

Cabinet

5 October 2021

Medium Term Financial Plan (MTFP) and budget strategy

For Decision

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

Local Councillor(s): All

Executive Director: A Dunn, Executive Director, Corporate Development

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Report Status: Public

Recommendation:

That Cabinet:

- (i) notes the updated cost pressures set out in this paper and the validation work that has been carried out on them;
- (ii) agrees/amends the assumptions being used in the Medium-Term Financial Plan (MTFP);
- (iii) notes the financial gap arising from (i) and (ii) above;
- (iv) agrees the 2022/23 draft principles for budget setting;
- (v) notes the approach to closing the budget gap set out in this paper, recognising this is work in progress;
- (vi) agrees that Portfolio Holders work with officers to continue to identify and develop savings opportunities;
- (vii) notes the emerging national context set out in this paper;
- (viii) endorses the next steps and timetable leading up to the 2022/23 budget being presented to full Council on 15 February 2022.

Reason for Recommendation:

Councils are required to set a balanced budget. Essentially this means that expenditure is balanced by income without unsustainable use of one-off, or short-term sources of finance.

This paper is coming to Cabinet to provide an update on the budget gap for 2022/23 and the subsequent years of the MTFP and to update on progress on action/savings to date.

1. Executive summary

The purpose of this report is to provide a framework for the budget for 2022/23 and the MTFP for 2023-2027, and to outline the work which will be undertaken during the autumn so the budget can be finalised at Council in February 2022.

The MTFP shows how we intend to ensure that money will be prioritised to those services that matter most to residents and how the council will re-shape itself to be better able to deliver those services within the available funding.

This year's budget setting exercise takes place against a national background of extreme pressures for councils, as a result of the anticipated end of the coronavirus pandemic restrictions and the inability of many to contain the financial impact of Covid-19 within the additional funding provided.

The Ministry of Housing, Communities and Local Government (MHCLG) – soon to become the Department for Levelling Up, Housing and Communities - continues to collect budget impact information from local authorities each month and Dorset Council has participated in every round of data collection.

2. Financial implications

All covered within the report.

3. Climate implications

None specifically in this paper.

4. Other implications

None that are not covered in this report.

5. Risk assessment

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

Current Risk: High

Residual Risk: High

The council is required to set a balanced budget. The financial challenges in the aftermath of Covid-19 and the risks that surround its legacy are high.

In 2021/22, Dorset Council is forecasting a revenue budget shortfall and there is significant risk around business rates in particular, but there are also significant arrears of council tax and business rates that accumulated in 2020/21. Savings

are also falling short of those budgeted and if they cannot be recovered this will have a knock-on impact in 2022/23 and beyond.

Work continues to reduce costs wherever possible but there are certain service areas continuing to face unprecedented demand which cannot be satisfied as the market cannot meet it. Government has also provided some unringfenced grant funding in 2021/22 which will support in-year pressures. A further update will be provided in the Q2 report to the November Cabinet meeting.

6. Equalities Impact Assessment

The council's budget is a framework for the council to achieve its priorities, and the requirement to achieve a balanced budget depends upon 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 subject to impact assessments.

7. Appendices

1. Summary of Financial Risks
2. Summary of *Build Back Better* announcements

8. Background papers

Budget strategy report 2021/22

Qtr1 finance report to Cabinet

9. Introduction

9.1 Full 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.

9.2 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 could be met with the funding available.

- 9.3 Significant progress has been made in delivering on these priorities. However, the Covid-19 pandemic continues to be a huge challenge to the organisation. Although the Council rose to this challenge, the response caused significant turbulence, meaning human and financial resources were redeployed to respond to the pandemic and to support residents and services across the council area.

10. Financial context

- 10.1 This came at significant expense and, despite additional funding from government, the Council finished the year with a net drawdown of almost £15m from its general fund. Moreover, the legacy of the pandemic means that significant shifts in demand and costs experienced during the pandemic are continuing in 2021/22 and are also predicted to impact on our MTFP and the 2022/23 budget.
- 10.2 Costs increased, demand went up, income was down (despite some compensation from Government) and there were significant impacts on our council tax and business rates collection funds. The Council has made progress in recovering some of the increases in arrears that built up during 2020/21 but there is a long way to go and significant risk still exists, particularly around business rates. A further update will be made in the Qtr 2 financial management report.
- 10.3 The Qtr 1 report to Cabinet set out a forecast overspend in excess of £8m even after Government funding of around £8.5m. The [report](#) itself sets out more detail, so that is not revisited here. However, this report does articulate further that we are anticipated pressures continuing into the new budget round and MTFP. At this stage, it is spurious to try to differentiate between the causes of budget pressure being either Covid or non-Covid, they are here and need to be dealt with in our base budget.
- 10.4 The challenge for 2022/23 and beyond is clear; how will the Council achieve a balanced budget whilst continuing to provide an increasing quantum of high-quality services for the residents of Dorset? There may be some light ahead in terms of the recent announcement around increased funding for health and social care being delivered via the health and social care levy, but consultation on the funding that will flow to local government is still some way off and cannot be modelled at this stage in the financial planning process.

