

Cabinet

27 July 2021

Financial management report Qtr1 2021/22

For Decision

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

Local Councillor(s): N/A

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:

Cabinet is asked to

1. note SLT's forecast of outturn for the Council at the end of Qtr1 including progress of the transformation and tactical savings incorporated into the budget;
2. note the size of the capital programme for 2021/22 including the slippage from previous years and the work taking place to review this;
3. note the opening position for the Medium Term Financial Plan (MTFP) refresh and the budget timetable headlines;
4. agree the budget movements (virements) set out in this report.

Reason for Recommendation:

The Council has responsibilities to deliver within its corporate plan and it must do this within the resources made available through the revenue and capital budgets for 2021/22. This report summarises the Council's forecast financial performance for the year at the end of the first quarter.

Against the draft outturn report considered in June, and the significant financial impact that the Council's response to the Covid-19 pandemic had on our financial resources, members need to understand how the current year is taking shape and to start thorough planning for the budget strategy for 2022/23 and beyond.

Understanding the financial position at the start of the planning process is key to adopting the most appropriate assumptions in the development of the MTFP. Agreeing an initial set of assumptions will allow officers to develop the first iteration of the MTFP and budget for 2021/22 for consideration and to conduct sensitivity testing.

Governance of the financial strategy will be critical as we build the next MTFP and agreeing key milestones for the work and member review/challenge are important at this stage to ensure maximum engagement.

1. Executive Summary

This report comes to Cabinet to provide information about the Council's forecast performance against its revenue budget in 2021/22 and the impact this could have upon reserves, including the general fund.

The report also briefly covers the capital programme and the bidding process for the MTFP period.

2. Financial Implications

2.1 Financial implications are covered throughout this paper.

3. Well-being and Health Implications

3.1 None.

4. Climate implications

4.1 None.

5. Other Implications

5.1 None.

6. Risk Assessment

Current Risk: High

Residual Risk: High

6.1 An overspend would fall to be funded from the general fund but Cabinet did not agree any use of reserves when setting the budget and has also agreed a strategy for reserves as part of the development of a sustainable base budget going forward in the MTFP. The Council therefore continues to work to balance its budget this year.

6.2 It is essential that the Cabinet understands the in-year pressures, the continuing impact of Covid-19 and the impact of any savings in order to take the right actions in the current year as well as to enable a balanced budget to be set for 2022/23.

7. Equalities Impact Assessment

7.1 N/A.

8. Appendices

- 1 MTFP financial modelling assumptions
- 2 Budget timetable 2022/23 major milestones
- 3 Summary of progress against budgeted savings

9. Background papers

- Budget strategy report 2021/22
- Qtr4 outturn report 2020/21

10. Budget development

- 10.1 2021/22 is the third budget for Dorset Council. It was set against a backdrop of extreme cost and activity pressures and volatility, due to the pandemic and with only a single-year financial settlement from Government. The budget strategy report contains more details in the respective appendices on resource allocation and savings, so that is not repeated here.
- 10.2 The paper also outlines the process the Council adopted to develop the budget strategy and Members will recall their involvement in the budget briefings, scrutiny committees and other briefings that were held during the year. The member engagement process is being built around the learning that members and officers provided from those events to make this year's process more inclusive and informative.
- 10.3 For 2021/22 Dorset Council set a net budget of £312m, funded from general grants (£4m), Business Rates (£44m) and Council tax (£264m) meaning a band D equivalent Council Tax charge of £1,779.39.
- 10.4 The budget saw increased resources for People Services and reductions for Corporate Services and Place Services.

