue Provision	(9,900)	(10,150)	(10,400)	(10,650)	(10,900)	(52,000)
Total funding	**(62,787)**	**(14,525)**	**(14,499)**	**(14,170)**	**(13,290)**	**(119,271)**

Appendix 5

Treasury management strategy

1 Introduction

1.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

1.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

2 Treasury Management Advisers

2.1 The Council employs professionally qualified and experienced staff with responsibility for making borrowing and investment decisions. Officers are supported by external advisers who are specialists in their fields. The Council currently employs Arlingclose Limited as treasury management advisers.

2.2 This approach ensures that the Council has access to a wide pool of relevant market intelligence, knowledge and skills, that would be very difficult and costly to replicate internally. However, whilst advisers provide support to the internal treasury function, final decisions on treasury matters always remain with the Council.

3 External Context (Economic Background and Outlook)

3.1 Treasury management decisions made by the Council must take into consideration external factors, particularly the wider economic backdrop and the outlook for financial markets and interest rates.

3.2 Arlingclose are forecasting that Bank of England Bank Rate will remain at 0.1% until the end of 2023. A detailed economic commentary and interest rate forecast produced by Arlingclose is provided in Annex 1.

4 Local Context

4.1 Each of Dorset Council's six predecessor councils had different balance sheets and different capital programmes, and each had therefore developed different treasury management strategies to suit their individual circumstances. Dorset Council continues to develop its own strategy to meet the needs of its combined balance sheet and capital programme.

Existing borrowing and investment positions will continue to be reviewed to achieve an appropriate balance between cost and risk.

4.2 The Council's balance sheet summary and forecast are shown in table 1 below.

Table 1: Balance Sheet summary in £ millions

	31-Mar 2020 Actual	31-Mar 2021 Forecast	31-Mar 2022 Budget	31-Mar 2023 Budget	31-Mar 2024 Budget
Capital Financing Requirement	**320**	**373**	**407**	**412**	**417**
External Debt (incl. PFI & leases):					
External borrowing	216	239	283	298	313
Long-Term PFI Liabilities	24	23	22	21	20
Obligations under Finance Leases	3	3	3	3	3
Total External Debt	**243**	**265**	**308**	**322**	**336**
Internal Borrowing	**77**	**108**	**99**	**90**	**81**
Cash & cash equivalents	31.5	35	30	30	30
Treasury investments	76.1	75	75	75	75
Total Cash and Investments	**107.6**	**110**	**105**	**105**	**105**

4.3 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

4.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation over the medium term.

4.5 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £20m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Borrowing and the Liability Benchmark in £ millions

	31-Mar 2020 Actual	31-Mar 2021 Forecast	31-Mar 2022 Budget	31-Mar 2023 Budget	31-Mar 2024 Budget
Outstanding borrowing	216	239	283	298	313
Liability benchmark	128	149	198	213	228
Difference	88	90	85	85	85

5 Borrowing Strategy

5.1 As at 31 December 2020, the Council held £210.5 million of loans as part of its strategy for funding this year's and previous years' capital programmes. External borrowing as at 31 December 2020 is summarised in Table 3 below.

Table 3 External borrowing as at 31 December 2020

	31.12.20 Balance £m	**31.12.20 Average Rate %**	**31.12.20 Average Maturity (years)**
Public Works Loan Board	84.4	4.0	17.7
Banks (fixed-term)	25.6	4.7	57.1
Banks (LOBO)	11.0	4.6	56.6
Local authorities (long-term)	15.0	4.4	39.7
Local authorities (short-term)	10.0	0.5	0.5
Other lenders (fixed-term)	45.0	3.3	45.7
Other lenders (LOBO)	19.5	2.6	12.6
Total External Borrowing	**210.5**	**3.7**	**28.3**

5.2 The chief objective of the Council (and its predecessors) when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should long-term plans change is a secondary objective.

5.3 The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates remaining much lower than long-term rates, it is likely to be more cost effective in the short term to use internal resources or borrow short-term loans rather than long term loans.

5.4 This strategy has enabled the Council to reduce net borrowing costs (despite foregone investment income) and to reduce overall treasury risk. The benefits of internal and/or short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis.