11. A three-year Spending Review

- 11.1 On 7 September 2021, the Chancellor of the Exchequer announced the launch of [Spending Review 2021](#) (SR21) which will conclude on 27 October 2021 alongside an Autumn Budget and which will set out the Government's spending priorities for the next three years. The review will

set UK government departments' resource and capital budgets for 2022/23 to 2024/25.

- 11.2 At the Spending Review, the Government will set out how it intends to *Build Back Better* (much more on this, below), deliver the priorities of the British people and continue to support businesses and jobs. This will be delivered by:
- ensuring strong and innovative public services - making people's lives better across the country by investing in the NHS, education, the criminal justice system and housing;
 - levelling up across the UK to increase and spread opportunity; unleash the potential of places by improving outcomes UK-wide where they lag and working closely with local leaders; and strengthen the private sector where it is weak;
 - leading the transition to *Net Zero* across the country and more globally;
 - advancing *Global Britain* and seizing the opportunities of EU Exit;
 - delivering the *Plan for Growth* - delivering on the ambitious plans for an infrastructure and innovation revolution and cementing the UK as a scientific superpower, working in close partnership with the private sector.
- 11.3 As part of the launch, the Chancellor set the envelope for spending over the next three years:
- core day-to-day departmental spending will follow the path set out at Spring Budget 2021, with the addition of the net revenue raised by the new health and social care levy and the increase to dividend tax rates. The Government will make available around an additional £12 billion per year for health and social care on average over the next three years;
 - this additional funding for health and social care allows the Government to announce an SR21 RDEL settlement for NHS England and Improvement rising to £160 billion by 2024/25;
 - in total, day-to-day spending will increase to £440 billion by 2024/25, increasing by nearly £100 billion a year in cash terms over the parliament;
 - the Government is also pledging a step-change in capital investment, as set out at Budget 2021, via a plan to invest over £600 billion over five years.
- 11.4 As part of this plan, departments have been asked to identify at least 5% savings and efficiencies from day-to-day budgets which can be reinvested in government priorities. Quite what this means for MHCLG or other departments by which money flows to local government is unclear at this

stage. We are also awaiting confirmation that a three-year spending review will flow into a three-year settlement for local government.

12. Financial modelling assumptions and the initial budget gap

12.1 We have already considered the background to the financial planning work for 2022/23. We will now turn our attention to the update of our MTFP, our planning assumptions and the starting point this gives us.

12.2 When Council approved the 2021/22 budget in February 2021, there were still gaps in future years' financial plans as shown in the table below.

Medium Term Financial Plan summary					
	MTFP Yr1	MTFP Yr2	MTFP Yr3	MTFS Yr4	MTFP Yr5
	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£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)

12.3 Rolling forward the financial model and rebasing for the new year and decisions approved by Cabinet since the budget was set, is the first part of the new financial planning process and the finance team continues this work with managers across the Council.

12.4 In drawing up the draft budget proposals for 2022/23, a number of assumptions have already been made in the MTFP model which may have to be revisited as further information becomes available and our planning environment becomes clearer.

12.5 The current (more material) assumptions for the budget for the year ahead are:

Growth items	2022/23	£k
Council tax increase	<2%	£5,270k
Council tax base growth	0.75%	£1,979k
Social care precept	0%	£0k
Change in business rate growth	0.5%	£222k
Increase in fees & charges	2.50%	£1,944k
Cost Pressures		
Pay award	2.25%	£3,197k
General inflation	2.50%	£7,590k
Energy costs	5.00%	£165k

Council tax

- 12.6 Our working assumption for council tax is that the referendum cap will continue to be set at 2% and that the council will need to levy the full amount in order to deliver a balanced budget.
- 12.7 Our budget for 2021/22 assumed no base growth for council tax. It is still too early to say whether this is holding up, but the assumption is that we will return to growth in the base – of around 0.75% - from 2022/23. The Qtr 2 report will contain more detail around collection funds and the council tax base.
- 12.8 Dorset Council also levied the maximum adult social care precept in 2021/22, so no further levy is possible in 2022/23.