11. Forecast of financial performance at Qtr1

- 11.1 At the end of Qtr1, the Council is forecasting net budget pressures of £8.259, as summarised in the table below.

| Directorate | Net Budget | Forecast Outturn | Forecast (Overspend)/ Underspend | |
|---------------------------------|------------|------------------|----------------------------------|-----------|
| | £k | £k | £k | % |
| People - Adults | 127,675 | 137,455 | (9,780) | (7.66%) |
| People - Children's | 80,012 | 83,122 | (3,110) | (3.89%) |
| Place | 65,290 | 68,246 | (2,956) | (4.53%) |
| Corporate Development | 23,604 | 23,833 | (228) | (0.97%) |
| Legal & Democratic Services | 5,813 | 6,596 | (783) | (13.46%) |
| Public Health | 1,441 | 1,441 | 0 | 0.00% |
| Total Service Budgets | 303,836 | 320,693 | (16,857) | (5.55%) |
| Central Finance | (311,140) | (319,738) | 8,598 | (2.76%) |
| Whole Authority | (7,304) | 955 | (8,259) | |
| Dedicated Schools Grant budgets | 7,304 | 24,341 | (17,037) | (233.24%) |

11.2 In addition to the pressures on the Council's own budget, there is also a forecast overspend against the Dedicated Schools Grant (DSG) High Needs Block (HNB) of £17m for which there is a separate, strategic approach and conversation with Government.

11.3 Specific narrative on variances and changes is set out in the following paragraphs.

Children's Services

11.4 Children's Services forecast is £83.122m compared with a budget of £80.012m, an overspend of £3.11m (3.9%).

11.5 There are two main areas that are generating the current forecast increased demand and hence spend in Children's Services: external placements and SEN Transport. In addition, trading income, which is largely with schools and heavily impacted by the pandemic, is down.

External Placements

11.6 The number of children placed in externally purchased services accounts for £0.79m of the total overspend. Children are placed in Dorset Council resources where possible but the demand for external, specialist placements continues. There is also a £0.2m pressure within services that support children with a disability, including demand pressures for short breaks.

11.7 The forecast is based on the current cohort, so it does not include growth (or contraction) or placement changes that are unknown at this stage. The impact of Covid-19 on our families is still being felt and there potentially will be a 'hidden demand' during the financial year: vulnerable children who will require Dorset Council support.

11.8 Our plans for additional provision at Dorchester Road and Kirtleton Avenue are progressing well but the buildings are not anticipated to be ready until December 2021. We are looking at potentially bidding for new DfE funds to build further provision however this provision would need to be new provision and the timeline is for full bids by September 2021.

Trading Income

11.9 During the last financial year, a new model for delivering Children's Services in Dorset was successfully launched. The model brought together Early Help, Children's Social Care, Educational Psychology, SEND (Special Educational Needs and/or Disabilities) and Inclusion services under the leadership of Heads of Locality and Strategy into six integrated locality teams across Dorset.

11.10 Coupled with improving inclusion in mainstream schools, Dorset Council has invested in early intervention, inclusion, and outreach services to schools. This has included deploying specialist teachers, Educational Psychologists, and inclusion officers to support schools in identifying

needs and putting in place tools and strategies to support mainstream settings.

- 11.11 This is a fundamental change from the previous operating models that heavily involved trading services, namely with schools, consequently most of the lost trading income is attributable to the move to early identification and intervention strategies (through the new operating model) to avoid expensive specialist provision. This does not mean trading has ceased but will take a different form that is being worked through and understood in 2021/22, therefore there is currently a £0.9m pressure.

SEN Transport

- 11.12 Despite a £1m increase to the SEN Transport budget for 2021/22, there is forecast to be a further £0.8m pressure, based on the 2020/21 outturn.
- 11.13 This highlights the impact of increasing numbers of children and young people requiring an Education, Health and Care Plan (EHCP) and the difficulties forecasting because:
- It is difficult to predict how many children and young people will require an EHCP for the remainder of the year (growth).
 - And of this growth, what is the appropriate provision for the child or young person in relation to the proximity of their home.
 - It is difficult to predict the cost of a route before tender, particularly in areas of Dorset where transport supply and options are limited.
- 11.14 A more accurate forecast can be provided in October once the new academic year has started, children are in their new educational setting (for a month and settled) and most routes have been tendered.
- 11.15 It is anticipated that SEN Transport budgets will move to the Place directorate at the beginning of Quarter 2, approval for this movement is sought elsewhere in this paper.

