

Shadow Dorset Council

Date of Meeting	14 January 2019
Lead Member	Councillor Tony Ferrari, Lead Member for Finance
Officer	Jason Vaughan, Interim Section 151 Officer
Subject of Report	2019/20 Budget
Executive Summary	The report provides an update on the finance of Dorset Council and how a balanced budget for 2019/20 has been developed.
Impact Assessment:	<p>Equalities Impact Assessment:</p> <p>Equality Impact Assessments will be carried out for the for any changes to staffing or services.</p>
	<p>Use of Evidence:</p> <p>The report has been built upon a variety of information from the 6 sovereign councils including the latest budget monitoring for 2018/19, internal and external audit reports, the medium term financial forecasting model, CIPFA resilience report, the Local Partnerships business case and the PWC Case for Change.</p>
	<p>Budget:</p> <p>It is a statutory requirement under the Local Government Finance Act 1992, as amended by the Localism Act 2011, for the Council to set a balanced revenue budget. The 2019/20 budget will be set by the Shadow Council in February 2019 and together with the Capital Investment Programme and Treasury Management Strategy it sets the resource framework and limits within which services must be delivered</p>
	<p>Risk Assessment:</p> <p>Having considered the risks associated with this decision using the LGR approved risk management methodology, the level of risk has been identified as:</p>

	<p>Current Risk: MEDIUM Residual Risk MEDIUM The key risk areas are around the delivery of convergence savings from the transitional staffing structure and managing demand led services within the budget estimates.</p>
	<p>Other Implications: None</p>
Recommendation	<ol style="list-style-type: none"> 1. That the high-level budget proposals are reviewed by the Shadow Overview and Scrutiny Committee on 21 January 2019. 2. That the detailed budget proposals are reviewed by the Budget Working Group and considered by the Shadow Executive Committee on 11 February 2019.
Reason for Recommendation	To enable the development of budget proposals for 2019/20 that will set the foundations to creating a financially sustainable council.
Appendices	<ol style="list-style-type: none"> 1. High Level Summary showing how the revenue budget is balanced.
Background Papers	Reports to the Budget Working Group
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Date agreed by Lead Member	
Date agreed by Statutory Officers	<p>Jonathan Mair – 2 January 2019 Matt Prosser – 3 January 2019 Jason Vaughan – 4 January 2019</p>

1. Background

- 1.1 All Councils are under significant financial pressure and Dorset is no different. The National Audit Office have carried out a national study and identified that there has been a 49% real-term reduction in government funding for local authorities in the last six years.
- 1.2 Responding to the challenge of these unprecedented changes in funding the Councils in Dorset have taken the proactive approach agreed to the creation a new unitary council from April 2019. The new Dorset Council will replace the 6 existing councils of Dorset County Council, East Dorset District Council, Purbeck District Council, North Dorset District Councils, West Dorset District Council and Weymouth & Portland Borough Council. Dorset Council will provide a platform for delivering significant efficiency savings from the

convergence of six councils' functions into one. It will also provide a basis to enable significant transformational change in the way in which services are delivered across Dorset in the future. This scale of change is essential in creating a financially sustainable council that can continue to deliver services to its residents.

- 1.3 The position is further complicated with the disaggregation of the Dorset County Council functions for Christchurch, the separation of staff within Christchurch & East Dorset Councils Partnership and the creation of a new town council in Weymouth.
- 1.4 The finances of 6 existing councils will be combined into one on the 1 April 2019. The 6 sovereign councils are in very different financial positions in relation to budget gaps for 2019/20, reserves and future years' demands. The financial information is currently contained within the sovereign councils through 4 different finance systems, 4 separate finance teams in 4 different locations. Against this background of complexities and further reduced resources, producing a single unified 2019/20 budget has been challenging.
- 1.5 The Shadow Executive will consider the final 2019/20 budget proposals at its meeting on 11 February 2019 and make recommendations to the Shadow Council, which will set the 2019/20 budget for Dorset Council at its meeting on 20 February 2019.

