

Cabinet

6 October 2020

Medium Term Financial Plan (MTFP) and budget strategy

For Decision

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

Local Councillor(s): Cllr

Executive Director: A Dunn, Executive Director, Corporate Development

Report Author: Jim McManus

Title: Corporate Director, Finance & Commercial

Tel: 01305 221235

Email: jim.mcmanus@dorsetcouncil.gov.uk

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 these
- (ii) notes the amendments to the planning assumptions used in the Medium Term Financial Plan (MTFP)
- (iii) notes the financial gap arising from (i) and (ii) above
- (iv) notes the tactical and transformation savings set out in this paper to start to close the financial gap, recognising that these are work in progress
- (v) agrees that Portfolio Holders work with officers to continue to identify and develop savings opportunities through tactical or transformational means
- (vi) continues to make the case to Government for additional funding given the unprecedented financial consequences of Covid-19
- (vii) Agrees the next steps leading up to the 2021/22 Budget being presented to full Council in February 2021.

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 2021-22 and subsequent years and progress on action/savings to date. The paper proposes an approach to close the remaining gap.

1. Executive Summary

The purpose of this report is to provide a framework for the budget for 2021/22 and the MTFP for 2021-2026, and to outline the work which will be undertaken during the autumn and winter so the budget and MTFP can be finalised at Council in February 2021.

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 a smaller financial envelope.

This year's budget setting exercise takes place against a national background of extreme pressures for councils, as a result of the coronavirus pandemic and the inability of almost every council to contain the impact of Covid-19 within the additional funding provided by Government. The Ministry of Housing, Communities and Local Government (MHCLG) continues to collect budget impact information from councils each month. Almost 100% completed the fifth return of the year, indicating the national picture is similar to Dorset Council's situation. The next is due on 2 October 2020.

2. Financial Implications

All covered within the report.

3. Climate implications

None.

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 challenge resulting from Covid-19 and the risks that surround this are extremely high for all local authorities.

In 2020/21, Dorset Council is facing a budget shortfall of more than £60m before grants and reliefs from Government reduce the net impact of this to around £35m. At this stage, the continuing impact of Covid-19 on the council's services and finances is unclear so we are still working with the best assumptions and information available to us.

Without further funding from Government, the council will use significant quantities of its own reserves this year, which will place additional strain on our future resilience and potentially leave us unable to fund changes in demand-led services in future.

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

Appendix one: Summary of transformation schemes

8. Background Papers

Quarterly finance reports 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 can be met with the funding available.
- 9.3 Significant progress has been made in delivering on these priorities. However, the Covid-19 pandemic has been a huge challenge to the organisation. 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 in the recovery stage and beyond, rather than returning to the way things were.
- 9.4 The impact of Covid-19 on the council's financial position has been 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 that the budget gap is £64.2m, which reduces to a net position of approximately £35m after the application of grants and the income support scheme from Government. Our plan is to cover this budget gap in 2020-21 using reserves and Cabinet will receive a detailed update on the quarter 2 financial position at the November meeting.
- 9.5 However, Covid-19 has created an ongoing budget pressure on top of the usual cost pressures associated with adults and children's social care of increased demand and complexity of cases.
- 9.6 For example, we are now caring for more vulnerable adults who came to our attention through Covid-19 and shielding, but who have ongoing care needs. So the increased expenditure and lower income impacts continue into next financial year and beyond.
- 9.7 We are fortunate that the council has become much more financially efficient by becoming a unitary council, saving £10m from the pay bill alone when compared with its predecessor councils. However, this is dwarfed by the scale of the financial challenge we now face.
- 9.8 The challenge for 2021/22 and beyond is clear. How will the council achieve a balanced budget whilst continuing to provide high quality services for the residents of Dorset? The challenge is further amplified by the uncertainties caused by the effects of the pandemic on Dorset and the wider national economy, and the impending exit from the European Union. Local authorities are also awaiting the outcome of the Government's

spending review and for details to be released on the nature of the Shared Prosperity Fund that will replace EU Structural Funds.

9.9 It is against this background of uncertainty that the MTFP is being updated.

10. Financial Context

10.1 It is extremely difficult to estimate how future Covid-19 impacts will be felt by local authorities. However, we are required by law to set a balanced budget and we must build our MTFP and budget strategy with the best information and knowledge we have available.

10.2 This is an unprecedented year, and this is borne out by the lack of certainty in our financial assumptions. It is likely that our financial assumptions will need to be significantly updated as more information is made available from the Government. The budget documents will continue to be refreshed with the latest data ahead of the final budget proposals in February 2021.

