

Cabinet

18 January 2022

Budget strategy and medium-term financial plan (MTFP)

For Recommendation to Council

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

Local Councillor(s): All

Executive Director: A Dunn, Executive Director, Corporate Development

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Report Status: Public

Recommendation:

Cabinet is asked to agree and to recommend to Council:

1. the revenue budget summarised in Appendix 1;
2. the increase in general council tax of 1.998% and 0.996% in the social care precept, providing a band D council tax figure for Dorset Council of £1,832.67; an overall increase of 2.994%;
3. no change to the current scheme of Local Council Tax Support as set out in this report;
4. the capital strategy set out in Appendix 3 and the capital programme set out in Appendix 4;
5. the treasury management strategy set out in Appendix 5;
6. the assumptions used to develop the budget strategy and Medium-Term Financial Plan (MTFP) as set out throughout this report and summarised in Appendix 6;
7. the recommended balances on earmarked reserves and on general funds, including the minimum level of the general fund;
8. the addition of £4.4m from the settlement into the contingency budget, until there is clarity around further costs of implementing national reforms and as a hedge against emerging cost pressures;

9. in making these recommendations Cabinet is requested to consider and agree the responses to the recommendations and comments made as part of the budget scrutiny process (Appendix 7);
10. to note the concern around the cumulative overspend on the High Needs Block (HNB) and more importantly, the impact that an unmitigated transfer of this deficit to the Council will have on its financial position when the statutory instrument falls away, as currently scheduled, on 1 April 2023.

Reason for Recommendation

The Council is required to set a balanced revenue budget, and to approve a level of council tax as an integral part of this. A balanced budget is essentially one where all expenditure is funded by income without unsustainable use of one-off, or short-term sources of finance.

The Council is also required to approve a capital strategy, a capital programme and budget, and a treasury management strategy, each of which are included with this report.

The draft budget proposals have been considered by the Place and Resources Scrutiny Committee and by the People and Health Scrutiny Committee and their recommendations are set out in appendix 7 for Cabinet consideration.

1. Executive summary

This report sets out proposals for Dorset Council's 2022/23 revenue and capital budgets and summarises the medium-term financial plan (MTFP) which covers the following four years to 2026/27. The report also includes the capital strategy and the treasury management strategy.

The budget proposals are built around the priorities identified in the Dorset Council Plan and were considered by the Dorset Council Scrutiny Committees on 10 December 2021 and 7 January 2022. This paper contains details of Cabinet's responses to the matters raised by those committees.

This budget reflects a continuation of the theme of previous Dorset Council budgets, to prioritise resource allocation into front line services wherever possible and this is reflected in the areas of growth set out in the analysis in this paper. This year's budget setting exercise takes place against a continuing, national background of extreme pressures for councils resulting from the coronavirus pandemic alongside demand and price pressures already in the system. As well as Covid-19, councils continue to face escalating demand for core services; not just locally, but nationally as we aim to support increasing numbers of residents that need services to help keep them safe and well.

This paper provides an update on funding announced in the local government finance settlement on 16 December 2021.

2. Financial implications

All covered within the report.

3. Well-being and health implications

None specifically identified in this report.

4. Climate implications

The Council gives consideration to the declared climate and ecology emergency in all its operating and financial business. Further detail on capital and revenue resources being allocated to respond to the climate and ecology emergency are set out in this report.

For clarity, it should be noted that this report does not include any aspect of the business of Dorset County Pension Fund which is managed separately from the Council's business.

5. Other Implications

None specific.

6. Risk assessment

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

Current Risk: High

Residual Risk: Medium

The Council is required to set a balanced budget. The financial climate remains extremely challenging, and the risks therefore remain high for all local authorities as we continue to deal with the pandemic.

In 2021/22, Dorset Council still faces a budget shortfall after grants and reliefs from Government and although the picture is improving, we must remain alert to the risks and volatility. We continue to press Government for additional funding and the Department for Levelling-Up, Housing & Communities (DLUHC) continues to gather data for the sector as we provide evidence that funding has not kept pace with additional costs, lost income and savings opportunities foregone as a result of dealing with the Covid-19 pandemic response, on top of business as usual for the last 21 months.