2. Financial Strategy

- 2.1 The Shadow Executive Committee approved the Financial Strategy in August 2018. It set out some key financial principles which will be used in developing the 2019/20 budget proposals. They are:

- To set a balanced budget for 2019/20 – This involves not using once off sources of funding to support on-going expenditure.
- Adopting a Medium Term financial planning horizon – Not just focusing on one financial year but looking forward over the medium term and developing plans to address the resourcing gap in future years.
- Setting solid financial foundations - Although 2019/20 presents some unique challenges the new council needs to ensure that it focuses upon creating a financially sustainable council that can deliver sustainable services to its residents.
- Business Case – Delivering the estimated £13.6m savings from the Local Partnership business case.
- Transformation - Ensuring there is resource to fund the future transformation which is required to address the predicted budget gaps and create a sustainable council.

3. Budget Working Group

- 3.1 A working group of members of councillors from each of sovereign councils has been regularly meeting a couple times each month and have considered a range of financial issues and helped to set the direction for the 2019/20 budget proposals.
- 3.2 The Budget Working Group have focused upon the strategic issues and delivery of financial strategy in their work during the year. The 2019/20 budget proposals are focused upon protecting frontline services by delivering the efficiencies of being one council that were set out in the business case and increasing income.

4. Developing the 2019/20 Budget

- 4.1 A balanced budget for 2019/20 has been achieved and front line services have been protected. The budget proposals are based upon the latest demand pressures in

homelessness, adults and children's services, the impact of disaggregation, cost price increases, reductions in government funding and removal of once-off items in the current year.

4.2 The provisional finance settlement was due to be announced on 6 December 2018 but it was delayed and announced a week later. The main points from it were as follows:

- The Council Tax referendum limits for local authorities will remain as previously indicated in the 2018/19 provisional settlement at 2.99%, although for Police and Crime Commissioners the potential annual increase to their precept will be extended to £24 per annum;
- The £153m of Negative RSG for 2019/20 will be eliminated by the government. This will be funded through its share of business rates;
- For 2019/20 there are no changes to the New Homes Bonus deadweight (this was suggested as a possibility in September 2018). Instead up to an additional £20m of funding was added to the scheme;
- Rural Service Delivery Grant in 2019/20 will increase to £81m; an increase of £16m on the previously planned £65m allocation;
- Proposals for new 75% Business Rates Pilots in 2019/20 have been approved for 15 areas and these are in Berkshire, Buckinghamshire, East Sussex, Hertfordshire, Lancashire, Leicestershire, Norfolk, Northamptonshire, North and West Yorkshire, North of the Tyne, Solent, Somerset, Staffordshire and Stoke, West Sussex and Worcestershire;
- A £180m balance on the national Levy Account will be distributed based on need.

In addition to the local government finance settlement two consultation papers have been published on the Fair Funding Review and Business Rates Retention.

- 4.3 Overall the provisional finance settlement was in line with our predictions with the most significant item being the saving of £11m from elimination of Negative RSG. This is something that we have been actively campaigning for and without it we would not be able to maintain the same level of resourcing for front line services.
- 4.4 The Shadow Executive has previously approved the principle of there being a standard charge for council tax across the new council area from April. This harmonisation process required approval from MHCLG and needed to take account of the financial impact of the new town council in Weymouth. As part of the provisional finance settlement the Alternative Notional Amounts (ANA) for Dorset Council has been confirmed at £1,582.44. Applying the 2.99% increase assumed in the finance settlement from government will result in a Band D Charge of £1,629.75 in 2019/20 for Dorset Council.
- 4.5 Based upon previous trends both locally and nationally it is appropriate to assume an in year council tax collection rate of 98% for 2019/20. Analysis of increases in the number of properties since last year show that it would be appropriate to build in a 0.75% growth

factor to the taxbase. Based upon these two elements the taxbase has been calculated as being 148,087.2 number of Band D equivalent properties for 2019/20. Taking into account the taxbase calculation and the proposed council tax charge for 2019/20 generates income of £241.3m for Dorset Council which is an increase of £10.7m on 2018/19.