10.3 The level of uncertainty relating to the council's future resources has never been greater:

- The future impacts of Covid-19 are unknown but will be significant.
- We don't currently know the amount of funding we will receive from government and how much council tax we can raise for 2021-22. Government has announced a three-year Spending Review in the autumn which will confirm Department Expenditure Limits. At this time, it is not known how the local government sector will be treated, but clearly the unparalleled amount of money that the Government has made available to support the economy during the pandemic will have a substantial bearing on the levels of funding available for the Spending Review. It is unlikely that the results of the Government's Spending Review and Local Government Finance Settlement will be known before December.
- The Government has confirmed that it will now not undertake the planned national funding reforms from April 2021. These reforms were intended to introduce a 75% national business rate retention scheme and, perhaps more significantly, a 'fair funding' review redistributing resources across the sector based on comparative need. The Government is yet to confirm when these reforms will be implemented, although our current assumptions are based on this being delayed for one year to April 2022.

10.4 Therefore, in drawing up the draft budget proposals a number of assumptions have been made which may have to be revisited as further information becomes available and the impacts of Covid-19, particularly around council tax and business rates income, become clearer.

10.5 The latest assumptions used are:

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

11. MTFP process

- 11.1 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.
- 11.2 The following approach has been taken to update the MTFP:
- roll forward the previous year's MTFP model;
 - validate our planning assumptions e.g. business rates yield, council tax income, inflation predictions etc;
 - identify pressures in 2020/21 that are likely to continue into 2021/22 (and possibly beyond);
 - identify new pressures in 2021/22 that need to be built into the MTFP model.
- 11.3 The details are contained in the table below.

	£k
Budget gap from 2020/21 MTFP	7,434
Reduction in tax base growth	1,924
Reduction in business rates	1,000
Change in inflation assumptions on pay, non-pay and income	1,324
Adults Services & Housing 20/21 continuing budget pressures	6,584
Children's Services 20/21 continuing budget pressures	625
Place Services 20/21 continuing budget pressures	2,208
Corporate Services 20/21 continuing budget pressures	294
Corporate Savings not achieved in 20/21	6,392
Adults Services & Housing new budget pressures	1,955
Children's Services new budget pressures	7,142
Place Services new budget pressures	2,730
Corporate Services new budget pressures	2,288
	<u>41,899</u>

11.4 It is clear from this approach that Covid-19 has had 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 2021/22. It is clear that a new financial strategy is required to put the council onto a sustainable financial footing.

11.5 October is a relatively early point in the budget planning cycle, and there is still a significant degree of variability in the budget assumptions. These will be updated as more information emerges but, given the probable scale of the financial challenge ahead of us, it is essential that the council is given as much time as possible to implement plans to close the gap in time for 1st April 2021.

12. Closing the gap

12.1 The approach to closing the budget gap has been in two stages. The first has been the identification of corporate wide 'tactical savings', which are designed to minimise the impact on front line services. In parallel, a piece of work has been undertaken to refocus the council's transformation programme to redesign services at a lower cost. This will require some investment which will be made available from resources already provided for in the budget.

12.2 Following the process set out above, the council has so far identified £11.9m of tactical savings and a potential £8.2m of transformation savings.

13. Tactical Savings

13.1 An intensive review of existing budget and expenditure during the summer has identified a series of 'straightforward' savings under categories of;

- a. Income maximisation
 - b. Savings through convergence of ICT systems
 - c. Deleting vacant posts
 - d. Reducing spend on staff travel
 - e. Reductions in training and development spend.
 - f. Reducing spend on leased buildings
 - g. Contract efficiencies
- 13.2 Where appropriate, expenditure has already been reduced during 2020/21 against many of these budgets to try to contain the financial position, and formal savings will be proposed as part of the 2021/22 budget proposals.

14. Transformational savings

- 14.1 A range of more complex, and longer-term savings projects have been scoped and classified as transformation savings. These projects have been incorporated into the existing transformation programme, and a summary is provided as appendix 1. Further detail will be provided at the November 2020 Cabinet meeting.
- 14.2 The financial impact of these programmes will be fed into the MTFP model as greater certainty around the financial outcomes emerges.
- 14.3 The combination of the updated budget gap, the tactical savings and transformational savings is detailed in the table below.

Initial Budget Gap	£41.9m
Less: tactical savings	-£11.9m
Less: transformation savings	-£8.2m
Revised Budget Gap	£21.8m

15. Further work to close the gap

- 15.1 Clearly there is much work to be done. The next steps are:
- a. Continue to test, challenge and update the budget assumptions as the impact of response to Covid-19 continues to evolve.
 - b. Continue to identify and implement tactical 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. The updated Transformation Plan will be presented to Cabinet in November 2020.

