

Cabinet

8 November 2021

Financial management report Qtr2 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

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Report Status:

Public

Recommendation:

Cabinet is asked to

1. note SLT's forecast of outturn at the end of Qtr2 including progress of the transformation and tactical savings incorporated into the budget;
2. note that work continues on the capital programme, by subgroups established by the Capital Strategy and Asset Management Group (CSAM);
3. agree/amend the financial strategy statement at appendix 2 as the basis for financial management arrangements over the remainder of this year and into the Medium-Term Financial Plan (MTFP) period. The statement incorporates much of the work being taken forward in response to the LGA finance peer review.

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 2021/22 at the mid-point of the year.

A separate report on budget strategy, assumptions and process came to Cabinet at the start of October so that information is not repeated here. However, given

the forecast performance for this year alongside that predicted for 2022/23 in the budget paper, an appropriate level of context is necessary.

Key components of the Council's financial strategy are also set out here as appendix 2 for Cabinet's review. Governance of the financial strategy will be crucial as the performance for 2021/22 improves and we look to close a significant budget gap for next year.

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 performance.

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 Any overspend of the revenue budget falls 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 in the MTFP. The Council therefore continues to work towards balancing its outturn.

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 shortfalls 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 Not required for a finance update report.

8. Appendices

- 1 Summary of progress against budgeted savings
- 2 Draft financial strategy statement

9. Background papers

- Budget strategy report 2021/22
- Qtr4 outturn report 2020/21
- Qtr1 financial management report 2021/22
- MTFP and budget report to Cabinet 5 October 2021

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. It was also another, 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 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.
- 10.3 The budget saw increased resources for People Services and reductions for Corporate Services and Place Services. 2020/21 saw the use of £15m of reserves to support the outturn for that year. Many of the pressures that were dealt with in that year, continue to impact on the 2021/22 forecast and continue into the MTFP as reported in October.

11. Forecast of financial performance at Qtr2

- 11.1 At the end of Qtr2, the Council is forecasting net budget pressures of £4.771m, as summarised in the table below.

Directorate	Net Budget	Forecast Outturn	Forecast (Overspend)/ Underspend	
	£k	£k	£k	%
People - Adults	128,120	137,234	(9,114)	(7.11%)
People - Children's	72,036	75,009	(2,973)	(4.13%)
Place	76,933	80,024	(3,091)	(4.02%)
Corporate Development	23,842	23,892	(50)	(0.21%)
Legal & Democratic Services	5,708	6,435	(726)	(12.72%)
Public Health	1,441	1,441	0	0.00%
Total Service Budgets	308,082	324,036	(15,954)	(5.18%)
Central Finance	(315,374)	(326,558)	11,183	(3.55%)
Whole Authority	(7,292)	(2,521)	(4,771)	
Dedicated Schools Grant budgets	7,292	23,938	(16,646)	(228.27%)

- 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 £16.646m 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 £75.009m compared with a budget of £72.036m, an overspend of £2.973m (4.13%).
- 11.5 There are two main areas of pressure in Children's Services. An increase in external placement costs and a decrease in trading income.

External Placements

- 11.6 The number of children placed in externally purchased settings, accounts for £1.39m of the total overspend. Children are placed within Dorset Council's own settings 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 cannot be foreseen 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 remainder of the financial year, i.e. vulnerable children who will require Dorset Council support.
- 11.8 Our plans for additional provision at Dorchester Road and Kirtleton Avenue have unfortunately been delayed in construction. It is unlikely this provision will be available this financial year and is a driver for the external placements overspend.

Trading Income

- 11.9 During the last financial year, a new model for delivering Children's Services in Dorset was 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 redeploying 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 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 it is taking a different form. We are currently working on a project to understand what levels of income can be achieved in the current market.

Dedicated Schools Grant

- 11.12 The DSG is a ring-fenced grant. The majority of it 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.
- 11.13 The forecast overspend has improved by £0.391m, to £16.646m. This is all within the High Needs Block (HNB). The projected, cumulative DSG deficit at the 31 March 2022 is now £55.7m.
- 11.14 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 3,305, an increase of 276 from 31 March 2021.
- 11.15 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. The new HNB Management Strategy is also crucial for future stability.
- 11.16 The September forecast indicates that the current cohort of children and young people requiring support from the HNB is likely to cost around £15.8m. An estimated figure of an additional £0.8m has been added to this to cover forecast EHCP growth for the rest of the year.
- 11.17 The main area of uncertainty is high-cost placements, including bespoke alternative provision, and potential un-forecast 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 has produced a HNB Management Strategy as it works toward early identification and support for learning needs through the graduated approach.
- 11.18 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 the opening being delayed. However, the option to buy a school for this purpose will still deliver places far more quickly than building a new facility at a higher capital cost.

11.19 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. It will take time to significantly improve the financial performance of the HNB but we are seeing delivery against the agreed plan.

Adults Services & Housing

11.20 Adults' Services & Housing is forecasting an overspend of £9.114m against a budget of £128.12m (7.11%). The improvement within the forecast of £668k since Qtr1 is due to the application of one-off, infection control grant funding.

11.21 There are three main reasons for the forecast, as follows:

- i. There are more people entering Council funded care than predicted - 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.
- ii. Unrecoverable costs of operating the Hospital Discharge Programme in Dorset - 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 (£3.9m) - 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.

11.22 The Adult Social Care operational service is currently forecasting a £665k overspend a small increase compared to Q1, £305k 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 and a review of the current establishment and rotas has taken place. The remaining £110k are forecast costs for current staff within the service. The remaining £360k overspend is mainly within Adult Care Management for additional agency support to cover vacancies.

- 11.23 The Commissioning forecast has reduced by £271k since Q1 taking it into an £8k underspend. This is a result of the transfer of the Valuing Young People contract noted below and improvements on staffing forecasts.
- 11.24 The Directorate-wide forecast has increased by £90k since Q1 taking it to an overspend of £298k due to the continued costs of Covid-19 including staff supporting 7 day working.