- 4.6 In order to deliver the business case a transitional staffing structure for the new Dorset Council is being developed and will bring the 6 sovereign councils into one. It is estimated that by doing this there will be reduction of 240 posts with their being significant reduction and senior & mid-level managers and in the corporate areas. In a full year this would deliver £10m of savings and having taken into account the timing and potential additional costs, savings of £5.731m can be built into the 2019/20 budget proposals with further savings falling 2020/21. These proposals will be subject to future consultation. It is difficult to predict the costs of redundancies given that they vary significantly depending upon the individual age and length of service, the number of vacant posts and the number of staff that will leave via natural turnover. However at this stage it is reasonable to estimate that these could be in the region of £9m and these costs will be part of the implementation overall LGR implementation costs total £13.5m for 2019/20 that are part of the Capital Programme.
- 4.7 The business case also identified that savings could be achieved from the reduction in the number of members and audit fees. These have been estimated to be £500,000 and £189,300 respectively. Further savings that were not included with the business case will also be made including £5.948m of base budget savings following extensive reviews of the current base budgets in each council and a further £1.166m of additional income from this process. By bringing the 6 council together savings of £500,000 will be made from insurance arrangements, £2m of additional income business rates and £2m of treasury management income. Reduction of £500,000 Adults, £1.4m in Children's and £228,000 in Environment have been identified to address stranded costs following disaggregation with a further £1.188m following recent management restructures in Environment Directorate.

5. **Capital Budget**

- 5.1 The Assets Working Group has been carrying out work to identify likely future capital receipts that could be achieved and they have identified that around £25.8m of receipts could be realised in 2019/20. There are existing commitments of £6.5m to fund existing schemes that have previously been approved within Dorset County Council.
- 5.2 The Capital Programme for 2019/20 takes account of all the approved schemes within the existing 6 sovereign councils and brings them together into one programme for the new council. The programme takes account of the borrowing positions and capital receipts achieved in each of the councils and requires further funding of £8.9m from asset disposals.
- 5.3 If the disposals are in line with the Assets Working Group's estimates and taking account of the commitments there would be potential funding of £10m towards future transformation and capital schemes. It will be essential that sufficient focus is maintained on achieving future capital receipts.
- 5.4 The capital programme must be considered alongside the revenue budget: they both support the delivery of the Council's objectives and the consequences of borrowing for capital expenditure are a factor in the revenue budget. Further detailed work is required in reviewing the timings and funding for each scheme.

6. **Reserves & Contingency**

- 6.1 The availability and use of reserves and the revenue contingency is critical in being able to manage peaks in demand and costs incurred. This report recognises the need for such reserves and contingencies and aims to adopt a reasonable approach to maintaining both.
- 6.2 CIPFA have carried out some benchmarking on the level of reserves held by unitary councils which identified that most unitary authorities tend to maintain non-earmarked reserves at between 5 per cent and 10 per cent of net revenue expenditure. For Dorset Council this would mean maintaining reserves of between £14.5 million (5 per cent of net revenue expenditure) and £29 million (10 per cent of net revenue expenditure). Given the risks facing the new Council, CIPFA strongly recommended that the level of reserves should be maintained at higher end of the range.
- 6.3 As part of developing the budget proposals it would be prudent to allow for a contingency within the base revenue budget. This approach is designed to enable the risks associated with the uncertainty and process to be effectively managed. Currently there is just over £2.5m of funds held for this purpose

7. Member Engagement

- 7.1 The budget setting process will involve members on the Shadow Executive and the Shadow Scrutiny Committee considering the budget proposals prior to them being considered by the Shadow Council on 20 February 2019. The approval of the budget in February is the subject of a recorded vote and it is therefore vital that there is a good level of member understanding and engagement.
- 7.2 The Budget Working Group and its predecessor the Budget Task & Finish Group has been the main vehicle for getting member engagement on the budget and it has meet 13 times during 2018 with 4 further meetings planned in 2019. The Shadow Executive committee have received several finance reports during the year including the Financial Strategy and update on the Medium Term Financial Forecast.
- 7.3 In terms of wider membership there is a series of 3 Budget Briefings which are open to all members of the Shadow Council and the first of these was held on 19 September 2018 and further sessions are planned for 29 January and 12 February 2019.
- 7.4 The Shadow Overview and Scrutiny Committee will consider the budget proposals at a special meeting of the Committee on 21 January 2019 and their comments will be considered by the Shadow Executive Committee at their meeting on 11 February.