Dedicated Schools Grant

- 11.16 The DSG is a ring fenced grant of which the majority is used to fund individual school budgets in local authority maintained schools and academies in Dorset, early years nursery entitlement and provision for pupils with high needs, including those with Education Health & Care Plans (EHCPs) in special schools, special provision and mainstream schools in Dorset and out of county. Part of the DSG, the Central Services Schools Block (CSSB) provides funding for Dorset Council to carry out central functions on behalf of pupils in state-funded maintained schools and academies in England.
- 11.17 Dorset's DSG allocation when the budget was set totalled £280.48m. The budget was set with expected expenditure of £292.7m, resulting in a budget gap of £12.48m as at February 2021. The cumulative DSG deficit

as at 1 April 2021 totalled £39.1m, therefore at 31 March 2022 this was expected to increase to £51.6m.

- 11.18 The DSG is split into four blocks, and the budget gap was attributable fully to pressures in the High Needs Block (HNB).
- 11.19 The HNB budget was based upon a model covering financial years 2020/21 to 2025/26, with expected EHCP growth. At the end of 2021/22, the expected number of children and young people with an EHCP is estimated to be 3305. An increase of 276 from 31 March 2021.
- 11.20 The model is underpinned by strategies that promote inclusion in mainstream settings (for example, the change in operating model at Dorset Council), and Dorset Council's £35-40m SEND Capital Strategy that seeks to create specialist placements through new special schools, expanding current specialist provision and develop new facilities at mainstream schools.
- 11.21 The forecast has been revised to a £17m overspend.
- 11.22 The May forecast indicates that the current cohort of children and young people requiring support from the HNB is likely to cost £15.1m. An estimated figure of an additional £1.9m has been added to the £15.1m to cover EHCP growth being higher than budgeted, and to cover any risks identified below.
- 11.23 The main area of uncertainty is high-cost placements, including bespoke alternative provision, and potential unforecast growth in the number of children and young people with an EHCP. In addition, the wider impact of the pandemic on children and young people's learning and learning needs is not yet fully known or quantifiable. Dorset Council is producing a High Needs Block Management Strategy as it works toward early identification and support for learning needs through the graduated approach.
- 11.24 In the original budget set, an assumption was made that St Mary's, Dorset Council's proposed new Special School, would take an initial cohort of 60 from September 2021. Since the budget was created, the additional work required to set up a new Special School (for example capital improvements) has resulted in a revised January 2022 opening. However, the option to buy a school for this purpose will still deliver places more quickly than building a new facility at a higher capital cost.
- 11.25 Moving high-cost placements into local specialist provision is more than moving numbers. The process takes time, planning and sensitivity to ensure the child and young person's needs are met with minimal disruption and high support around transition.
- 11.26 Although new working practices are in place, it is challenging to forecast EHCP growth. Additionally, the HNB model was built excluding the impact of Covid-19 on our children's education and wellbeing. This may have an impact on EHCP numbers. For these reasons, the forecast overspend has been increased.