The provisional local government finance settlement was slightly more positive than the Council had budgeted for at headline level, and additional resources have again been incorporated into the budgets for people services being delivered to Dorset Council's residents as a result. However, the unpredictability and volatility of demand and the price sensitivity of some of the complex services provided means that the budget can be significantly impacted by small changes in (for example) the numbers of looked-after-children or the numbers of adults needing support to live well at home.

The short-term nature of the settlement (one year) is again, a risk and affects our ability to plan for strategic service delivery in the longer term, as effectively as we would like. This Council continues to call for a longer-term, rolling settlement which would provide the certainty over resource levels that we need.

Despite these risks, the mitigations that the Council has in place and the governance framework around strategic and financial performance means the S151 Officer deems the risk to be *medium* in the short-term, though there are clearly pressures building in the MTFP and specifically around the HNB of the Dedicated Schools Grant (DSG).

7. Equalities impact assessment

The budget is a framework for the Council to achieve its priorities and the requirement to achieve a balanced budget is delivered through a number of key assumptions, and the delivery of programmes of transformational change.

The overall budget framework has not been the subject of a separate equality impact assessment but the programmes and changes upon which delivery of the budget will depend will themselves be assessed.

8. Appendices

1. High-level consolidated revenue budget summary and directorate budget summaries
2. Council tax resolution **(for the Council report only)**
3. Capital strategy 2022-2027
4. Capital programme budget summary and financing
5. Treasury management strategy 2022/23
6. Summary of financial planning assumptions
7. Response to the issues raised by the Scrutiny committees

9. Background papers

Quarterly financial management reports to Cabinet

MTFP and budget report to Cabinet 5 October 2021

10. Introduction, context and priorities

- 10.1 Dorset Council adopted the Dorset Council Plan 2020-24 in February 2020. The plan continues to be reviewed and updated, and the priorities for Dorset set out in that plan, to deliver the vision of Dorset a great place to live, work and visit, are:
- climate and ecology – we will take direct action across our operations to become a carbon-neutral Council by 2040, and through our wide-ranging services and partnerships, to facilitate the changes required for the whole of Dorset to become carbon-neutral by 2050, and to protect and enhance biodiversity across Dorset.
 - 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 improve access to and use of Dorset's environment, in a sustainable way which protects it for future generations
 - suitable housing - we will work with registered housing providers, community land trusts and local housing partners to deliver affordable, suitable and decent housing
 - strong, healthy communities - we will work with residents and partners to build and maintain strong communities where people get the best start and lead fulfilling lives
 - staying safe and well - we will work with all of our residents to have a good quality of life.

- 10.2 Aligned to the Dorset Council Plan, Cabinet approved the Transformation Plan, which described the approach that the Council would take to redesigning services, so that the Council's priorities could be met with the funding available.
- 10.3 Significant progress has been made in delivering on these priorities. However, the Covid-19 pandemic continues to prove to be a huge challenge and the impact of the pandemic on the Council's financial position and performance has been dramatic as income levels have fallen while expenditure has increased. There is still a substantial amount of risk and volatility around our assumptions, but our latest forecasts for 2021/22 continue to show improvement and the recent Spending Review was broadly positive despite significant amounts of detail still being unclear until the local government finance settlement is/was received.
- 10.4 The Council continues to face cost pressures, specifically but not exclusively from Covid-19, and these have been well documented in quarterly financial management reports to Cabinet and in the budget update provided in October. It is becoming increasingly difficult to differentiate between costs that are driven by Covid-19 and other pressures, so the finance team is no longer carrying out this kind of analysis. Government continues to provide some financial support in 2021/22 but the detail of the finance settlement will be critical in assessing the Council's future service strategy.
- 10.5 The challenge for 2022/23 and beyond continues to be how will the Council achieve a balanced budget whilst continuing to provide high quality services for the residents of Dorset?