5.5 The predecessor councils had previously raised a significant proportion of their long-term borrowing from the PWLB but the Council will also consider long-term loans from other sources including banks, pension funds and other local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

5.6 Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

5.7 The Council's approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (including the Dorset County Pension Fund)
- capital market bond investors, and
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues.

5.8 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback.

5.9 UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lend the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report.

5.10 The Council holds £30.5m of Lender's Option Borrower's Option (LOBO) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £11m of these LOBOs have options during 2021/22, and although the Council believes that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

5.11 Short-term and variable rate loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

5.12 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

6 Treasury Investment Strategy

6.1 The Council holds significant levels of invested funds, representing income received in advance of expenditure plus balances and reserves held. Cash, cash equivalents and investments held on 31 December 2020 are summarised in Table 4 below.

Table 4: Cash and Treasury Investments

	31.12.20 Balance £m
Cash and Cash Equivalents:	
Banks (unsecured)	26.2
Building Societies (unsecured)	0.0
Money Market Funds	89.5
Less Dorset LEP Balances*	-28.9
Total Cash and Cash Equivalents	**86.8**
Investments:	
Short-dated bond funds	2.9
Strategic bond funds	10.4
Equity income funds	38.7
Property funds	20.4
Multi asset income funds	6.0
Real Estate Investment Trusts (REITS)	0.0
Total Investments	**78.4**
Total Cash and Investments	**165.2**

**The Dorset Local Enterprise Partnership's bank balances are held in the same NatWest Bank interest group as Dorset Council's bank balances. Interest is only charged if this interest group as a whole is overdrawn.*

6.2 **Objectives:** The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

6.3 **Negative interest rates:** The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

6.4 **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to continue to diversify into more secure and/or higher yielding asset classes during 2021/22.

6.5 The Council has investments of approximately £80m in externally managed strategic pooled investment vehicles (bond, equity, multi-asset and property funds) where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

6.6 These funds have no defined maturity date, but are available for withdrawal after a notice period, and their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the expectation that over a three to five-year period total returns should exceed cash interest rates.

6.7 **Business models:** Under International Financial Reporting Standard (IFRS) 9, the accounting treatment for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

6.8 **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in table 5 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 5 Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£30m	Unlimited
Secured investments *	25 years	£30m	Unlimited
Banks (unsecured) *	12 months	£15m	Unlimited
Building societies (unsecured) *	12 months	£15m	£30m
Registered providers (unsecured) *	5 years	£15m	£30m
Money market funds *	n/a	£30m	Unlimited
Strategic pooled funds	n/a	£20m	£150m
Real estate investment trusts	n/a	£20m	£100m
Other investments *	5 years	£15m	£30m

6.9 This table must be read in conjunction with the notes below.

6.10 ***Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account. For entities without published credit ratings, investments may be made either where external advice indicates the entity to be of similar credit quality.

6.11 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

6.12 **Secured investments**: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

6.13 **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

6.14 **Registered providers (unsecured):** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

6.15 **Money market funds**: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

6.16 **Strategic pooled funds:** Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. These funds have no defined maturity date, but are available for withdrawal after a notice period, therefore their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

6.17 **Real estate investment trusts (REITs):** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

6.18 **Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

6.19 **Operational bank accounts:** The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £10m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

6.20 **Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

6.21 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

6.22 **Other information on the security of investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

6.23 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

6.24 **Investment limits:** the maximum that will be lent to any one organisation (other than the UK Government) will be £30 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £10 million in operational bank accounts count against the relevant investment limits.

6.25 Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 6 Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£50m per manager
Negotiable instruments held in a broker's nominee account	£50m per broker
Foreign countries	£25m per country

6.26 **Liquidity management**: The Council monitors its cash flow forecasting on a daily basis to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast. The Council will spread its liquid cash over at least three providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

7 Treasury Management Indicators

7.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

7.2 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. Arlingclose calculate the credit score by applying a score to each investment (AAA = 1, AA+ = 2 etc.) and taking the average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

7.3 The target for the portfolio average credit score is 6.0.

7.4 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period.