Adults Services & Housing

- 11.27 Adults' Services & Housing is, via increased demand for social care service, forecasting £137.455m compared with a budget of £127.675m, a budget pressure of £9.78m (7.66%). Action to address these pressures is being taken forward via Officer and Member Task Groups which will report in line with Q2 budget reporting and budget build for 2022/23.
- 11.28 There are three main reasons for the forecast, as follows:
- i. There are more people entering Council funded care than predicted (£2.063m) - More older people than predicted entered funded care more quickly as a result of the accelerated discharge from hospital programme. The Council is required by Government policy to operate a Hospital Discharge Programme in order to support acute hospitals during the Covid pandemic. This has resulted in more people entering Council funded care and remaining longer in care at a higher cost. The estimated additional care costs are equivalent to an additional 315 people, mainly older people entering and remaining in Council funded care at an average cost of £900 per week.
 - ii. Unrecoverable costs of operating the Hospital Discharge Programme in Dorset (£2.653m) - The Council receives some additional money from Government to cover the impact of the pandemic. However, this is insufficient to cover the additional costs of operating the 24/7 referral, brokerage, assessment and care management Hospital Discharge Programme in the County.
 - iii. Consequential impact on savings (£3.93m) - The Adult Social Care & Housing budget included an assumption that £7.918m of targeted savings would be achieved in 2021 - 2022. £4.9m of these savings were to be achieved by reducing the number and cost of people entering Council funded care. Continuation of the Hospital Discharge Programme with patient flow rates similar to those during the height of the pandemic and a reduction in the amount of funding available to support the programme mean that it is unlikely these savings will now be achieved.
- 11.29 The Adult Social Care operational service is currently forecasting a £497k overspend, £267k of which is within the Approved Mental Health Professional hub. This is a statutory function that must be available 24/7 and is impacted by the national shortage of AMHP's as well as the service review conducted in 2020, with the resultant loss of AMHP's. A short-term contract to bolster the service with an external agency (at a cost of £195k) has bought safety and stability whilst national advertising for permanent staff concludes. Two posts have already been recruited to, reducing the overall financial exposure. The remaining £72k are forecast costs for current staff within the service. The remaining £208k overspend is mainly

within Adult Care Management for additional agency/ consultancy support to cover vacant positions.

- 11.30 Within the remainder of the operational spend budget, Hospital Discharge Programme aside, control measures have helped to stabilise the spend within the locality and mental health teams, with a £267K improved underlying position of the locality and mental health teams performances against budget. It is expected that this will continue to improve throughout the year.
- 11.31 Commissioning and Improvement is forecasting an overspend of £263k. £184.8k of this relates to a Valuing Young People contract which is currently under review. £77k is due to agency covering a number of vacancies within the teams this is reviewed and revised on a monthly basis. £47k of income is no achievable. This has been offset by additional funding of £46k.
- 11.32 There are additional pressures within Directorate Wide relating to Covid where staff are supporting 7 days a week. A review of this will take place as part of the wider *Home First* conversations and the planned future model.

Place

- 11.33 Place Services forecast is £68.246m compared with a budget of £65.290m, an overspend of £2.956m (4.5%).
- 11.34 Leisure Centres are showing the largest adverse variance, at just over £1m. This has worsened from last month, following a "deep dive" with managers on the income profile looking ahead for the rest of the year. The current profiles assume that income will gradually return to 80% of pre-Covid levels by the end of the year. Further work is being undertaken, in conjunction with national bodies and partners, to better understand likely customer behaviour going forward, and therefore these numbers are subject to further review and changes as actual figures replace forecasts as the year progresses.
- 11.35 Approximately £1.6m of the variance is in relation to savings (either tactical or transformational) that are in danger of not being achieved. Larger examples being in Planning (£490k) and Travel (overall target £1.044m). Detail has also been shared with the Performance Board.
- 11.36 Parking income shortfalls are significant. A decision to not pursue evening charges, after the budget was agreed, has resulted in an adverse forecast of £330k. In addition, car parking income was poor during the early part of the year, but the end of Qtr1 forecast has seen significant improvement, with the overall variance now at £445k adverse (which includes the evening charges decision at a cost of £330k). Clearly car parking income is subject to variable conditions such as weather and volume of tourism as well as any effects of pricing and will need to be kept under review.

- 11.37 Planning income shortfalls are also significant, and to some extent have been overstated as a result of budget convergence, with issues that will need resolving during the 2022/23 budget build round. However, the current year income is relatively good, with speculation that activity is a temporary "Covid spike", with residents spending relatively more money than other years. The current forecast of adverse variance on Planning is £743k, which has reduced significantly since the start of the year.
- 11.38 Waste - Operations is forecasting an adverse variance of £286k overall, which is a combination of lost income from the non-waste fleet maintenance service (MOTs etc), £93k in waste vehicles repairs and maintenance, and £150k on pay and agency staffing pressures.
- 11.39 Waste - Commercial and Strategy is forecasting a positive budget variance of £145k. There are positive variances in respect of recyclate prices in the first quarter, as well as refuse tax no longer being required. However, with 2 months of complete data now available it is clear that residual waste volumes are higher than budgeted by around £0.5m. This is speculatively linked to lockdown behaviour, particularly working from home, and could change as the year progresses. Again, this will need to be kept under review.