Business rates

- 12.9 Members will be aware from the 2020/21 outturn and the 2021/22 Qtr 1 forecast reports, that business rates are behind their predicted collection levels. This does not automatically flow through to a shortfall against budget as there are complexities around the accounting. However, there are some real concerns around income being collected and the size of arrears. More information will be covered in the Qtr 2 report.

Pay award

- 12.10 Estimating the award for 2022/23 is complicated, given that agreement for 2021/22 has still not been reached. Provision was made centrally for pay inflation in 2021/22 and this will be distributed to service budgets, as required, when agreement is reached. For the time being, 2.25% is provided for 2022/23.

General inflation

- 12.11 In 2021/22, general inflation was not provided for in service budgets. Instead, a central sum was set aside to deal with price increases which could not be avoided after negotiation with suppliers. Work so far means that we have not yet allocated the full provision, but it is still being held centrally to deal with pressures we might not yet have anticipated.
- 12.12 It is likely that the council would be less successful with a similar approach for 2022/23, especially given pressures we are experiencing in the current year and the widely held views, expectations and forecasts that inflation will increase further in coming months. This is likely to add further pressure to the current budget gap.
- 12.13 As well as cost pressures, general inflation is applied to sales, fees and charges, meaning a general uplift in the amount of income that services are expected to deliver.

13. Continuing and new budget pressures in the MTFP

- 13.1 In addition to these planning assumptions (which Cabinet is requested to consider), managers have already been busy rebasing budgets for the current year and assessing the ongoing impact of the disruption to activities and demand caused by the pandemic. Significant work went into this activity over the summer to make the most accurate assessment possible of this impact, which is summarised in the table, below.

	£k
Budget Gap from 2021/22 MTFP - Year 2	8,954
Council tax adjust	2
Change in inflation from rebasing of budget	-636
Adult and Housing Service 21/22 continuing base pressures	7,589
Children's Services 21/22 continuing base pressures	3,347
Place Services 21/22 continuing base pressures	10,870
Corporate Services 21/22 continuing base pressures	0
2021/22 pay award	0
Adult and Housing Services new budget pressures 2022/23	2,096
Children's Services new budget pressures 2022/23	948
Place Service new budget pressures 2022/23	1,294
Corporate Services new budget pressures 2022/23	1,630
Total budget gap as at 17/09/2021	<u>36,094</u>

- 13.2 As well as these pressures, we probably need to make further, specific mention of recent announcements on health and social care, announced

by the Prime Minister and developed further in the document [*Building Back Better: Our Plan for Health and Social Care*](#). This is covered elsewhere in this report, and in the risk section, and in the appendices.

14. Draft budget principles

14.1 All budget work needs process and method, and these must be structured around a framework – in this case, a draft statement of principles – to be used in developing the budget. The principles are intended to be constructed as helpful language we can use to describe how we will do our work to balance the budget and take difficult decisions about how to deliver the priorities and outcomes in the Council Plan.

14.2 These principles are set out below, for Cabinet's endorsement and to shape the remaining budget strategy work:

- we will not balance the budget strategy by using reserves;
- resource allocation will be driven by the Dorset Council Plan and priorities;
- services should be protected where possible but clearly demonstrate value for money and improved efficiency;
- we should seek to maximise the savings from becoming a unitary council;
- we will develop short-term and long-term transformational savings plans;
- we will continue to take an increasingly commercial approach;
- we will use best practice around business cases for our decision making and we will be open to invest to save opportunities;
- budgets should be realistic to achieve the objectives of the council and we must hold ourselves to account for their delivery and sound financial management.

15. Transformation and savings

15.1 We have identified that the organisation needs a short-term focus on savings as well as a longer-term emphasis on transformation. This is coming into sharper focus given that a significant portion of the current transformation savings are not being delivered and the budget gap for next year is significant.

15.2 More work is in progress to identify savings and transformation over the longer term for input into the MTFP as well as the budget strategy. This will continue to be reviewed through the relevant Boards and Committees and will dovetail with the timetable set out elsewhere in this report.

15.3 Cabinet is due to receive an update on the Transformation Programme at its November meeting and this will be a crucial building block of our

budget strategy. No savings are yet assumed in the budget gap, so anything we can include in the plan will reduce this figure for us.