7.5 The target level of cash available within three months is £30m. In addition, the Council aims to hold a minimum of £10m readily available in same day access bank accounts and Money Market Funds.

7.6 **Interest rate exposure:** This indicator is set to control the Council's exposure to interest rate risk. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be £1m.

7.7 **Principal sums invested for longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 7 Limits on principal invested beyond year end

	2021/22	**2022/23**	**2023/24**
Limit on principal invested beyond year end	£20m	£15m	£10m

7.8 **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Table 8 Maturity structure of borrowing

	Upper Limit	**Lower Limit**	**Complie d Yes/No**
Under 12 months	25%	0%	Yes
12 Months to 2 Years	25%	0%	Yes
2 Years to 5 Years	25%	0%	Yes
5 Years to 10 Years	35%	0%	Yes
10 Years to 15 Years	35%	0%	Yes
15 Years to 20 Years	35%	0%	Yes
20 Years to 25 Years	45%	0%	Yes
25 Years to 30 Years	45%	0%	Yes
30 Years to 35 Years	45%	0%	Yes
35 Years to 40 Years	45%	0%	Yes
40 Years to 45 Years	45%	0%	Yes
45 Years to 50 Years	45%	0%	Yes
50 Years and above	75%	0%	Yes

7.9 Time periods start on the first day of each financial year, so borrowing maturing "under 12 months" is all borrowing that may mature before the end of this financial year. The maturity date used is the earliest date on which the lender can demand repayment, or the borrower has the option to repay without penalty. The next option dates on LOBOs have therefore been treated as the potential repayment date.

8 Financial Derivatives

8.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

8.2 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

8.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

8.4 In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

9 Markets in Financial Instruments Directive (MiFID)

9.1 The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

10 Member and Officer Training

10.1 The high level of risk inherent in treasury management means officers need to be adequately experienced and qualified. Officers attend national treasury management events and training courses, and have regular strategy and review meetings with advisers, as well as regular telephone contact.

10.2 On 23 January 2020 a training session for all Dorset Council's elected members was provided by officers and advisers to explain the responsibilities that members have in relation to treasury management. Further training will also be provided from time to time as necessary.

11 Other Options Considered

11.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Annex 1

Economic and Interest Rate Forecast (Arlingclose December 2020)

Economic background: The impact on the UK from coronavirus, together with its exit from the European Union and future trading arrangements with the bloc, will remain a major influence on the Council's treasury management strategy for 2021/22.

The Bank of England (BoE) maintained Bank Rate at 0.10% in November 2020 and also extended its Quantitative Easing programme by £150 billion to £895 billion. The Monetary Policy Committee voted unanimously for both, but no mention was made of the potential future use of negative interest rates. Within the latest forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast.

UK Consumer Price Inflation (CPI) for September 2020 registered 0.5% year on year, up from 0.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 1.3% from 0.9%. The most recent labour market data for the three months to August 2020 showed the unemployment rate rose to 4.5% while the employment rate fell to 75.6%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In August, the headline 3-month average annual growth rate for wages were 0% for total pay and 0.8% for regular pay. In real terms, after adjusting for inflation, total pay growth fell by -0.8% while regular pay was up 0.1%.

GDP growth fell by -19.8% in the second quarter of 2020, a much sharper contraction from -2.0% in the previous three months, with the annual rate falling -21.5% from -1.6%. All sectors fell quarter-on-quarter, with dramatic declines in construction (-35.7%), services (-19.2%) and production (-16.3%), and a more modest fall in agriculture (-5.9%). Monthly GDP estimates have shown the economy is recovering but remains well below its pre-pandemic peak. Looking ahead, the BoE's November Monetary Policy Report forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in October, the third successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time with further monetary stimulus expected later in 2020.

The US economy contracted at an annualised rate of 31.7% in Q2 2020 and then rebounded by 33.1% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

Former vice-president Joe Biden won the 2020 US presidential election. Mr Biden is making tackling coronavirus his immediate priority and will also be reversing several executive orders signed by his predecessor and take the US back into the Paris climate accord and the World Health Organization.