Place

- 11.25 Place Services forecast is an overspend of £3.091m against a budget of £76.933m (4.02%).
- 11.26 Leisure Centres are showing one of the largest adverse variances, at just over £0.7m. This has improved from Qtr1, following the easing of National Covid restrictions, and the assumption of some of the lost income being reclaimable from the Sales, Fees and Charges grant from Government. Further work is being undertaken, in conjunction with national bodies and partners, to better understand likely customer demand going forward, and therefore these numbers are subject to further review and changes as actual figures replace forecasts as the year progresses.
- 11.27 There is a forecast overspend of just under £1m in Assets & Property, £0.8m of which is due to the anticipated shortfall in the recovery of staffing costs from capital projects. Work is ongoing around capital recharging so this figure will be subject to continued refinement through the remainder of the year, and it is hopeful that this figure will improve. There are also income shortfalls due to vacant buildings and the staff car park.
- 11.28 Approximately £2.3m 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), Parking (£330k) and Travel (overall target £1.044m). Further detail is included in the summaries at Appendix 1.
- 11.29 Parking income shortfalls are significant. A decision not to pursue evening charges, after the budget was agreed, has led to this. In addition, car parking income was poor during the early part of the year, and so the Qtr2 position is a forecast shortfall of £553k overall. This is more than £100k worse than the Qtr1 forecast. 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, although now the summer season has passed, it is not expected to recover significantly.

- 11.30 Planning income has been volatile in the year to date; there was buoyant income during Qtr1 (believed to be linked to a 'post-Covid-19 spike' – especially in Building Control), but this has since quietened down somewhat, and as such there has been a deterioration, currently estimated at £1.2m. This has been caused by a combination of income shortfall and spend on agency staff.
- 11.31 Waste Operations is forecasting an adverse variance of £65k overall, which is mainly associated with external income shortfalls in the fleet maintenance budget. There was a Qtr1 pressure reported in relation to a pay and agency overspend on the Waste Operatives budget, but this has eased following an analysis of the actual costs over the summer and is expected now to realise a minor underspend. There does, however, remain key operational issues in relation to the recruitment and retention of key personnel, particularly drivers.

Public Health

- 11.32 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.
- 11.33 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.
- 11.34 A small underspend is still forecast against the Pooled Budget. This is based on current activity data and a better understanding of the potential enduring impacts from Covid-19, 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.
- 11.35 COMF and Test & Trace funds have been allocated, including contingency for further outbreaks. A large proportion is committed but not yet spent. Any forecast underspends will be reassigned where possible in year.
- 11.36 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

- 11.37 Corporate Development forecast is an overspend of £50k against a budget of £23.842m (0.2%).
- 11.38 Financial and Commercial services are forecasting an overspend of £0.323m which is related to loss of court fee income from the non-payment of business rates and council taxes linked to Covid-19.
- 11.39 An underspend of £235k is forecasted in ICT and other, net, minor movements in the other services contribute to an underspend of £0.042m covering additional income (HR), reduced contributions to Dorset Care Record and partially offset by additional Covid-19 grants issued.

Legal & Democratic Services

- 11.40 Legal & Democratic Services is forecasting an overspend of £726k against a budget of £5.708m (12.72%).
- 11.41 Assurance is forecasting an overspend of £0.773m; the majority of which is £0.693k estimated costs for temporary Mortality Support Units (MSU). 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.
- 11.42 The members budget is forecasting an underspend of £0.056m due to meetings costs (travel, property etc) being reduced through the holding of meetings virtually rather than face to face.
- 11.43 This is partially offset by a minor forecasted overspend in legal services due to reduced income.

Central budgets

- 11.44 Central budgets include the main sources of the council's funding; council tax, business grants and general grants (such as new homes bonus).
- 11.45 A Grant of £8.56m has been received from Government to support the impact of Covid-19 on the council's financial position. This is contributing to the overall position and offsets spend captured in the directorates.
- 11.46 The performance of the Dorset Council Revenues and Benefits team is overseen by the Cabinet member for Finance, Commercial and Capital Strategy. The team continue to operate effectively and in addition to their normal duties, during the course of the last quarter they have been cleansing and preparing data in preparation of migration during November to a new database that will for the first time bring together all of Dorset Council's Council tax information into a single system. This will be a major milestone in Dorset Councils digital strategy.

11.47 Throughout quarter two, the team has continued to coordinate payment of COVID business grants to claimants. Since the schemes started, the team has administered grants totalling over £197m in value and represent over 34.5k applications. Whilst the emphasis is now much more on post payment verification of the business grants the team has been able to provide data and assurance to government in a timely manner. The team continues to administer the test and trace support payments. The team was recently contacted by the Department of Health and Social Care as an example of good practice advice due to being one of the top five performing local authorities nationally.

Collection Funds

11.48 Cabinet is aware that collection rates for council tax and business rates continue to be suppressed by the pandemic. For the first half of 2021/22, the picture is still challenging but is showing signs of improving slightly as the year progresses.

11.49 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 similar to those for 2019/20 and recover the arrears that accumulated during this slower collection period (arrears recovery is not included in the cumulative % rates in the tables below).

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
July	38.82	37.99	38.05
August	48.14	46.99	47.10
September	57.56	56.02	56.28

11.50 Whilst there has been some support from Government for local tax losses - and this is included in the Qtr2 forecast – risk of a potentially significant burden still lies with local authorities.

11.51 Council tax arrears increased by £10.2m in the year to 31 March 2021 and contributed towards an increase in the provision for bad debt of £6.5m. In the first half of this year, the Council recovered £4.8m of arrears and progress continues.

11.52 The Council has also returned its CTB1 figures to Government as is required at the mid-point in the year, which indicate some welcome growth in the tax base since the budget was set, indicating that a council tax collection fund surplus is likely for 2021/22. The accounting arrangements mean that this will be treated as a one-off source of funding for 2022/23 rather than impacting in the current year. The growth itself is positive and

could flow into a higher tax base growth assumption than we currently have in the MTFP (0.75%) when the figures are calculated in December.