16. Further work to close the gap

16.1 Clearly there is much work to be done and the proposed next steps are:

- a. continue to validate, test, challenge and update the budget assumptions;
- b. continue to identify and implement savings, taking advantage of the financial efficiencies that becoming a unitary council has presented;
- c. refresh the Transformation Plan and develop transformational savings which will reduce the financial gap whilst protecting front-line services;
- d. continue to engage with consultation processes around funding formulas for the future and particularly for the CSR and settlement for 2022/23;
- e. Cabinet to consider its approach to council tax. Each 1% change in the precept generates around £2.6m for the council. The Qtr 2 report to Cabinet will deliver clearer information about the collection rates for local taxes at the halfway point in the year. Collection rates for 2020/21 were lower than budgeted and there was a significant increase in arrears which needs to be recovered as well as attempting to return to previous in-year collection rates.

17. Timetable

17.1 The major milestones in the remaining budget and MTFP timetable are set out in the table, below.

5 October	Cabinet (high level framework)
2 November	Cabinet (Q2 and transformation)
3 November	Member Scrutiny Workshop 1 – base budget & forecast
26 November	Member Scrutiny Workshop 2 – budget proposals
10 December	Budget Scrutiny Committees
18 January	Budget to Cabinet
15 February	Budget to full Council

18. Risk

18.1 There is significant risk in the budget and MTFP at this stage. Officers' initial work has led to the crystallisation of a £36m budget gap in 2022/23 that we now need to develop plans to close. We are also unclear how the three-year spending review will impact on the council's funding and we are at the start of a process of transitioning to a new model for funding health and social care.

18.2 We are also unclear how the impact of Covid-19 will play out. Like every council, we are uncertain whether we are planning and budgeting for

recovery, a further phase of rising infections, further national or local lockdowns or something entirely different that we cannot yet foresee.

- 18.3 The council is fortunate in that local government reorganisation meant it was able to reduce its cost base and further work is in progress, in line with peer review recommendations, to explore further convergence savings. The council has also been through a robust review and realignment of its reserves and a new policy was agreed by Cabinet in June this year. In summary, Cabinet agreed that reserves would not be used to balance the budget strategy, the budget gap must therefore be closed in other ways. Reserves are available for investment purposes, however, but this will almost certainly need to deliver improvements in the revenue budget position in order to be feasible.
- 18.4 There are some further, specific risks to draw out here as critical cornerstones of the budget strategy development. A detailed explanation of each of these risks is contained in appendix 1.
- a) Our ability to the **Transform** organisation at the pace and scale required
 - b) Exceptional cost increases as a consequence of **Inflation**
 - c) The implications of the **Building back better** policy announcement
 - d) The speed of recovery of our **Local tax collection**
 - e) Our ability to influence the care **markets**
 - f) Our ability to secure **Value for money** in all we do
 - g) The continued Loss of income following the economic impact of Covid
 - h) The implications of national **major funding reviews**

19. Capital programme

- 19.1 The capital programme for 2021/22 was approved by Cabinet as part of the budget setting process and now runs to some £77.2m of gross expenditure. Adjustments for new funding bring this to £90.2m. The slippage from previous years was £107.1m, meaning the programme for the current year totals £197.3m.
- 19.2 The programme is currently being reviewed by subgroups that support the Capital Strategy and Asset Management Group (CSAMG) to ensure it is still aligned with council priorities, that the projects are still necessary, and the programme overall still represents good value for money. We should also have a better understanding of the timing of the programme and whether all the slippage can be recovered or whether it is still profiled across more than just this financial year.
- 19.3 When this work is complete, we will have a clearer view of the capital financing requirement for the year and whether this creates budget pressures over and above those already built into the base budget position.

- 19.4 The subgroups are also developing capital programme proposals for 2022/23 and beyond, so we are running the affordability work alongside the new bidding round. This will ensure there are clearly formed ideas to share with Cabinet prior to the budget work being completed and ready for Council consideration in February 2022.

20. Steer from Cabinet and next steps

- 20.1 The council continues to press the case for additional resources with Government. We do this directly, through Dorset's MPs, with peers and through networks like the Society of County Treasurers (SCT), the County Councils' Network (CCN) and with the Local Government Association (LGA). But campaigning alone will not deliver enough resources to meet all of our challenges and we must focus on reducing costs and growing income at the same time.
- 20.2 Closing the budget gap cannot be achieved through efficiency alone; the magnitude of the cost reductions we need to deliver is too large and it is therefore inevitable that service delivery will be impacted. This paper talked earlier about delivering the Council's priorities and that is still our intention, but that ambition will necessarily be affected by the ways in which we will need to change services to protect residents and deliver services in a way which keeps people safe and does as much as we possibly can to support employment and local prosperity.
- 20.3 Scrutiny of the budget process will also be more important than ever to ensure our methods and choices are the most appropriate way of closing the budget gap whilst delivering a sustainable organisation for the future. To support this, we intend to follow a similar scrutiny process that was used successfully last year, entailing all scrutiny committees meeting on the same day, following two separate workshops firstly on base budget and secondly on incrementing the budget from 2021/22 to 2022/23. Cabinet's views on this approach are sought in time for us to be able to scope this event and take ideas from members about areas to be explored as part of the scrutiny process.
- 20.4 We will also need time to carry out any necessary public consultation on the proposals and to ensure officers have time to carry out equality impact assessments.