Credit outlook: After spiking in late March as coronavirus became a global pandemic, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainly around COVID-19 related loan defaults lead to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 is likely to be significantly lower than in previous years.

The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, as does the UK not achieving a Brexit deal, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

Interest rate forecast: The Council's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the end of 2023. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the Brexit transition period ends. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

Gilt yields are expected to remain very low in the medium-term while short-term yields are likely remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year to rise to around 0.5% and 0.75% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

Underlying assumptions:

- The medium-term global economic outlook remains weak. Second waves of Covid cases have prompted more restrictive measures and further lockdowns in Europe and the UK. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.
- The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise.
- Although these measures supported a sizeable economic recovery in Q3, the imposition of a second national lockdown in England during November will set growth back and likely lead to a fall in GDP in Q4.
- Signs of a slowing economic recovery were already evident in UK monthly GDP and PMI data, even before the latest restrictions. Despite some extension to fiscal support measures, unemployment is expected to rise when these eventually come to an end in mid-2021.
- This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets continue to price in a chance of negative Bank Rate.
- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, the development of a vaccine or if the UK leaves the EU without a deal.

Forecast:

- Arlingclose expects Bank Rate to remain at the current 0.10% level.
- Additional monetary loosening through increased financial asset purchases was delivered as we expected. Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out.
- Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.
- Downside risks remain in the near term, as the government continues to react to the escalation in infection rates and the Brexit transition period comes to an end.

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	-0.10	-0.20	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate													
Upside risk	0.05	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	-0.40	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.15	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60
10yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.30	0.30	0.35	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.55	0.55	0.55
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
20yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.70	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.85
Downside risk	-0.20	-0.20	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30
50yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.60	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.20	-0.20	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix 6

Summary of financial planning assumptions

The latest budget assumptions are shown in the table below compared with those originally used.

	Original assumption 2021/22	Updated assumption 2021/22
Council tax increase	<2%	<2%
Council tax base growth	0.75%	-0.02%
Social Care Precept	0%	3%
Business rates growth	0%	-5%
Pay award	2.50%	0%
General inflation	2.25%	0.65%
Supplier/contract price uplifts	2.25%	0%
Increase in fees & charges	2.25%	1.50%
Employer pension contribution	0% +£252k	0% +£252k

Appendix 7

Matters raised by Scrutiny Committees

At their meetings on the 11th December 2020, the members of the People and Health Scrutiny Committee and the Place and Resources Scrutiny Committee reviewed the draft proposals for the 2021/22 revenue budget and the assumptions used in developing them. There was also an overview of the proposed transformation and tactical efficiencies to be made during the year.

Each of the Committees endorsed the draft budget proposals, but also raised a series of issues for Cabinet to consider prior to finalising the budget. The table below summarises the issues raised and provides a response to the consideration given.

People & Health Scrutiny Committee

Question/issue raised	**Response**
Adult Social Care and Housing Directorate	
Whether the funding was split right?	Getting the "right" resource balance between services is always challenging and is informed by (amongst other things) specific funding streams, demand pressures, transformation opportunities and priorities in the Dorset Council Plan. Resourcing is kept under continuous review.
The budget flagged the demographic risks for DC around rising numbers of residents over 80 (higher than the national average) and high numbers of self-funders.	The approach to managing these demands is to further enhance, through the 'A Better Life' transformation programme, supporting people at an early stage, ensuring people are supported with the right intervention at the right time, in their local communities. This is through: • Providing accessible advice, information, guidance and signposting to identify informal support • Early advice to help self-funders to make their money go further • Work with communities to develop sustainable informal support in localities • Provide more reablement at the right time to improve individual's independence • Taking a strength-based approach to assessment and support planning (identifying family and community networks of support so the statutory