- d. Continue to approach Government for additional resources and financial flexibility to help Dorset Council respond to the financial consequences of a global pandemic.
- e. Cabinet to consider its approach to council tax, and a potential, additional adult social care precept or that the local referendum limits for council tax increases might be raised. Each 1% change in the precept generates around £2.5m for the council but, while the funding would be very welcome, consideration needs to be given to the fact that we may be unable to collect all of this due to hardship. We are already predicting a deficit on the council tax and business rates collection funds this year as both individuals and businesses struggle to meet these payments. Raising council tax might well help balance the budget on paper but there will be a risk that we cannot collect the full amount or that increasing local taxes reduces the amount that residents can spend in the local economy and potentially damage local businesses.

16. Risk

- 16.1 There is significant risk in the budget proposals at this stage. We are facing a future where we are 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 second phase of rising infections, further national or local lockdowns or something entirely different that we cannot yet foresee.
- 16.2 We are also still awaiting clarity from Government around the Comprehensive Spending Review (CSR). We are still anticipating a three-year settlement, but speculation continues to grow that Government may be unable or unwilling to commit to a three-year funding agreement against a backdrop of so much uncertainty and complexity. The council's current budget contains a number of one-off funding streams, such as Improved Better Care Fund (IBCF) which have not yet been assimilated into base budget funding and which are therefore still at risk.
- 16.3 The 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. But reserves cannot be relied on as a sustainable source of finance; we can only spend them once and doing so seriously reduces our capacity to mitigate the risks that reserves provide for, as well as reducing resilience against unknown future events.
- 16.4 At its inaugural meeting, the council also declared a climate and ecology emergency and, as such, it could be expected that funding might be allocated to deliver the outcomes of the council's emerging strategy. However, at present, no funding is included in the MTFP for this work and this must be seen as a significant risk.
- 16.5 Even without the impact of Covid-19, there is considerable risk around our planning assumptions for growth in demand. The budget gap quoted in

this paper is after allowing for reasonable and forecast 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.

- 16.6 The financial model also makes no assumptions about investment funding, either for transformation or for other potential spend-to-save initiatives. The £5m transformation fund established in 2019/20 remains largely unused, though bids are coming forward in the next few days. However, the current financial constraints limit our opportunities for further revenue investment, so an alternative approach to capital investment will need to be taken in due course.

17. Capital programme

- 17.1 A review of the Capital programme will be carried out during the Autumn to ensure that it aligns with the council's priorities, alongside the revenue budget. The aim will be to ensure that the programme includes all potential capital projects so that approvals to spend are made at the beginning of the financial year making decision making smoother.

18. Steer from Cabinet and next steps

- 18.1 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, the County Councils' Network 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.
- 18.2 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.
- 18.3 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 repeat the scrutiny process that was used successfully last year, entailing all scrutiny committees meeting on the same day, following a workshop in the morning. Cabinet's views on this approach are sought in time for us to be able to plan this event and take

ideas from members about areas to be explored as part of the scrutiny process.

- 18.4 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.

19. Other factors influencing budget strategy development

- 19.1 The council's **Transformation Plan** is being refreshed and we will need to make sure that spend to save opportunities are 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. *A paper will be presented to the November Cabinet meeting.*
- 19.2 The **Asset Management Strategy** is currently being finalised and the council is keen to explore further opportunities to right-size its estate after convergence of the predecessor councils' property portfolios. The plan is due to Cabinet in November and will recommend 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. *A paper will be presented to the November Cabinet meeting.*
- 19.3 The Asset Management Strategy will dovetail with the **Dorset Workplace Strategy**; another key piece of work in progress to enable the council to deliver better services more flexibly in a range of ways to meet Dorset residents' needs. Again, this is likely to need some initial investment and these plans will come forward as soon as they are clearer. *A paper will be presented to the October Cabinet meeting.*
- 19.4 Audit & Governance Committee has also recommended to Cabinet that it establish a more systematic approach to delivering and assessing **value for money**, and work is under way to bring together the separate strands of the council's reporting and monitoring arrangements to assess how well we perform. *A paper is being presented at October's Cabinet meeting.*
- 19.5 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.
- 19.6 The *October Cabinet* meeting will also receive the **Climate Change Delivery Plan**, which will outline the likely scale of investment required if

the council is to deliver the Climate Emergency Strategy 2040 and 2050 targets.

20. Summary and conclusions

- 20.1 The financial climate remains extremely challenging, meaning the council has started planning for 2021/22 early to develop and implement robust plans to fit within our assumed budget envelope.
- 20.2 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. Next steps and key dates

6 October Cabinet	Cabinet consider Climate Change Delivery Plan, Dorset Workplace, and 'Approach to Value for Money' paper
3 November Cabinet	Cabinet receive an update on the transformation programme, the Quarter 2 Financial Report and the Asset Management Strategy.
End of November (date to be confirmed)	Scrutiny Committees consider the 2021/22 budget proposals
19 January 2020	Cabinet consider Budget
16 February 2020	Full Council consider Budget

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.