21. Summary and conclusions

- 21.1 The financial climate remains extremely challenging, meaning the Council continues to plan for 2022/23 early to develop and implement robust plans to fit within our assumed budget envelope.
- 21.2 As the year progresses, we will be able to firm-up the assumptions in the financial model and build a greater level of certainty over our future. However, we can conclude that the budget gap will require us to be ambitious for our future and to deliver significant actions to balance the finances.

21.3 Dorset Council is not alone in facing significant financial challenges. Many of the pressures, risks and the national context is familiar to the rest of the sector. However, we do have to develop local solutions to close the budget gap and this will require creativity, energy and focus to be successful.

Aidan Dunn

Executive Director of Corporate Development

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.

1. Summary of Financial Risks

Transformation

- 1.1 The budget for 21/22 was balanced with a significant level of savings targets. The Qtr 1 report to Cabinet in July this year identified that of the £10.8m of savings associated with this programme, £5.2m were risk-rated red and deemed unachievable, with a further £3.4m rated amber and therefore at some degree of risk.
- 1.2 The work that the Finance Team is carrying out with managers across the council is identifying which savings are still likely to be unachieved and which therefore need to be built into the base budget pressures for 2022/23. All of those we can currently identify are included in the total budget pressures tables set out earlier in this report.
- 1.3 Through the remainder of the budget setting process, the council therefore needs to be clear about which, if any, of these savings can still be achieved and reconfirm the plans to deliver them, or consider other options by which savings to help close the budget gap can be generated.

Inflation

- 1.4 General price inflation was not provided in 2021/22 service budgets. Instead, an allocation was held centrally and a corporate approach to uplifts meant that where prices could not be held at previous levels following negotiations with suppliers, a central allocation for contingency was provided. It is unlikely that this approach, if it is repeated, will be as financially beneficial to the council this time around. Suppliers themselves are coming under increasing pressure from their own supply chains and cost bases.
- 1.5 Inflation is therefore currently provided at 2.5% in the modelling and contributes some £7.6mm to the current budget gap. The recently published figures for August show the biggest monthly increase in inflation for some years, at 3.2% so the real pressures could still be higher than modelled. Cabinet will also be aware that many analysts are highlighting inflationary pressures building in the system and there are predictions that inflation could rise above 4% this year. This is a significant risk to the council with a significant non-pay budget that is susceptible to general and in many cases further, specific price increases.

Building back better

- 1.6 As well as the opportunities that could arise from increases in funding in the system, building back better will undoubtedly create challenges and heightened levels of risk for the Council. There are a number of strands to this; some are discussed below and there is more detail in the risk section of the report and in Appendix 2.

- 1.7 The first is that the additional levy costs to be borne by employers who are supplying the council will simply be passed on to us. For those suppliers for whom we are a more significant customer, there will be very limited options for them to share the costs across non-Council customers.
- 1.8 The new approach will also enable self-funders to access their care through the Council meaning we will effectively be negotiating for a number of customers, not just ourselves. It has long been accepted that self-funders pay more than local authorities, thereby helping to keep councils' costs down. When this is changed, it is likely that suppliers will price more consistently and the costs to councils will increase. The introduction of the cap on care costs is also likely to mean that councils will need to pick up an increasing proportion of costs than under the current scheme. There is a risk that this will not be sufficiently funded through the levy.
- 1.9 The system of providing financial assistance to those with limited means is also likely to mean an increase in work volumes for the Financial Assessments Team. At this stage it has not been possible to quantify how much this will be, but we will not be able to discharge the levels of assessment work required under the new approach with current capacity levels. The stipulation that local authorities will broker care for self-funders is also likely to add capacity requirements for the Brokerage Team. Again we are not yet able to quantify this as we have no clear way of knowing the number of self-funders in the current cohort that might take up this option, or the level of new demand that might present to us.