	services only provide support for peoples' more complex needs • Outcome based commissioning with providers • Moving to Personal Budgets being the default offer for individuals needing Adult Social Care support Sections 6 and 16 of the budget report cover risks and mitigations. There is always risk in delivering the Council's plans but officers are as confident as they can be that the best approach has been adopted and that close monitoring of the position during the year, as set out in section 6 will highlight any matters needing to be brought to members' attention. Adult Social Care & Housing will continue to promote a whole council approach to meeting the needs of people over 85 by promotion of positive lifestyle initiatives, housing options that support independent living, digital and equipment solutions that can enable people to help themselves, and the right care in the right place to support them when they need more complex care later in their lives.
The closure of care homes.	Nationally there has not been, to date, a significant number of care home closures. It is appropriate for some to close for example when they are not positioned correctly to support their communities' needs. There is also currently over-provision of residential care. Some care homes were closing by choice rather than for financial reasons, some due to Covid-19 and some were not providing the right level of care for residents. People are also now choosing not to enter care homes until later in their lives when their needs are more complex. This provides an opportunity to look at the situation strategically to get the right care homes in the right places.
The basis for assumptions behind the significant saving of £3.7m in Appendix 1 and whether	Further information explaining the savings profile has been provided.

there was a trade off of less residential and nursing care needed and increased numbers of care packages	There is a place for residential and nursing care but there is also a history of placing people in residential care before it is necessary, thereby reducing their independence. The *Home First* programme will ensure people receive interim care, reablement or rehabilitation and are able to return home, maximising their independence and having better outcomes. This means increasing numbers of people will need care in their own homes so resources will be required for this. Investment of this kind is important to enable earlier intervention, before a crisis occurs, requiring more expensive and long-term interventions. Residents are also being encouraged to take up direct payments to employ local support where this is appropriate and can deliver better outcomes.
Financial support received from elsewhere: could the money released by people leaving hospital sooner be added to adult social care budget?	The *Home First* Programme is being developed with partners to get the right system and right funding in place to maximise support for residents and to share any risk and address financial inequalities. Conversations with health partners are ongoing about the fair price for care, to ensure organisations were acting legally in providing an adult social care response, and that the Council is not paying for clinical interventions. A fair balance of health and social care funding is needed and discussions with the Dorset Clinical Commissioning Group are happening regarding joint health budgets, continuing healthcare and a fair share approach for those coming out of mental health, long stay hospitals and for those with significant complex needs.
A lot of care was provided by volunteers, community groups, friends and relatives. What support was available to them?	Working with communities to enable them to provide support at an early stage and increase resilience continues to be vital. The Council also needs to respond when individuals need help by having the budget to provide this in the right way so that carers can continue caring and by putting them in touch with other carers. Currently the majority of spend is in providing packages of

	care when there needs to be a shift towards earlier intervention and prevention to free up the budget to move support to those who needed it and to do this in the best way possible. As data improves the Council will be able to support groups and communities in different ways. Developing partnerships is not always about funding but delivery in a different way.
It is important for people coming out of hospital to have wrap around care available and that this should be consistent across Dorset.	The *Home First* approach is about getting the right support for people who have had an acute episode so that they can manage at home with support. Work with the integrated care system and primary care providers is under way to ensure the right health and care support is available in the community to support people to live at home. There is increasing emphasis on this approach and the pandemic had accelerated this work. The challenge is how money can be moved from the acute to primary care and community health services to support this. This is being explored.
Digital help should be used more. It would be an investment to save in the longer term.	All the transformation programmes focus on technological solutions to enable people to manage without intervention of a carer or support. There are many different digital devices available which can support customers' needs. The need for these has escalated during the pandemic. They also support independence. People are gaining greater access to advice and information in order manage their own care choices.
The Council had to do the best it could within the resources available.	Improved data regarding future population needs will support the transformation of care in Dorset in order to ensure that the right care is available, in the right place at the right time. This will be achieved by maximising the use of existing universal/community services and assets and supporting the care provider market to develop, in conjunction with assistive technology and digital solutions, models of care that improve and/or maintain people's ability to live as independently as possible in their own home for as long as possible.