- 11.53 For business rates collection, the figures are more concerning and until September's very positive performance, the current years cumulative rates were 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 are occupied. This situation will be kept under close review and the Portfolio Holder will continue to be briefed on a monthly basis. The table below shows the cumulative % collection of total business 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
July	39.91	38.62	30.56
August	49.99	45.09	39.55
September	58.29	51.41	52.34

- 11.54 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 the first half of the year due to the extended business rates reliefs that were granted. However, progress in September was good and we hope that this will be sustained in Qtr3.

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 1 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* (£6.358m) are included in the forecast - i.e. they are assumed not to be delivered in 2021/22 and will therefore cause a budget pressure this year and in the MTFP unless the financial position is recovered. At Qtr1 the red-rates savings shortfall was £5.996m.
- 12.3 At this stage, the forecast assumes all other savings will be achieved, though clearly this may change as we move through the second half of the financial year. There is a further £2.278m of savings currently RAG-rated as amber, which is an improvement of £2.117m since £4.395m was reported at Qtr1.

- 12.4 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.
- 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 a concern.

14 Realignment of budgets

- 14.1 Changes of policy or other activity that cause a significant movement in the budget during the year should be shared with and agreed by Cabinet. During Qtr2, the following virements therefore need to be brought to Cabinet's attention.

Valuing people now (contract)

- 14.2 A virement of £834k is being processed to transfer this funding from Adults' Services to Children's Services in line with the new contract management approach agreed between the two Directorates.
- 14.3 The Vulnerable Young People (VYP) supported accommodation service was supporting 16-21 year olds and was jointly funded by Adults & Children's, with provision from a number of providers across the county. A case for change was instigated as there is a need to ensure those with the most complex needs are supported and that this is compliant with statutory duties for those up to the age of 21. Therefore, the accommodation is being retained to support Children's Services' most complex looked after children (LAC) and care leavers. This resulted in transferring the remaining Adult Social Care budget to Children's Services from 01/07/2021 to support longer term accommodation sufficiency plans.

Contract price uplifts

- 14.4 A transfer of £449k from contingency budget to Adults' Services on account of unavoidable price increases in homecare contracts across the service. Members will recall that inflation was not automatically added to service budgets in 2021/22 but had to be approved by the S151 Officer, from an earmarked element of the contingency budget.

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. Further funding coming to the Council during the year means the capital programme for 2021/22 has increased to total expenditure of £197.3m.

- 15.2 A significant volume of the programme is financed externally through grants and contributions from others. CSAMG subgroups are currently reviewing this year's programme as part of the preparation for recommending a capital programme to Cabinet for 2022/23. This work is likely to involve the "surrender" of a small portion of the £197.3m as it is no longer needed, as well as an assessment of how much of the programme will inevitably slip into 2022/23. The outcomes of this review are essential to enable us to understand our starting point for 2022/23 for capital financing impacts on the revenue budget.

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 level of volatility is not anticipated in future, the Covid-19 tail still presents significant financial risks and challenges.
- 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 continuing budget pressure is driven purely or principally by the pandemic. Despite one-off funding in 2021/22, the Qtr2 forecast summarised above, indicates that there are continuing pressures this year that will impact on the budget strategy for 2022/23 as set out in the October Cabinet [paper](#) on that subject.
- 16.3 The budget process culminates in the budget strategy report being considered by Cabinet on 18 January 2022 and then by Council on 15 February 2022. Between then and now the organisation is working towards closing a budget gap of £36m whilst also dealing with all the uncertainty that comes alongside a three-year spending review, and a major initiative like the *build back better* programme incorporating all the changes associated with the introduction of the additional tax changes being implemented to support Health and Care.
- 16.4 The budget and spending review (SR21) announcements are expected on 27 October and we hope to know more about how the Council's financial future at that stage, though it is unlikely that we will receive the local government finance settlement until after that date.

17 Summary

- 17.1 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.
- 17.2 There remains a large degree of financial uncertainty and having reviewed expenditure for the first half of the year, Dorset Council's prudent financial

forecast is a £4.771m budget pressure caused by a combination of increased demand and reduced income streams.

- 17.3 This represents a significant improvement from the quarter one position, and it is really important that we maintain the momentum of our improving financial position. The Council can never relax with its budgets and we need to be continually thinking about how to achieve best value for money and how to further improve our efficiency.
- 17.4 The information contained within this report continues to inform 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

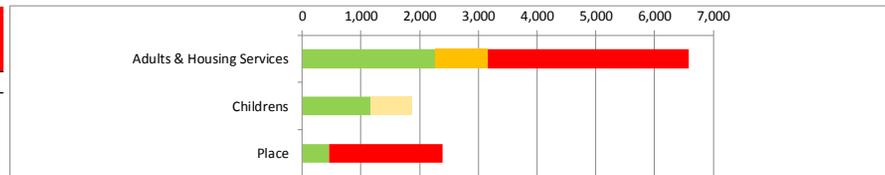
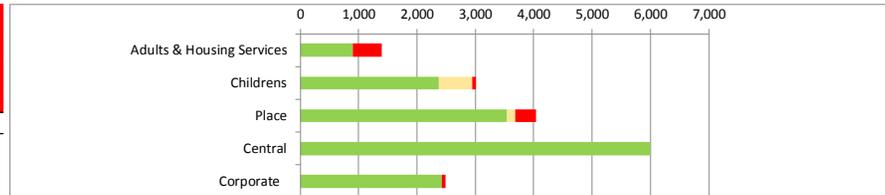
Footnote:

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

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	898	0	0	502
Childrens	3,009	2,374	567	0	68
Place	4,043	3,544	137	0	363
Central	6,000	6,000	0	0	0
Corporate	2,489	2,426	0	0	63
Total Tactical	16,941	15,241	704	0	996
Transformation					
Adults & Housing Services	6,582	2,280	0	874	3,428
Childrens	1,870	1,170	700	0	0
Place	2,393	459	0	0	1,934
Total Transformation	10,845	3,909	700	874	5,362
Total - Tactical and Transformation					
Adults & Housing Services	7,982	3,178	0	874	3,930
Childrens	4,879	3,544	1,267	0	68
Place	6,436	4,003	137	0	2,297
Central	6,000	6,000	0	0	0
Corporate	2,489	2,426	0	0	63
Summary Savings Plans	27,786	19,150	1,404	874	6,358



Appendix 2

Dorset Council financial strategy statement 2022/23

Preamble

This document is being refreshed for the budget and MTFP for 2022/23. And incorporates recommendation from the finance peer review which was led by the LGA to help shape the form and substance of our financial strategy in coming years.