11. Environmental volatility and uncertainty and budget assumptions

- 11.1 It is extremely difficult to estimate how future Covid-19 impacts will be felt by local authorities. However, we are required by law to set a balanced budget and we must build our MTFP and budget strategy with the best information and knowledge we have available.
- 11.2 This is an unprecedented year, and this is borne out by the potential volatility in our financial assumptions. Some of these have moved quite significantly in recent months of planning, particularly around general inflation, pay assumptions and council tax strategy (social care precept). The latest budget assumptions are shown in the table in appendix 6 and are set out alongside those originally used.
- 11.3 Pay inflation has been estimated at 2.25% but will be subject to national agreement.
- 11.4 An average of 2% has been applied across a range of supplies and services budgets to provide for some general inflation. However, this will not be applied automatically to all contract increases. The Council expects a continuation of good contract management practice with suppliers to ensure productivity, efficiency and sustainability are also reviewed at the same time as the scope for price increases. The Council's budgets are essentially cash limited and we cannot therefore afford to award full inflationary uplifts for all service contracts.

- 11.5 As well as general inflation, the budget proposals make provision for further, specific inflation where we know that this is going to be necessary – and in some cases, where we have received specific grant from Government to deliver this, such as the expectations around increases in care markets resulting from increases in the minimum wage. A summary of price increases built into the budget across directorates, in addition to general inflation, is shown in the table below.

Price increases	Adults	Childrens	Place	Corporate Total
Streetlighting contract uplift and increase in energy in addition to energy uplift given			£504,068	£504,068
Potential external placements (CiC) price movement		£1,229,858		£1,229,858
Adult Care Packages	£6,695,393			£6,695,393

- 11.6 An average increase in fees and charges that the Council charges has also been estimated at 2.5%. For some services the charges will be higher, and lower in others, however, 2.5% is the overall target that is proposed.

12. Spending Review 2021 (SR21) and the provisional local government finance settlement

- 12.1 The Chancellor of the Exchequer announced the broad outcomes of the Government's Spending Review with the budget, to Parliament on 27 October 2021 and subsequently, on 16 December 2021, the Secretary of State for Levelling Up, Housing and Communities, Michael Gove, provided a [statement](#) to Parliament regarding the provisional local government finance settlement for 2022/23.

- 12.2 The statement set out that “This is a settlement that, at a national level, makes available an additional £3.5 billion to councils, an increase in local authority funding for 2022/23 of over 4% in real terms. This will ensure councils across the country have the resources they need to deliver key services.” Some of the detail is still to emerge but what we understand so far is set out in the paragraphs which follow.

Multi-year spending review

- 12.3 SR21 set departmental expenditure limits for the next three years. We had therefore hoped that local government could expect a similar, three-year finance settlement but this has not been the case. A single-year settlement for 2022/23 is the fourth one-year deal in a row and is disappointing but perhaps not unexpected given Government's wish not to lock-in the impact of expenditure funded through the health and social care levy until work to understand the resourcing implications of forthcoming reforms is better understood.
- 12.4 While this might initially be disappointing from a planning perspective, it is acknowledged that there are still many moving parts in the system, and we would rather Government took a little longer to gather the evidence needed to support better resource allocation for councils with high social care cost and demand pressures.

Local government departmental expenditure limit

- 12.5 At a national level, the Local Government Departmental Expenditure Limit (DEL) is increasing from £50.392bn in 2021/22 to £53.866bn for 2022/23 an increase of almost 6.9% in cash terms and 4.1% in real terms.

- 12.6 This is the £3.5bn increase that the Secretary of State referred to in his statement, but it is important to remember that not all of this is money comes directly from Government to support local service delivery. Some £1.4bn comes from what Government assumes will be the increase in council tax and adults social care precepts raised locally by Councils in addition to funding provided centrally.
- 12.7 Turning to the overall increase, at a national level the figures are set out in the table, below. Further detail on key aspects of some of the specific aspects of the grants follows in the ensuing paragraphs.