The recent changes to integrated health and social services discharge processes (the Single Point of Access (SPA) and One Team approach) have been a significant step forward	Home First and Discharge to Assess have driven a greater level of integration across the health and care system in Dorset. The focus for Adult Social Care & Housing is to ensure that the focus of the ICS on hospital discharge is balanced against community-based care in order to prevent escalation of health & care needs and additional demands upon acute health services. These arrangements have enabled a joined-up approach to individuals needs when they are ready for discharge and also enables us to more effectively identify gaps in support or services that we can commission
There was a recognition that previously in Dorset people have moved into care homes at an earlier stage in their lives.	Even prior to the Covid crisis the council was seeing circa a 5% reduction in demand for traditional residential care. Conversely there was a noted increase in demand for dementia and nursing residential care. There still remains a trend for people who self-fund their own care to enter in to residential care prematurely which can mean, as they will tend to have a longer length of stay, that they become financially eligible for council funded social care support when their personal assets become depleted. Adult Social Care & Housing are proactively working to ensure that the right information, advice and guidance is available to self-funders and all residents so that the broader accommodation, support and care offers can be considered prior to deciding on a residential home placement. The provider market is being supported to look at how business models may need to change in order to meet the higher levels of need that present when people do need residential based care.
Cuts to Adult Social Care budgets would mean we would need to refocus our support.	The council continues, along with the Care Quality Commission, to monitor the quality and safety of all services commissioned. The Dorset area has a higher than the National average level of care providers rated as ‘Good’ or ‘Outstanding’ by the Care Quality Commission. The Adult Social Care Quality Improvement Team monitor all CQC registered and unregulated care and support providers and

	delivers an active program of interventions that support providers to maintain and improve the levels of care that they provide. Where services fail to meet the appropriate level of quality the Council works with other partners to support improvement. Where quality continues to be an issue the Council will, in appropriate cases, look to decommission and re-provide services through alternative means. Reduction to funding, however, can impact on the Council's ability to support the transformation of services in order to meet future need. Increasing demand and complexity means that the care workforce for the future will need a higher level of skill and training to meet the challenge. Essentially this would mean we would not be able to focus more of our resources on early intervention and preventative services (invest to save) and would have to prioritise those in greatest need. This would not deal with the long-term pressures arising from the increasing demand as outlined above
The Council should be lobbying for a better national settlement and a better settlement for adult social care.	The Council continues to lobby Government for extra funding and works with partners like CCN, SCT, LGA and others to press the case. Dorset's MPs are also advocating for increased Council funding and together we have an effective voice. However, the harsh economic reality of the pandemic against a backdrop of ten years of austerity mean Government budgets themselves are tight. However, transformation is needed regardless of budget pressures because it is the right thing to do to improve outcomes. The council is actively working to promote the needs of social care through both regional and national networks and highlighting the specific needs of Dorset. We regularly meet and brief Dorset MPs on the challenges faced.

	The future funding of social care is a national issue and Dorset inputs regularly into this agenda through the Association of Directors of Adult Social Services and the Local Government Association.
Children's Services Directorate	
It was difficult to predict the numbers of children coming into care and the costs of placements. Would more funding be requested at a later date?	Children should not generally come into care without being known to the Council. There have been some recent success in finding placements for three or four sibling groups together and there were families wanting to adopt four or more children from the same family. More of this is really needed. Currently there are older children who have been in care for longer than would have been hoped. Their plans are being reviewed sensitively and where they live a long way from home, the Council looks to bring them home as soon as possible.
The importance of early years and early intervention which would save money in the longer term. Was the review supporting qualifications and training for early years? Whilst it was acknowledged that savings needed to be made, was there an innovative way of making sure this qualification support continued?	This was one of the savings targets under review. A small amount of top up was paid but this needed to be fair and transparent. The review had just been signed off. Early years work was essential, for SEND children too, many of the families were under financial pressure and any support should be provided fairly and transparently. This point will be taken into consideration.
Information, advice and guidance. Teenagers would need support now more than ever because of higher unemployment, increased mental health issues and low self-esteem. How would the review impact on those young people not in	Efforts focus on what the Council is required to do and there is a need to use investment in a different way. Changes to information for carers has been delivered and the focus would be more on prevention of those who might become NEETs and more at risk. Current numbers of NEETs could be provided outside of the meeting. There had been a slight increase as a result of the pandemic. There

education, employment and training (NEETs)?	would be a focus on post 16 apprenticeships and routes for them.
Hidden NEETs should not be forgotten.	We are working to ensure we are proactively looking for young people at risk of falling out of provision as a response to having been out of school due to continual Covid lockdown measures.