Dorset Council's [first financial strategy](#) was agreed by members in August 2018 and was intended to inform the basis of the budget and MTFP for 2019/20. Since then, we have experienced Covid-19 and development of a more refined financial strategy was impacted by response to and recovery from the pandemic and the unquantifiable impact this would have on our balance sheet.

Finance strategy has therefore developed in a less programmed way than the Council would have liked but we are back on track with this work and much has already been done and is referenced in this financial strategy statement for Cabinet approval.

Purpose and scope

The Chief Financial Officer (CFO) has responsibility for leading development and implementation of the financial strategy to deliver the Council's strategic objectives sustainably. This involves working closely with decision makers to establish a medium to long-term corporate strategy and plans that ensure financial sustainability.

In managing financial resources to optimise service outputs and community benefits, within funding constraints and any tax raising limits, the CFO must take into account future commitments, resources available and the desirable levels of reserves to ensure that the Council's finances remain sustainable. The CFO must ensure that the financial and risk implications of policy initiatives are analysed and addressed, and measures applied should encompass partnership working, alternative delivery models, capital investment programmes and annual operations, as well as financial targets and benchmarks. The Prudential Code requires that capital investment plans are affordable, prudent and sustainable.

The role of the Chief Finance Officer and the Finance & Commercial Team

Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and to appoint a Chief Finance Officer (CFO) to have responsibility for those arrangements.

The work of the Finance & Commercial Team mirrors and supports the role of the CFO

- key members of the Council's leadership teams, helping them to develop and implement strategy and to resource and deliver the organisation's objectives sustainably and in the public interest
- actively involved in and able to bring influence to bear on, all material business decisions

- leading the promotion and delivery by the whole organisation of good financial management
- delivering and developing a finance function that is resourced to be fit for purpose and continuously improving
- appropriately qualified, suitably experienced, competent, confident and authoritative.

The Team aims to deliver consistently high-quality financial support and advice to the Council.

Member engagement and ownership

Member engagement in financial management, and especially the budget and MTFP is positive.

The S151 Officer has weekly briefings with the Finance Portfolio Holder and there are formal, quarterly finance reports to Cabinet. These reports then go to the Audit & Governance Committee and are regularly supported by presentations from Executive Directors and other officers to support activity and financial performance/projections in their areas of responsibility.

The development of the budget strategy and MTFP is also heavily influenced by members through informal briefings and seminars as well as formal, pre-Cabinet scrutiny, group briefings and for 22/23, plans to examine base budgets as well as incremental proposals for change. The Council also has several hands-on members who regularly take copies of our financial model and carry out their own scenario modelling and other testing.

The Council is still relatively new and the next stage of development is for members to have a clearer understanding of the organisation's emerging financial strategy as a cornerstone of their understanding of risk for the future and transparency around how resources support delivery of key plan outcomes. This is critical on the back of announcements around *build back better* and other Government programmes.

A financial model

Dorset Council maintains a rolling, ten-year, financial model which incorporates the key variables needed as part of the process of developing the MTFP and budget strategy. The model is kept up to date as part of a continuous financial management approach.

The model is formally rolled forward each year after the accounts are closed. The assumptions are revisited and SLT is consulted about the budget timetable and the assumptions being used in the model. These assumptions are then subject to challenge and review as part of the MTFP development as well as engagement with Directorates being used to include further budget pressures and opportunities in the model.

The model was newly built for Dorset Council but is informed by principles that were inherited from the predecessor councils. It has been significantly simplified compared with predecessor models but retains the ability to reflect a range of variables which are regularly updated. The model is shared beyond the finance team, including with councillors, so that those that are interested in the detail are able to use the tool themselves to carry out changes to variables to evaluate scenarios that they may wish to explore.

Clearly articulated plan and objectives

For the Council's financial strategy to be effective, it must support the delivery of our corporate objectives. Dorset Council's Plan sets out the organisation's ambitions for the next four years. It incorporates the political vision of the new councillors and was developed following a conversation with residents, town and parish councils, businesses and representatives from the public, private and voluntary sectors.

Dorset Council aims to be at the heart of the community. The reorganisation of local government in 2019 simplified administrative structures, which was a big step forward, but there are still some very significant challenges locally, nationally and globally.

The Council wants Dorset to be a great place to live, work and visit and is enabling this by focusing on five priorities

- 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 our residents to have a good quality of life.

More information on the Council's plan can be found [here](#).

Measuring performance & value for money

The Council is developing its approach to performance management and to value for money. Whilst progress has been made, there is more to do. Resource issues linked mainly to pandemic response have meant that we have not made all the progress that we would have wanted to at this stage in relation to our approach to value for money but we are the right track.

Performance management

Dorset Council's Senior Leadership Team (SLT) receives a monthly summary of performance of the council's key service areas on a PowerBI dashboard. This has recently been modified to include more detailed financial information so that SLT are looking at performance alongside financial monitoring. The next stage of development is to include better strategic risk performance monitoring.

An informal meeting of cabinet – Performance Leadership Board – meets monthly to review the same scorecards that SLT sees. This is where elected members hold each other to account for performance. Each month includes a review of performance and a deep dive into an area of interest, reflecting what the performance information is showing.