Public Health

- 11.40 The public health grant allocations for 2021/22 for BCP council is £20.053m and for Dorset council is £14.214m. Agreed local authority contributions for 2021/22 gives a shared service budget of £25.037m.
- 11.41 Each local authority retains a portion of the grant to deliver other services with public health impact. The public health ring-fenced conditions apply equally to these elements of the grant and the use of the funding in each council outside of the shared service will continue to be monitored through the Joint Public Health Board (JPHB). At present the financial forecast estimates spend in line with budget.
- 11.42 A small underspend is forecast against the Pooled Budget. This is based on current activity data and a better understanding of the potential enduring impacts from Covid, which shows that changes in activity are different across each service area. Any underspend goes into the Public Health reserve at year end due to the ring-fence around the fund.
- 11.43 Public Health have carried forward funding for Test and Trace £1.1m, Contain Outbreak Management Fund (COMF) £8.3m (currently in reserves) and Rough Sleepers £0.308m. The latest guidance is that funding should be spent in this year or be returned to Government.
- 11.44 There are four priority themes for COMF spend including:
- i. Health Protection including expenditure for testing, contact tracing, summer opening

- ii. Comms Engagement Insights and Research - Trusted Voices and campaigns
- iii. Health Improvement - Adult Social Care and Drugs and Alcohol support
- iv. Supporting Communities and tackling inequalities - Voluntary sector support and education

Corporate Development

- 11.45 Corporate Development forecast is £23.833m compared with a budget of £23.604m, an overspend of £0.228m (1%).
- 11.46 Financial and Commercial services are forecasting an overspend of £0.294m which is related to loss of court fee income from the non-payment of business rates and council taxes linked to Covid.
- 11.47 Net, minor movements in the other services contribute to an underspend of £0.1m covering additional income (HR and ICT), reduced contributions to Dorset Care Record and partially offset by additional Covid Grants issued.

Legal & Democratic Services

- 11.48 Legal & Democratic Services forecast is £6.596m compared with a budget of £5.813m, an overspend of £0.783m (13%). This is predominantly an unbudgeted Covid-19 pressure in Emergency Planning, part of the Assurance Service.
- 11.49 Assurance is forecasting an overspend of £0.773m; the major element of which is £0.693k estimated costs for temporary Mortality Support Units (MSU) should these need to be implemented. Pandemic events with the potential for very significant loss of life across the UK remain a significant risk in the Government's National Risk Register and SLT is to receive a report concerning the future of the MSUs and their funding.

Central budgets

- 11.50 Central budgets include the main sources of the council's funding; council tax, business grants and general grants (such as new homes bonus).
- 11.51 A Grant of £8.56m has been received from Government to support the impact of Covid on the council's financial position. This is contributing to the overall position and offsets spend captured in the directorates.

Collection funds

- 11.52 Cabinet is aware that collection rates for council tax and business rates were below those expected in 2020/21 due to the pandemic. For the first three months of 2021/22, the picture is mixed.
- 11.53 For council tax, it is pleasing to be able to report that in-year collection rates this year are showing signs of recovery. However, significant risk remains until we see rates compare favourably with those for 2019/20 and

start to recover the arrears that have accumulated during this slower collection period (arrears recovery is not included in the rates in the tables below).

- 11.54 Whilst there has been some support from Government for local tax losses, a potentially significant burden still lies with local authorities. The table below summarises collection rates across Dorset Council's first three years. More information will be provided in future update reports to Cabinet which we hope will also show the benefit from the court process reopening. We also have a grant of just over £4m in 2021/22 to support the council tax budget and we are currently reviewing whether this will improve the position that we are currently forecasting.