Illustrative Core Spending Power of Local Government:			
	2021-22	2022-23	Annual increase
	£ millions	£ millions	£ millions
Settlement Funding Assessment	14,809.7	14,882.2	72.5
Compensation for under-indexing the business rates multiplier ¹	650.0	1,025.1	375.0
Council Tax Requirement excluding parish precepts ^{2,3}	30,326.9	31,728.5	1,401.6
Improved Better Care Fund	2,077.0	2,139.8	62.8
New Homes Bonus	622.3	554.5	-67.8
Rural Services Delivery Grant	85.0	85.0	0.0
Social Care Grant ⁵	1,710.0	2,346.4	636.4
Market Sustainability and Fair Cost of Care Fund	0.0	162.0	162.0
Lower Tier Services Grant	111.0	111.0	0.0
2022/23 Services Grant	0.0	822.0	822.0
Core Spending Power	50,392.0	53,856.5	3,464.5

Settlement Funding Assessment (SFA)

- 12.8 SFA is the local share of business rates and revenue support grant (RSG). Members will recall that Dorset Council receives no RSG – in fact our RSG is negative but this is offset by the Government by using the central share of business rates. This anomaly arose as part of the 2015 spending review (SR2015) and the situation has still not been dealt with on a permanent basis.
- 12.9 Dorset Council continues to campaign for elimination of RSG in its current form, at every opportunity and in our consultation responses. The RSG total, distributable to those still receiving it, will increase by 3.1% this year, further highlighting how the inequity in the formula impacts negatively on Dorset Council.
- 12.10 The Government estimates no increase in our local share of business rates but there will be an additional S31 grant for under-indexation of the business rates multiplier.

Council tax

- 12.11 The announcements have confirmed that the existing arrangements for local referendum limits will continue for council tax – in that a proposal to increase council tax by 2% or more will trigger a local referendum. There was also confirmation that councils could levy up to 1% as a social care precept, on top of any of the original 3% that government had previously provided for over the two-year period to 2022/23.

12.12 Dorset Council's budget proposals include a core council tax increase of 1.998% and an adult social care precept increase of 0.996%. The proposed total increase is therefore 2.994% which results in an annual band D council tax charge of £1,832.67. This is an increase of around £1.02 per week on the 2021/22 charge. The council tax charges proposed for each band for 2022/23, for Dorset Council only, are set out in the table, below.

2022/23	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Core	£1,086.42	£1,267.49	£1,448.56	£1,629.63	£1,991.77	£2,353.91	£2,716.05	£3,259.26
Social Care Precept	£135.36	£157.92	£180.48	£203.04	£248.16	£293.28	£338.40	£406.08
Total	£1,221.78	£1,425.41	£1,629.04	£1,832.67	£2,239.93	£2,647.19	£3,054.45	£3,665.34

12.13 Calculations to finalise the council tax base since the scrutiny paper was circulated have also resulted in a revision to the estimate, with higher growth than was originally expected by around £0.4m. The Council is also anticipating a surplus on the council tax collection fund for 2021/22 and an estimate of this is factored into the 2022/23 budget as one-off funding.

12.14 Whilst the Council makes every attempt to deliver value for money and manage its cost base and income streams effectively, the ever-increasing need for services to residents and communities outpaces our ability to generate sufficient revenues to fund these costs. Dorset Council, and its predecessors were also badly impacted by the changes to revenue support grant (RSG) that were implemented following the 2015 spending review and it was estimated that the County Council alone, lost more than £77m in general funding, at 2010/11 prices, as a result.

Local council tax support scheme (LCTS)

12.15 Dorset Council was established on 1 April 2019 and since then, has applied a 90% LCTS. This was initially agreed by the Shadow Executive and Shadow Council and is subsequently confirmed by the Cabinet and Full Council each year.

12.16 LCTS replaced the National Council Tax Benefit Scheme in 2013. It is means tested and is based on customers' circumstances. If successful, an applicant can reduce their council tax liability by up to 100%. In line with government criteria, the Dorset scheme provides that older people and working aged customers who are vulnerable, may receive a reduction of up to 100% of their council Tax liability. For working aged customers who are not vulnerable, awards are capped at 90%.

12.17 So, for example, a working-age customer who is not vulnerable has a council tax charge of £2,000 per year. Based on their income and household circumstances they are entitled to maximum council tax support. The maximum support is limited to 90% of the charge so their award would be £1,800 and they will still have to pay the remaining £200.