Work has recently been completed for the dashboards for the two scrutiny committees (Place & Resources and People & Health) to review service performance for their areas of interest. The scrutiny committees meet six times each year and the intention is to review the performance data at every other meeting with a view to informing forward plan items to scrutinise areas where there are any issues that need to be better understood (good or bad). The intention is that these dashboards will be made available for anyone to see on the council's internet site, once we have identified the best technical way to do this.

A variety of performance monitoring tools are in place and being worked on at the service and directorate levels.

Cabinet receives a quarterly report of progress against the council plan priorities. We have also just instigated a review of our corporate plan to reflect changes needed following the pandemic. The detailed measures that sit behind the plan will also be reviewed and we also intend to produce a risk register explicitly linked to corporate plan delivery.

Value for money

The proposal is to develop a value for money framework and timeline setting out how to implement value for money benchmarking of all services to feed into a prioritisation exercise for conducting fundamental value for money reviews of the all the council's services.

The fundamental service reviews will need to include activity around

- comparing ourselves to the best in terms of both performance, cost and value for money
- challenging whether Dorset Council is best placed to provide the service and also the best way to provide the service including different ways of working; different service delivery options and exploring commercial market options. This could also include reviewing any currently outsourced services
- consulting our customers (internal and/or external) to find out what they want from the service.

A key piece of work is a systematic benchmarking exercise across all of the Council's services to identify strong and weak areas of performance and cost. This will enable a prioritisation exercise to deliver a timeline for fundamental service review. This work has started but progress has been slow due to staffing resource and we are currently reviewing how we might progress this work. An update on pilot areas for consideration was taken to Audit & Governance Committee in a [report](#) on 27 September 2021.

The approach to fundamental service review will be overseen by the Portfolio Holder for Corporate Development and the Council's Corporate Leadership Team. It will be worked up by officers from finance, business intelligence & performance and digital & change.

Strategy for reserves

Local authorities have two types of reserves, usable and unusable. Unusable reserves are those which are established for specific accounting or regulatory purposes, such as the revaluation reserve or the capital adjustment account. Their purposes are clearly prescribed, and they are not available for the Council to use.

Usable reserves, however, are available for the Council to use for discretionary or specific purposes - such as supporting service delivery, mitigating risk or providing for future investment or other expenditure. These reserves fall into two broad categories, earmarked reserves and the general fund.

The Council's strategy for its usable reserves, approved by Cabinet, is in three parts:

- setting a balanced budget
- alignment with risks
- allowing opportunity for investment.

The first element of the Council's strategy is not to use any of its reserves to balance its budget strategy. The in-year budget must be sustainable and balanced without using one-off sources of finance. Reserves can only be spent once and if used, consideration will need to be given to how they are replenished.

The second part of the strategy is to align reserves with strategic risks and the general risk of unforeseen and pressing activity causing short-term budget pressures. To a certain extent, this latter part is what the general fund is for, but other earmarked reserves are established for specific risk mitigation – insurance being the most commonly quoted example.

The third part of strategy is establishing funds which the Council can use to invest. There are many opportunities for investment and the Council will need to consider carefully how and in what ways it wishes to invest. This could be as simple as a piece of treasury management activity, or a more complex project where the Council invests in spend-to-save initiatives because it will have a positive impact on the revenue base budget. Parameters for potential investment decisions are not considered here, only the establishment of the fund.

Earmarked reserves

Earmarked reserves are set aside for specific purposes and each of these is set out clearly in the Cabinet outturn report for 2020/21. Responsibility for advising Council on the adequacy of reserves rests with the S151 Officer. The level of earmarked reserves is reviewed at least twice each financial year, once during closedown/accounts production and once during budget setting.

The S151 Officer is required to give an assessment of the adequacy of reserves as part of the assurance work around the budget each year.

General fund

The general fund is unearmarked and is therefore available for any purpose that the Council deems appropriate. Councils will generally establish for themselves, a lower limit on their general fund as well as an upper limit, and by default, therefore, an operating range in between the lower and upper limits.

Dorset Council's strategy is to set its lower limit at 5% of the budget requirement and its upper limit at 10%. For 2021/22, the budget requirement was £312.4m giving rise to a lower limit of £15.6m and an upper limit of £31.2m. The Council closed the year ended 31 March 2020 with a balance of £28.2m on the general fund. The operating range and limits are revisited each year as part of budget strategy and medium-term financial planning.

Outturn 2020/21 (context)

The draft outturn for 2020/21 (still unaudited) was [reported](#) to Cabinet on 22 June 2021 and set out that the impact of the pandemic and other events meant the Council drew down almost £15m from its general fund to support the response and recovery efforts. This was immediately topped-up as part of the development of the new reserves strategy, through rationalisation of other reserves, to the £31.2m set out above.

Covid-19 had a significant – and continuing - impact on the funding flowing to and through Dorset Council and this will result in unusually high levels of activity, transactions and balances in some cases. It is therefore imperative that the Council classifies its information correctly and is transparent about the impact the pandemic has had on its finances and financial information. This was set out in the Qtr1 financial management [report](#), in the budget and MTFP update [report](#), and in the Qtr2 report to which this document is appended.

As part of the emerging financial strategy response, Cabinet also declared it necessary to set aside significant reserved funds for potential risks around council tax and business rates collection in future. Moving out of lockdown does not mean everything will return to normal for collections (for example). This will require a clear and strategic review of the general fund as well as earmarked reserves, now that we are some way into the life of the unitary Council.

Contingency budget

As well as reserves, the Council has a contingency budget as part of its arrangements to manage risk in any particular year. As well as helping to address unforeseeable costs that arise during the year, the contingency budget also supports short-term changes in corporate policy, such as the suspension of automatic inflationary uplifts on contracts, where an amount was held in contingency to manage any price pressures which were essential.

In the early years of Dorset Council, the risks are inherently higher, so the contingency fund has been maintained at a relatively high value to reflect this. As the organisation matures, it is reasonable to expect that departmental base budgets will be able to be set on a much more sustainable basis and the need for contingency will reduce. This theme will be developed further during the 2022/23 budget round.