Council Tax in-year collection rates

| DC Summary | 2019/20 | 2020/21 | 2021/22 |
|-------------------|----------------|----------------|----------------|
| April | 10.58 | 10.52 | 10.67 |
| May | 19.93 | 19.60 | 19.73 |
| June | 29.40 | 28.85 | 28.84 |

- 11.55 Total council tax arrears increased by £10.2m in the year to 31 March 2021, with an increase in the provision for bad debt of £6.5m. In Qtr1 of this year, the Council has recovered £1.9m of arrears and progress continues and will improve once recovery action through the courts recommences.

- 11.56 For business rates collection, the figures are more concerning with the current years cumulative rates being lower than 2020/21. There could be a number of reasons for this but anecdotally we know that a number of businesses have ceased trading and will no longer be paying business rates and there will be a shortfall of income until empty premises become occupied. This situation will be kept under close review and the Portfolio Holder will continue to be briefed on a monthly basis.

Business rates in-year collection rates

| DC Summary | 2019/20 | 2020/21 | 2021/22 |
|-------------------|----------------|----------------|----------------|
| April | 12.56 | 8.26 | 9.25 |
| May | 23.62 | 21.51 | 20.07 |
| June | 31.74 | 28.24 | 22.53 |

- 11.57 Business rates arrears increased by £5.4m in the year to 31 March 2021. It is difficult to quantify accurately how much of the arrears has been recovered in Qtr1 due to the extended business rates reliefs that were granted but a further update will be given at Qtr2.

- 11.58 Council tax and business rates recovery will commence this month with reminders being issued. This will continue to be supported by help and advice for anyone experiencing genuine financial challenges. Final reminders will be issued where applicable during August.

12. Progress against budgeted savings

- 12.1 In setting the budget strategy for 2021/22, the Council closed a budget gap which at one stage, was almost £42m. The various budget updates to Cabinet during 2020/21, including the 2021/22 budget strategy report, set out how that gap was calculated and subsequently closed. Part of that process involved identification of transformational and tactical savings.
- 12.2 Appendix 3 sets out a summary of the progress being made against the transformational and tactical savings and risk-rates the achievement of the savings. The shortfalls classified as *red* are included in the forecast - ie they are assumed not to be delivered in 2021/22 and will therefore cause a budget pressure this year and potentially in the MTFP unless the financial position is recovered. At this stage, the forecast assumes all other savings will be achieved, though clearly this may change as we move through the year.
- 12.3 Performance Board continues to monitor the transformation programme and associated savings. Work continues to identify strategies to deliver services within the funding available.

13. Reserves and the general fund

- 13.1 The 2020/21 draft outturn report set out Cabinet's agreed, strategic approach to reserves management. Dorset Council therefore started the current financial year with a general fund balance of £31.5m and a further set of aligned, earmarked reserves as summarised in appendix 2.
- 13.2 However, whilst the Council's position is sound and gives a good starting position for the development of the MTFP, the issue of the accumulated overspend on the High Needs Block (HNB) of the Dedicated Schools Grant (DSG) remains.

14. Realignment of budgets

- 14.1 Changes of policy that cause a significant movement in the budget during the year should be shared with and agreed by Cabinet. At the Qtr1 stage of the year, the following *virements* therefore need to be brought to Cabinet's attention.

SEN Transport

- 14.2 The SEN Transport budget has been held in the Children's Services Directorate up until the end of Qtr1 2021/22. Due to managerial changes in the team, it is proposed that the SEN Transport budget moves to the Place Directorate, so that the budgets can be held with the Home to School Transport budget. The current budget for SEN Transport is £8.4m.

Repairs and Maintenance

- 14.3 Part of the property repairs and maintenance budget has been held in the Central Finance area up until the end of Qtr1 2021/22. It is proposed that this budget moves to the Asset & Property Service in the Place Directorate as they are responsible for this budget. The current budget for Repairs

and Maintenance is £2.7m in this area. This is a realignment of a legacy budget arrangement inherited from Dorset County Council.