Local tax collection

- 1.10 Members will recall from previous finance reports, that collection of council tax and business rates in 2020/21 was well below trend. This meant a significant amount of arrears accumulated which the Council is now recovering. But this is a protracted process and takes time and resources. But we are making good progress and the courts have returned and recovery is progressing.
- 1.11 However, collection rates for the first half of 2021/22 are still not what they were prior to the pandemic and we must be mindful of the risk when setting the budget and MTFP. At present, the MTFP assumes a return to council tax growth in 2022/23 – of 0.75%. We will have a clearer picture of whether we think this is more likely when we report the Qtr 2 forecast position at the beginning of November but clearly risk still remains in the local tax system.

Market control/influence

- 1.12 The Council's ability to influence the local market is limited. A great deal of work is going into the Dorset Care Framework renewal and updating the fair cost of care calculations to ensure our offer is fair and sustainable for suppliers. However, the increase in capacity that was required particularly

by the hospital discharge programme, caused capacity constraints for the whole sector.

- 1.13 Members will also be aware of the high level of job vacancies in the wider economy at present and will have seen evidence that many workers are choosing employment other than in the care sector. Although the Government's approach will look to deal with this and other issues in the system, a significant risk remains that we are unable to effectively control or influence capacity or pricing in the market in the shorter term.

Value for money

- 1.14 The peer review has recommended that we put value for money at the heart of all that we do, and the council is eager to continue this approach. Audit & Governance Committee is due to receive a report in September and this will advance our work in this area and a verbal update can come to the Cabinet meeting.
- 1.15 Every recruitment and staffing decision has good governance around it, as does each decision around every supply and procurement decision we make. There is a robust framework of project management and value for money around all our decision making which we must sustain in order to get best value for every £ we spend.
- 1.16 This does not mean buying cheapest - or not buying at all - it means being clear about why we are spending and the outcomes we will deliver for Dorset residents with every transaction we process. Effective contract management is an essential part of this framework as is benchmarking and the Council will continue to develop these indicators and other measures of performance so it can report clearly the value that it delivers for taxpayers and Dorset residents.

Loss of income

- 1.17 During the pandemic, the council lost significant amounts of trading income due to various lockdowns and additional restrictions around the movement of the population and closure of businesses. At present it is not clear how well this will recover and although the 2020/21 position saw government support for some of this lost income, this will only run to Qtr1 of 2021/22.
- 1.18 MHCLG has not yet paid councils for the last claim of 20/21 and is yet to share the data collection request for Qtr1 of 21/22. There could be continuing impacts on income into the current year and across the MTFP if behaviours have changed significantly and people do not return to previous trading patterns.

Major funding reviews

- 1.19 The fundamental review of business rates (BRR) and the fair funding review (FFR) seem to have drifted and have perhaps even been overtaken by other events.

- 1.20 It is not clear what levels of energy or resource are going into either of these reviews and what the current approach to the workstreams might be. Until we are clearer about the outcomes of SR21, we will lack certainty over even our immediate future in financial planning terms, so the sooner we know what is happening in these areas, the better.

2. Building back better

2.1 On 7 September 2021, the Prime Minister announced Building Back Better, the Government's plan for health and social care. The document sets out the Government's commitment to the delivery of world leading health and social care across the whole of the UK and outlines a method by which plans will be funded.

2.2 The paper states that

"The scale of the challenge we now face requires a new approach. This Government will therefore make available around an additional £12 billion per year for health and social care on average over the next three years. This is a significant and permanent increase in public spending and it would be irresponsible for it not to be fully funded, especially at a time when borrowing and debt have reached record levels.

The Government has therefore taken the difficult but responsible decision to raise taxes. To do so in the fairest way possible, this will be funded by a new, UK-wide 1.25 per cent Health and Social Care Levy (the Levy), ringfenced for health and social care. This will be based on National Insurance contributions (NICs) and from 2023 will be legislatively separate, and will also apply to individuals working above State Pension age. The Government will also increase dividend tax rates by 1.25 per cent, revenue from which will help to fund this package. Given taxpayers are being asked to contribute more, the Government will ensure this money is well spent and goes to frontline care in England, increasing efficiencies and using reforms to drive up productivity. A Union dividend means that Scotland, Wales and Northern Ireland will benefit by around 15 per cent more than is generated from their residents, equivalent to around £300 million every year on average."

2.3 The paper sets out that the Government is committed to creating a sustainable adult social care system that is fit for the future, alongside its programme of wider healthcare reform. The Government will work with key stakeholders to bring forward a white paper which will

- offer choice, control and independence to care users
- provide an outstanding quality of care
- be fair and accessible to all who need it, when they need it.