Resilience

Each year, following submission of the RO forms, CIPFA produces a set of resilience indicators for local authorities. CIPFA's Financial Resilience Index is a comparative analytical tool designed to support and improve discussions surrounding local authority financial resilience. The index shows a council's performance against a range of measures associated with financial risk.

The most recent data is for the year 2019/20 and therefore provides a pre-COVID baseline to show the resilience of authorities as they entered the pandemic.

For Dorset, the indicators show that we are not outliers in any particular measure and that although there are areas where we will want to focus when we prepare the budget strategy and MTFP for 2022/23, there are no areas of specific concern.

Comparison with prior years is not possible as 2019/20 was Dorset Council's first year of operation, but in setting financial strategy for future years, the Council will want to give consideration to the indicators of financial stress in order to improve those where resilience is relatively lower, or perhaps take a different approach where it is higher. For example, gross external debt and interest payable are both relatively low, indicating that the Council could explore the investment potential that might come from additional borrowing.

Dorset Council's resilience indicators can be found [here](#).

Medium Term Financial Plan (MTFP)

Each year the Council formally publishes its MTFP (five years) as part of the budget strategy. The plan focuses on how the Council will deliver a balanced budget for the year ahead and also sets out remaining gaps in the financial forecast over the following four years.

The planning and budgeting process is member-led and although it can be thought of as a continuous process, it officially starts each in July with a formal update of the financial model and assumptions being shared with the Portfolio Holder for Finance, then the Cabinet, then all Councillors.

Through an iterative approach to refining information about costs and income, council tax, business rates and other sources of funding, an initial gap is established which is shared with Cabinet and which is the starting point for action planning as part of agreeing a balanced budget.

The budget strategy and MTFP report for 2021/22 can be found [here](#). It is also worth setting out that as part of agreeing the budget, all councillors are invited to briefings on the budget prior to detailed consideration by the Council's Place & Resources, and People & Health Scrutiny Committees. Both of these Committees make recommendations/observations to the Cabinet as a result of their scrutiny and Cabinet responds as part of the process of agreeing a budget to recommend to full Council in February each year. For 2020/21, these recommendations can be found in Appendix 7 of the budget strategy report.

Transformation and tactical savings

The Council's [Transformation Plan](#) has been refreshed and was approved at the November 2020 Cabinet meeting. We will ensure that spend to save opportunities continue to be integrated into the financial planning process to ensure investment comes at the right time to ease pressure on the revenue budget. This will happen through the CSAM Group as well as through the MTFP process.

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.

An initial transformation fund of £5m was established from repurposing of predecessor Councils' reserves during Dorset Council's first year. That fund has been fully committed and ambitious plans are in place to deliver £9 of transformation savings and £18m of tactical savings from the base budget in 2021/22.

A review of progress against savings targets for 2021/22 is in progress and will be included in the Qtr1 Cabinet financial management report.

Capital strategy

The Council approves a capital strategy statement each year as part of the budget setting process. The capital strategy for 2021 to 2026 was set out in appendix 3 to the Council's budget strategy paper [here](#).

The Council's capital strategy is concerned with how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability and resilience.

Decisions made in any particular year on capital and treasury management will have financial consequences for the Council for many years to come. They are therefore subject to both a national regulatory framework (the Prudential Code) and a local policy framework, summarised in the budget strategy report.

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

The capital programme in any period comprises

- projects funded fully by external funds (or grants)
- projects that are partially funded by external grant
- projects that are funded from the Council's own resources.

Each of these areas attracts different levels of scrutiny from Councillors in different arenas. The capital grant provided for schools, for example, is delegated to the Director of Children's Services and is reported to Cabinet but does not require their approval – or the same level of scrutiny – as projects which are financed by borrowing.

In agreeing its capital strategy for the period ahead, the Council will consider

- the impact of financing the capital programme on the revenue budget
- the feasibility of delivering everything that is requested
- how to prioritise spend and align it with the stated objectives in the Council Plan
- what level of capital investment is required as “replacement”
- what level of capital investment is required for new or alternative service delivery
- how can investment have a sustained, positive impact on the revenue budget and improve services for residents
- future ways of working, surplus assets, and the potential level of capital receipts.

Treasury, investment & borrowing strategies

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

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services Code of Practice* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. The treasury strategy is generally incorporated into the annual budget strategy report to Cabinet/Council to ensure approval.

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

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

As the capital strategy and programme develop and become more challenging, the approach to borrowing is likely to become more sophisticated, particularly in light of the relatively low risk around borrowing and interest, highlighted by the CIPFA resilience index.

The latest strategy can be found [here](#).

Asset management strategy

Dorset Council's property strategy and asset management plan was approved by the Cabinet in November 2020.

The Council has a wide and diverse variety of property interests geographically spread throughout and across Dorset. The Council Plan identifies that the effective utilisation of the Council's property assets forms one of the six transformational programmes that the council is undertaking. The Council's primary aims are to:

- rationalise the property estate, reduce costs and identify assets that are suitable for disposal or redevelopment
- improve the condition of the estate and reduce its environmental impact
- adapt the council's office accommodation in order to alter its estate and modernise its workspace to meet the needs of future agile working and the aims of the Dorset Workplace
- seek to maximise the value of the estate by creating income generation opportunities, disposing of or repurposing poor performing assets in order to create greater social, commercial and economic returns.

In addition, the Council aims to build on the principles of 'One Public Estate' programme and work in collaboration with other public sector partners to utilise assets to

- create economic growth (new homes and jobs)
- deliver more integrated customer focused services through joint provision
- generate efficiencies through capital receipts and reduced running costs.

As one of the largest land and property owners within Dorset it is recognised that the Council is in a unique position to work with partners to lead and deliver strategic regeneration and that significant potential exists within its property base which can be used to help meet the Council's housing targets and the financial challenges the Council faces, in particular, from an ageing population.