County Hall front-of-house and improved public access costs

- 14.4 Cabinet has decided that County Hall will be the Council's Dorchester office base, as part of the asset strategy implementation. Previous reports have advised that there would be costs associated with the development of County Hall to make it modern, efficient and inclusive but figures were still being developed at that time.
- 14.5 Subject to the level of ambition for the work on the County Hall building, it is possible for a significant amount of the spend on front-of-house configuration, improved access (following the recent access audit) and enhanced audio visual services, to be found from existing budgets/resources. However, in order to repurpose those, Cabinet approval is being sought in line with the principle for other budget changes set out above.
- 14.6 The current proposal is to repurpose £1.3m from existing budgets (£0.55m) and from the capital receipts reserve brought forward from last year (£0.75m) to pay for this work. It is proposed that the specification for the intended works is shared with the Chairman and Group Leaders, who will act as the client for this work and consider whether the plan delivers what members, officers and public visitors to the building want or whether a different level of refurbishment is required in which case an alternative approach to resourcing might be needed.

15. Capital programme 2021/22

- 15.1 Council approved a capital budget of £62.8m when it approved the budget strategy in February 2021. On top of this, there was slippage in the existing capital programme from 2020/21 of £76.1m, bringing the total to £138.9m.
- 15.2 A significant volume of the programme is financed externally through grants and contributions from others (such as developer contributions) and this is summarised in the table, below.

| | 20/21 Slippage | 21/22 Budget | Gross | External Contributions | Net |
|------------------|-------------------|-----------------|----------------|---------------------------|---------------|
| Fully Funded | £29.5m | £15.1m | £44.6m | (£44.6m) | - |
| Partially Funded | £26.4m | £9.8m | £36.2m | (£16.6m) | £19.6m |
| Council Funded | £20.2m | £37.9m | £58.1m | - | £58.1m |
| Total | £76.1m | £62.8m | £138.9m | (£61.2m) | £77.7m |

- 15.3 The Capital Strategy and Asset Management Group (CSAMG) is leading on the officer governance of the capital programme and its working groups are scheduled to carry out a review of the current programme before also

leading on the bidding process for the development of the 2022/23 programme for recommendation to Cabinet as part of the budget strategy report.

16. Financial planning and future budget strategy

- 16.1 The pandemic provided significant challenges to the budget setting process for 2021/22. Whilst the same volatility is not anticipated in future, the Covid-19 tail still presents financial risks.
- 16.2 The long-term impact of Covid-19 on the Council's services was extremely difficult to model and even now, it is challenging to understand exactly how much of the budget pressure we are seeing/likely to continue to see, is purely driven by the pandemic. Our current estimate of the ongoing impact is a £9.2m budget pressure, but that will be clarified as we progress the budget work through the summer.
- 16.3 The Qtr1 forecast summarised above, indicates that there are continuing pressures in 2021/22 and this is likely to impact on the budget strategy for 2022/23 as well. We must start the challenge of setting a budget against that backdrop.
- 16.4 Whilst the impact of the pandemic is still being felt, the Council will shortly start to update the MTFP model for 2022/23. The starting point for this work is years 2 to 5 of the MTFP that was developed for the 2021/22 budget. The rolled-forward position is summarised in the table below, and the assumptions from the previous model are set out in appendix 1. This forms the starting point for the 2022/23 budget setting process, with the next steps being to update the budget principles, and then incorporate the latest income, expenditure, demand, transformation and other budget assumptions into the MTFP. Cabinet will receive an update on progress at the October meeting.

| | MTFP Yr1 | MTFP Yr2 | MTFS Yr3 | MTFP Yr4 |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
| | £m | £m | £m | £m |
| Council tax | 271.197 | 278.691 | 286.392 | 294.303 |
| Business rates (NDR funding) | 44.534 | 44.756 | 44.980 | 45.205 |
| Other grants treated as general funding | 3.515 | 2.475 | 2.475 | 2.475 |
| Total funding | 319.245 | 325.923 | 333.847 | 341.983 |
| Budget requirement | 328.199 | 345.100 | 362.984 | 381.416 |
| Budget gap (cumulative) | (8.954) | (19.177) | (29.137) | (39.434) |

16.5 The budget process culminates in the report being considered by Cabinet on 18 January 2022 and then by Council on 15 February 2022. Between then and now SLT needs to agree the detail of the budget timetable (draft major milestones at appendix 2), the assumptions to use and in all likelihood, an approach to delivering further transformational and tactical savings. All of this will need to be consolidated into appropriate and timely member briefing sessions on the budget.