2.4 The paper also goes on to say that Government *"will ensure Local Authorities have access to sustainable funding for core budgets at the Spending Review. We expect demographic and unit cost pressures will be met through Council Tax, social care precept, and long-term efficiencies; the overall level of Local Government funding, including Council Tax and social care precept, will be determined in the round at the Spending Review in the normal way. We will invest £5.4 billion in adult social care*

over the next three years to deliver the funding and system reform commitments set out in this document.”

- 2.5 To begin this transformation, the Government has outlined its plans to:
- introduce a cap on personal care costs
 - provide financial assistance to those without substantial assets
 - deliver wider support for the social care system, particularly our brilliant social care staff; and
 - improve the integration of health and social care systems.

Capping care costs

- 2.6 From October 2021, the Government will introduce a £86,000 cap on the amount that individuals in England will need to spend on their care over their lifetime. This will deliver one of the core recommendations of the Dilnot Commission using legislation already in place under the Care Act 2014. It is intended that this reform will complement the existing service allowing people in need of residential care to defer payment of fees so they do not have to rush to sell their home. The Government intend to bring forward plans to review this arrangement to provide greater flexibility.

- 2.7 The Government also plans to tackle what it refers to as “persistent unfairness” in the social care system whereby people who fund their own care often pay more than people who are funded through their local authority for equivalent care. Again, using legislation already in place under the Care Act 2014, Government will ensure that self-funders are able to ask their local authority to arrange their care for them so they can achieve better value. There is significant risk involved with this proposal which is discussed further in the risk section of this report.

Financial assistance to people without substantial assets

- 2.8 From October 2023, anyone with assets of less than £20,000 will not have to make any contribution for their care from their savings or the value of their home, ensuring those with the least are protected. Anyone with assets of between £20,000 and £100,000 will be eligible for some means-tested support, helping people without substantial assets. The new upper capital limit of £100,000 is more than four times the current limit of £23,250, ensuring that many more people are eligible for some means-tested local authority support. There is further discussion of what this might mean for local authorities’ resource levels required for financial assessments in the risk section of this report.

- 2.9 The new means test for adult social care will come into effect in October 2023 on the basis of a person’s income and savings in the following way:
- If a person’s total assets are over £100,000, full fees must be paid.
The maximum that a person will have to pay over their lifetime towards

personal care costs will be £86,000 as a result of the new cap. If by contributing towards care costs, the value of a person's remaining assets falls below £100,000, they are likely to be eligible for some financial support. Once the £86,000 cap is reached, local authorities will pay for all eligible personal care costs. No-one will need to make a contribution from their income towards these care costs. People may choose to top up their care costs by paying the difference towards a more expensive service, but this will not count towards the cap.

- If a person's total assets are between £20,000 and £100,000, their local authority is likely to fund some of their care. People will be expected to contribute towards the cost of their care from their income, but if that is not sufficient, they will contribute no more than 20 per cent of their chargeable assets per year. If by contributing towards care costs, the value of a person's remaining assets falls below £20,000, then they would continue to pay a contribution from their income but nothing further from their assets.
- If a person's total assets are less than £20,000, they will not have to pay anything for their care from their assets. However, people may still need to make a contribution towards their care costs from their income.

Wider support for the social care system

- 2.10 The paper acknowledges that an ageing population with increasingly complex needs is putting ever more pressure on the social care system. So alongside providing a path to long-term financial sustainability, the White Paper for adult social care that will be developed with care users, providers and other key stakeholders will focus on proposals for system reform.
- 2.11 There is recognition that the social care workforce is an essential part of the social care system. Social care workers are at the front line, caring for and supporting people at the heart of our communities. A qualified and skilled workforce that is rewarded and feels valued is essential for high quality care that is sensitive to individual needs. The Government is signalling its intention to make care work a more rewarding vocation, offering a career where people can develop new skills and take on new challenges as they become more experienced. This will include developing a plan to support professional development and the long-term wellbeing of the workforce.
- 2.12 The Government plans to invest at least £500 million in new measures over three years to:
- provide support in professionalising and developing the workforce, including hundreds of thousands of training places and certifications for our care workers and professional development for the regulated workforce;

- fund mental health wellbeing resources and provide access to occupational health funding to help staff recover from their extraordinary role in supporting the country through the pandemic, including through offering services such as counselling, peer-to-peer coaching and workplace improvements; and
- introduce further reforms to improve recruitment and support for the social care workforce, with further detail to be set out in the White Paper.