Place & Resources Scrutiny Committee

Issues raised by the Place and Resources Scrutiny Committee	**Response**
Consideration to be given to developing an approach to increase car parking fees by 5% across the board. This to be flagged up as a direction of travel for officers to undertake more detailed work on.	Noted.
There is a need for careful funding plans for any future transition of libraries or tourist information centres.	Noted.
Concern with regard to the availability of budget/resources for work identified in the Dorset Council Climate and Ecological Emergency Strategy action plan and the potential issues this may have on the climate and the reputation of the council. The committee wishes to support the Leader of the Council in the continued lobbying of the government for a fairer funding deal for local government and the	Please also see comments elsewhere about continued lobbying for funding. The Council also continues to bid separately to Government for funding to support its Climate and Ecological Emergency strategy Section 6 of the budget report confirms that the majority of our strategy implementation cannot be delivered by councils on their own and significant funding is needed from Government. However, proposals are also coming through the CSAMG officer group and will be referred to Cabinet in due course.

exploration of additional funding from government.	
Councillors appointed as Dorset Council representatives on outside bodies are encouraged to resist requests for increases in funding for these bodies at this time.	Noted.
Concern over the level of resource available for planning enforcement activities.	This area is due to be reviewed by the Place and Resources Scrutiny Committee at its January 2021 meeting.
There is a need to review the impact of proposed reductions to staff training budgets. The example raised at committee was within the Place budget and a reduction of 20%. As a post meeting note, the Executive Director of Place notes that this review may need to go wider than Place as it is thought that the council is proposing reductions across the board – therefore this may need to be dealt with as a corporate issue.	Care has been taken with budget reviews to make sure training budgets are not seen as an easy source for savings. Part of being an employer of choice is to continue to invest in human resources and the Council is keen that this continues. A significant element of the reduction in training budgets is due to more training being accessed online and through the apprenticeship route. The Council already pays significant sums as the levy on all employers with a payroll of a certain size, so it is important that we access what we have paid in and direct training through that avenue where appropriate.
There is a requirement for increased capacity in the Democratic Services Team with particular reference to support to overview and scrutiny functions, if resources are available in the budget.	Savings elsewhere will be required to make resources available to support this request. This is not included within the budget proposals, but Officers will review the position and report back.
A concern is raised in respect of capacity within the Legal Services Team in order to ensure that the	The need for legal support is dictated by the priorities and needs of the council and is met by the core in-house team or is commissioned through them. Capacity and the need for any additional legal

council can conduct its business requirements.	support will be discussed between directorates and the Head of Legal Services.
Concern raised with regard to the proposed level of council tax increase for residents linked to the current situation with Covid-19 and EU exit and the impact that this may have on the council's collection rates.	Noted. Due to Dorset's historically low level of funding from Government, council tax has had to be kept relatively high compared with other Councils. This Council continues to press Government for additional funds and also contributes actively to the debate around future models for funding to ensure a better deal for Dorset. Locally, the impact on the collection funds is monitored monthly and shared with the Portfolio Holder and through the quarterly Cabinet financial management reports. Government has also announced support for collection funds in 2020/21 and in 2021/22.
The impact on the council of delays in the valuing of banding for new properties needs to be kept under review.	Noted. A briefing on council tax has been prepared for members and the process for properties becoming liable for council tax can be clarified.
A request is made to include scrutiny of the Base Budget in next year's budget scrutiny process.	Officers will bring forward plans to review base budgets for services which members may want to focus specific attention on. This will need to be done in advance of the budget setting/scrutiny process so that resource allocation next year can take place against a good knowledge of the current budget.
Additional information is requested to be included in the appendices provided with the budget report – additional columns are requested in order to set out the current budget for each area and the variance between the current budget and the proposal for the next year's budget.	Officers will work on this approach for the next budget round. It can be tied-in to the base budget review work mentioned in the preceding point.