In order both to achieve its wider goals and in the face of continual financial pressures the Council needs to review the size, efficiency and occupation of both its operational and commercial estate and have a clear mechanism, rationale and process for determining property need, the best use of property and ensuring it achieves best value from its estate through disposal or re-development of assets.

As part of its strategy the Council will either utilise its own resources, consider different delivery models or work in partnership/collaboration with others where appropriate and in such circumstances that will allow the Council to generate greater returns and benefits, mitigate risks and access resource and expertise in order for projects to come forward at a greater scale and pace over the coming three to five years.

The property strategy and asset management plan is [here](#).

Commercial strategy

The Council's commercial strategy, policy and approach is developing under the Commercialisation Transformation Programme [[Commercialisation \(sharepoint.com\)](#)] through a commercial steering group, supported by officer networks. Predecessor councils each had their own strategies, but it was felt that the establishment of Dorset Council gave an opportunity for the organisation's approach to commercialism to be renewed through an officer group with a view to new opportunities and attitudes.

The commercial strategy is being developed through four themes each of which are captured under the general heading of *being more commercially minded*. This is developing through four themes, as illustrated below



The aims and objectives of each of the *being more commercially minded* themes that will support the Council to adopt a commercial approach. These are complimentary to the principles set out in the new Commercial Strategy – Commissioning and Procurement as well as supporting Council's priorities of: economic growth; unique environment; suitable housing; strong, healthy communities; and staying safe and well.

Strategy principles being:

- people, skills and development
- effective commissioning
- strategic sourcing
- contract management
- partnership working
- maximising the Dorset pound
- climate and ecological emergency.

More detail on the commercial approach will be included here as it emerges but the approach to the four themes can be summarised as:

Theme 1 - behaving in a more business-like way

Aim: Adopting some of the positive culture and behaviours that are associated with commercial organisations

Objectives

- more effective contract management
- understand income and cost drivers
- a focus on the costs and benefits when making business decisions
- a measured appetite for risk
- knowledge of target markets

- knowledge of brand values
- assess how competitors and suppliers are behaving
- empowering and skilling the workforce
- know what factors drive and influence suppliers
- focus on the outcome and not just the process.

Theme 2 - being business friendly

Aim: To promote local growth and prosperity

Objectives

- grow awareness on how to sell to Dorset Council
- strengthen connections with Dorset Chamber and Federation of Small Businesses
- create opportunities for market engagement, e.g. meet the buyer
- work with partners within shared local supply chains.

Theme 3 - commissioning as one council

Aim: Identify needs, develop service models and the market to meet those needs in the most cost-effective way as One Council

Objectives

- develop and adopt best practice commissioning consistently across the Council
- address siloed nature of commissioning
- share commissioning intentions across services
- support a thriving market for all sectors
- focus on what is strategically important
- create smarter, more flexible contracts.

Theme 4 - making money

Aim: *Doing something that generates profit*

Objectives

- make the most of opportunities
- maximise income for current chargeable services
- establish a central record of all commercial income streams.

Procurement strategy

Dorset Council's current procurement strategy was agreed by the Cabinet in September 2020 after scrutiny by the appropriate committees at that time. A new strategy was needed as the Council wanted to set out principles in terms of the approach to procurement and encompasses a corporate approach to social value to help maximise the Dorset Pound through procurement outcomes such as economic, social and environmental.

A Corporate Procurement Strategy is the mechanism to ensure that procurement takes place in accordance with the Council's strategic aims, that it is effective and delivers best value. The Council is required under the Public Services (Social Value) Act 2012 to account for social value in its commissioning and procurement. The agreed strategy provides key principles and actions to embed practical and effective commissioning that includes a corporate approach to applying Social Value and Corporate Social Responsibility within procurement.

More recently, with the establishment of the Commercialisation Transformation Programme, the Council is to bring together more cohesive framework for evaluating resourcing decisions and outcomes in respect of all commercial related activities, this is to include bringing together a Commercial Board to provide oversight .

The current Corporate Procurement Strategy is [here](#).

The Commercialisation Transformation Programme has proposed a revision to the current procurement strategy with the intention of putting more emphasis on commercial and commissioning. Revised title being Commercial Strategy – Commissioning and Procurement. Proposed revisions include: the introduction of the concept of “Being more commercially minded” as set out under the Commercialisation Transformation Programme; more emphasis on effective commissioning to ensure that cost, quality, environmental and social value are early consideration as part of establishing best value; and outlining the requirements of the National Procurement Policy Statement (NPPS)*.

On 17th September 2021, Place and Resources Overview Committee received and considered a report which provided details on the proposed revisions. The Committee agreed a “Minded to” recommendation that Cabinet on 8th November 2021 approved the revised Commercial Strategy – Commissioning and Procurement.

Committee papers: [Place & Resource Overview Committee](#)

*National Procurement Policy Statement (NPPS)

A head of what is the Public Procurement Reforms, the Government's National Procurement Policy Statement sets out that contracting authorities procurement activity must support the delivery of national public sector priorities including generating economic growth, helping our communities recover from Covid-19 pandemic, and supporting the transition to net zero carbon. The importance of efficient, effective public procurement has been underlined by Covid-19 pandemic and that it can play a significant role in the country's economic recovery.

The proposed revised Strategy reflects that the Statement instructs that contracting authorities should have regard to the following national priorities:

- Social Value
- Commercial and procurement delivery
- Skills and capability of procurement

Details on NPPs is [here](#)

CIPFA FM Code

Dorset Council supports the CIPFA Financial Management Code. The code is intended to:

- be a catalyst for improvement and ambition
- improve financial sustainability
- support finance professionals
- encourage greater organisational responsibility.

The code's themes are underpinned by six principles; again, all are supported by Dorset Council:

- organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture
- accountability – financial management is based on medium-term financial planning, which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs

- financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported with appropriate frequency and with evidence of periodic officer action and elected member decision making
- adherence to professional standards is promoted by the leadership team and is evidenced
- sources of assurance are recognised as an effective tool mainstreamed into financial management and include political scrutiny and the results of external audit, internal audit and inspection
- the long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

The Council is working towards providing an evidence base of how it performs against the 17 standards set out in the code and flowing from the six principles. This work in progress is supported by the recommendations from the peer review.