2.13 The paper goes on to clarify that there are a wider set of issues that the adult social care sector faces beyond those relating to costs to users and the workforce. Therefore, the Government will:

- take steps to ensure that the 5.4 million unpaid carers have the support, advice and respite they need, fulfilling the goals of the Care Act;
- invest in the Disabled Facilities Grant and supported housing, as well as exploring other innovative housing solutions to support more people to live independently at home;
- improve information for service users to help them navigate the care system and understand the options available to them; and
- introduce a new assurance framework and support improvement in the system, to ensure Local Authorities are delivering on their obligations for users.

Improving the integration of health and social care

2.14 In the paper, government commits to work with citizens, the NHS, local governments and other key stakeholders to co-produce a comprehensive national plan for supporting and enabling integration between health and social care. This will involve creating the right local incentives for integration and prevention, as well as working with the NHS, social care providers and other partners to ensure that they are working to deliver more effective care in people's own homes and their communities, breaking down the barriers between services. The development of the strategy will include a renewed focus on outcomes, empowering local leaders and wider system reforms.

2.15 The approach will aim to support existing plans for integration to move faster, change the relationship between the citizen and the local health and care system and improve the dynamic between local systems and national government. The intention is to be:

- Outcomes focussed. The Government will work with systems to identify a single set of system-based health and care outcomes that local systems (including ICSs and local authorities) will be asked to deliver. This will mean a greater focus on delivering outcomes rather than processes. While reporting requirements should be streamlined,

there will also be increased transparency over delivery of these outcomes, so that it is clear to citizens who is accountable for their local health and care services. Where national systems identify issues, the causes of underperformance should be the focus of any response, rather than a default to fines or sanctions.

- Empowering local leaders. Local leaders will be given the freedom to align incentives and structures in order to deliver these outcomes in the way that is best for their communities. The Government will keep current regulatory requirements under review to ensure they are focussed on outcomes, rather than dictating a particular delivery approach. Government wants to build on the positive outcomes of joint leadership roles across local authorities and ICSs in recent years to support more systems to take this approach.
- Wider system reforms. There will be Care Quality Commission (CQC) oversight of local authorities' commissioning of adult social care, which will be introduced through the Health and Care Bill, and a role for the CQC in assessing the overall quality of ICSs. In addition, government intends to improve workforce planning across health and social care and consider a new training curriculum for health and social care staff.

Funding

- 2.16 The Government has set out its commitment to responsible management of the public finances and acknowledges this plan will lead to a permanent increase in spending. Government has also stated the importance of fully funding the plan particularly in the context of record borrowing and debt to fund the economic response to the pandemic.
- 2.17 The Government will introduce a UK-wide 1.25 per cent Health and Social Care Levy based on National Insurance contributions (NICs) ringfenced to fund the investment in health and social care set out in its plan. The new levy will be based on NICs which already part-fund the NHS and have historically been the way in which money is raised for social security provision in this country. The levy will be effectively introduced from April 2022, when NICs for working age employees, self-employed and employers will increase by 1.25 per cent and be added to the existing NHS allocation. From April 2023, once HMRC's systems are updated, the 1.25 per cent Levy will be formally separated out and will also apply to individuals working above state pension age, and NICs rates will return to their 2021/22 levels.
- 2.18 The Government expects the net revenue that the levy and the increase in the rate of dividend tax will make available for additional health and social care spending across the UK to be around £12 billion per year on average. Around £11.4 billion of this amount is anticipated to come from the levy and around £0.6 billion from the increase to dividend tax rates. Both figures are calculated on the basis of their net impact across the tax and welfare system. The precise impact could vary, particularly in the

earlier years after the changes are introduced, due to the behavioural response of taxpayers.

Impact on business – and on Dorset Council

- 2.19 The levy will clearly place a financial burden on employees as well as employers. Employee impact is outside the scope of this paper but is discussed further in the Government's own paper which is linked, above.
- 2.20 For employers the levy will mean the NIC rate increases from 13.8% to 15.05% in 2022/23 before dropping back to 13.8% with a separate 1.25% Social Care Levy from 1 April 2023, as described earlier.
- 2.21 Paragraph 86 of the Government's paper, however, sets out that government intends to compensate departments and other public sector employers in England at the Spending Review for the increased cost of the levy. If the Government did not take this step, the spending power of public services, including the NHS and local government, would be reduced. In MTFP terms, Dorset Council is assuming the levy has a net nil impact. We are unclear whether the same compensation for the levy will apply to local authority trading companies (LATCs). If it does not, Tricuro (and therefore Dorset Council) will incur the increase in costs.
- 2.22 We await the consultation on the distribution of the funding, and the CSR announcement concerning how this is likely to affect the council's funding.
- 2.23 It is worth mentioning that the council does not pay tax on dividends receivable on investment income, so the additional tax on dividends has no impact on our financial plans and assumptions.