17. National context

17.1 2019/20 was the fourth year of a fixed-period settlement from Government to the sector. 2020/21 and 2021/22 were both single-year settlements meaning that we have not had meaningful, long-term, financial planning information from Government since this Council was established.

17.2 In preparing the budget strategy, the sector generally still hopes for a three-year settlement, covering the period 1 April 2022 to 31 March 2025. Many commentators expect an announcement to confirm this and the timeline for the spending review and settlement to be made before Parliament's summer recess.

18. Summary

18.1 2021/22 continues to be an extremely challenging time for local government, with the direct and indirect consequences of Covid-19 impacting on income, expenditure, and in particular the collection funds.

18.2 There remains a large degree of financial uncertainty and having reviewed expenditure for the first quarter of the year, Dorset Council's prudent financial forecast is an £8.3m (2.76%) budget pressure caused by a combination of increased demand and reduced income streams.

However, if the local economic recovery picks up, and if there is an easing of the pressures in the local social care system, then the Council could start to move towards financial balance during the latter part of the financial year. Future financial stability is also dependent on the achievement of the savings and efficiencies identified in the 2021/22 budget, and these must remain a priority.

- 18.3 The information contained within this report will form basis of the starting position for the 2022/23 budget setting process, which will once again prove to be extremely tough as the Council seeks to achieve its priorities whilst meeting the growing cost of demand, all from within limited funds.

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.

Appendix 1

MTFP financial modelling assumptions

| Key Assumptions 2022/23 | Assumption as at July 2021 |
|--------------------------------|-----------------------------------|
| Council Tax Increase | <2% |
| Council tax base growth | 0.75% |
| Social Care Precept | 0% |
| Business Rates growth | 0.50% |
| Pay inflation | 2.25% |
| General inflation | 2.50% |
| Fees and Charges | 2.50% |
| Employer pension contribution | 0% + £261K |

Appendix 2

Budget timetable 2022/23 major milestones

Key dates

- 13 July - Start of Budget process

Summer Budget Work

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



Appendix 3

Summary of progress against budgeted savings

| Summary Savings Plans | | Officer assessment on savings target | | | |
|--|---------------|--------------------------------------|--------------|--------------|--------------|
| 2021/22 Savings Plans | | Green | Amber | Amber 2 | Red |
| | £000's | £000's | £000's | £000's | £000's |
| Tactical | | | | | |
| Adults & Housing Services | 1,400 | 1,025 | 0 | 0 | 375 |
| Childrens | 3,009 | 2,524 | 567 | 0 | 68 |
| Place | 4,043 | 3,332 | 227 | 154 | 331 |
| Central | 6,000 | 6,000 | 0 | 0 | 0 |
| Corporate | 2,489 | 2,426 | 0 | 0 | 63 |
| Total Tactical | 16,941 | 15,306 | 794 | 154 | 837 |
| Transformation | | | | | |
| Adults & Housing Services | 6,582 | 280 | 1,200 | 1,547 | 3,555 |
| Childrens | 1,870 | 1,170 | 700 | 0 | 0 |
| Place | 2,393 | 789 | 0 | 0 | 1,604 |
| Total Transformation | 10,845 | 2,239 | 1,900 | 1,547 | 5,159 |
| Total - Tactical and Transformation | | | | | |
| Adults & Housing Services | 7,982 | 1,305 | 1,200 | 1,547 | 3,930 |
| Childrens | 4,879 | 3,694 | 1,267 | 0 | 68 |
| Place | 6,436 | 4,121 | 227 | 154 | 1,935 |
| Central | 6,000 | 6,000 | 0 | 0 | 0 |
| Corporate | 2,489 | 2,426 | 0 | 0 | 63 |
| Summary Savings Plans | 27,786 | 17,545 | 2,694 | 1,701 | 5,996 |