The Council is also in conversation with its external auditor, Deloitte, about the evidence that is being sought to demonstrate that we are working towards the full implementation of the code as part of the audit of the 2021/22 financial statements.

The Council acknowledges that there is still much work still to do in this area, but we feel we are on the right track and the work of the peer review team has been valuable in raising the profile of this code and the culture that it strives to engender in the organisation.

Continuing funding challenges

It has been clear for some time that local government as a sector will continue to face funding challenges. There is no silver bullet to solve the gap between needs and resources and the need for well thought out financial strategy underpins this reality.

This financial strategy is being developed as the Council manages the second consecutive year of one-year settlements and short-term spending reviews and steadies itself in preparation for the outcome of a three-year spending review (and hopefully, a three-year settlement). Formulation of longer-term plans has been extremely challenging in the prevailing environment of single-year settlements which have made major policy shifts and transformation difficult to model and implement.

A change of course is always a possibility with resources being secured only for the short term, at short notice at a time when there is so much turbulence arising from the exit from the European Union and the recovery from a pandemic to name but two factors.

However, the Council is optimistic that with the forthcoming spending review outcomes, and a positive settlement for Dorset Council, formulation and iteration of strategy can help inform how the organisation allocates resources across its many, competing priorities, notwithstanding the huge risk surrounding the *build back better* programme.

Council tax

According to the [Live tables on Council Tax - GOV.UK \(www.gov.uk\)](https://www.gov.uk/live-tables-on-council-tax) Dorset Council has the ninth highest, band D council tax charge in the country.

Most Dorset Council members are broadly aware of being a relatively high-charging authority and should be aware of the reasons for this – a historically low level of general grant from Government, followed up with a draconian approach to cutting revenue support grant adopted as part of the four-year settlement announced in CSR2015.

A briefing was included in the [budget update paper](#) to Cabinet in January 2016 which sets out how this happened and the impact it had on what was Dorset County Council at the time.

Council tax is a strategically important source of income for all councils, but even more so for those like Dorset, where a relatively greater proportion of income is from this source. The tension between increasing council tax – and the social care precept – is therefore not a decision that this Council takes lightly, and great consideration continues to be given to the balance between savings, cost pressures, service costs and transformation.

Dorset Council's band D council tax for 2021/22 is £1,779.39. If the Council to set a target of dropping out of the top 20 highest charging councils by freezing its council tax, it could do this in four years if the other, current top 20 increased their council tax by 1% each year, or in two years if they increased by 2%.

Clearly any ambition to reduce council tax in real and relative terms would need to be balanced against the savings that this would require across services. Each 1% of council tax is worth £2.64m in 2021/22, so over the two years that a 2% freeze might be required, this would mean £10.6m in council tax foregone in the base budget.

Major Financial Risk

The overspend on the Special Education Needs (SEN) High Needs Block (HNB) is the single largest financial risk facing Dorset Council.

- The High Needs Block has been overspending for five years.
- By the end of 2019-20, the cumulative deficit totalled £21.9m, and this was held in the accounts as a negative reserve, in accordance with regulations.
- The High Needs Block overspend for 2020-21 was £17.2m, which increased the cumulative deficit to £39.1m at the end of 2020-21.
- Our biggest pressure is in unit cost per child, emanating from an externalisation of placements due to inadequate sufficiency of places.

The Council has developed a recovery plan which, even if successful, predicts that the HNB budget will break even in 2025/26 with a cumulative deficit at that point of £70.3m.

The current statutory instrument is scheduled to end in 2022-23, and from April 2023 responsibility for accounting for and funding the deficit could transfer to Dorset Council. In this situation the accumulated deficit would need to be backed by a revenue reserve, forcing dramatic changes to the Council's services and plans, and putting it at significant financial risk. Furthermore, the in-year deficit would need to be funded by the local taxpayer rather than nationally funded education budgets.

In addition to the HNB, the build back better programme represents a huge risk to Councils. Despite being hailed by Government as the fix for health and social care, the programme strives for outcomes which will place significant additional burdens and costs which are as yet unquantifiable, upon councils. These include:

- the likelihood that the increase in employers' costs ushered in by the social care levy, will simply be passed to councils as the principal purchaser of care services;
- the requirement for additional, more complex financial assessments to be carried out as a result of the care costs cap, meaning significant demand for additional assessment resource by all councils with care responsibilities;
- the right of self-funders to require councils to broker their care at the same rates as the councils themselves pay, meaning an upward pressure on council contract rates is inevitable.

Next Steps

Considerable progress has been made in developing the financial arrangements within the Council since it was established in April 2019. Whilst responding to the pandemic has delayed progress, the organisation remains committed to continuous improvement.

The current forward plan of operational and strategic issues which need to be addressed is detailed below. This is supported by the findings of the LGA peer review:

- Surviving the pandemic and resetting the organisation's financial strategy
- Consolidating and right-sizing finance team and functions
- Expanding digital by default agenda further into operations/processing/customer interface
- Building resilience, competence and confidence in the finance team
- Embedding strong financial management throughout the Council as part of our culture
- Providing excellent decision support to the Council's leaders and managers
- Completing the audit of the first year's accounts and resetting the balance sheet

- Rationalising reserves and aligning funds with risk and investment requirements
- Refreshing and maintaining the long-term financial plan and financial strategy
- Delivering a balanced budget for 21/22 (and future years)
- Supporting delivery of tactical and transformational savings
- Developing the organisation commercial approach and behaviours
- Concluding arrangements for Revenue & Benefits Services
- Provide the financial support required to address the High Needs Block overspend
- Provide great financial support and impact within Adult Social Care
- Influence the development of the local integrated care system to ensure the health and care system improves for residents and taxpayers.