12.18 The cost of the LCTS scheme is met by the collection fund in the same way as Council Tax discounts, exemptions and reliefs. The cost of the scheme for the year 2021/22 has amounted to approximately £29m, though there will be some movement in this number prior to the end of the financial year.

12.19 In preparing this budget strategy report, consideration has been given to the current scheme to assess if it is still fit for purpose. Officers have reviewed

the scheme and propose no changes for 2022/23. We have given full consideration to the effectiveness of the scheme and the impact of Covid-19 on our customers and are satisfied that no proposals for change should be made at this time.

- 12.20 We will continue to keep the scheme under review and bring forward any evidence and proposals for change as these emerge.

Cap on care costs

- 12.21 Nationally, £3.6bn will go to local government over the SR21 period to implement the cap on personal care costs and changes to the means test. This funding will also help local authorities better sustain their local care markets by moving towards a fairer cost of care. Further work and consultation on this is in progress, and there are some further details, below about changes to funding in 2022/23.

Public Health

- 12.22 The PH grant will be maintained in real terms over the SR21 period. We await detail from DHSC to confirm the grant amounts as this funding does not come from DLUHC and is therefore not included in the settlement.

National insurance

- 12.23 On 7 September, the Prime Minister announced the 1.25% increase in national insurance from 1 April 2022, ringfenced for health and social care. This will have a net nil impact on Dorset Council as an employer because we get compensating grant in the settlement as part of the 22/23 services grant. However, suppliers to the Council will experience increases in costs which they will want to pass on to us and their other customers in some way, so careful contract management will be needed.

Public sector pay

- 12.24 SR21 announced that the public sector pay freeze will end in 2022. This is expected to be funded through the settlement via the mechanisms set out above. Dorset Council's pay bill is in the region of £150m, so each 1% increase costs approximately £1.5m.
- 12.25 The national living wage (NLW) will increase by 6.6% to £9.50 from 1 April 2022. It will apply to people aged 23 and above, and the Government continues to aim for a NLW which is two-thirds of median incomes by 2024.

Business rates

- 12.26 The Chancellor confirmed that there would be no process for appeals for changes of circumstances related to the pandemic. There will also be a freeze in the multiplier in 2022/23 and a further 50% discount for retail hospitality and leisure business. There will also be three-yearly revaluations from 2023.
- 12.27 Nationally, business rates yields are not forecast to return to their pre-pandemic levels until 2023/24. This is not inconsistent with Dorset Council's own model and Members might recall a specific reserve being set up at the end of 2020/21, to provide support for lost business rates over the MTFP period.

Education and training

- 12.28 The DfE settlement provides a cash increase of £18.4bn over the life of the parliament to £86.7bn in 2024/25. This includes an additional £4.7bn for the schools' budget over that period.
- 12.29 The Government also used the budget statement as an opportunity to reaffirm its commitment to a long-term school rebuilding programme, rebuilding 500 schools in England over the next decade. We await the detail of this confirmation.
- 12.30 £1.8bn of funding will be available over the spending review period, targeted directly at education recovery. There will also be £1.4bn for tutoring courses for disadvantaged pupils and to expand existing teacher training and development, progressing the Government's ambition to train up to 500,000 teachers over the next three academic years. We await the detail for Dorset Council.

Children's social care

- 12.31 There will be £500m nationally to support parents and carers in England, this includes £200m to support those with complex issues £82m to fund advice and support centres, £100m for mental health support and £50m for breastfeeding support.
- 12.32 There will also be £200m to support the holiday activities and food programme and £259m over the spending review period to maintain capacity and expand provision in secure and open residential homes for children.

Transport

- 12.33 There will be £2.7bn nationally over the next three for local roads maintenance, though this is not all new money. There will also be £3bn of bus investment across the remainder of the parliament including a new, dedicated commitment of £1.2bn for bus transformation deals in England, and a further £355m new funding for zero-emissions buses.

Improved better care fund (iBCF)

- 12.34 Nationally there is a cash increase of £62.8m in the iBCF. Locally this inflationary uplift benefits Dorset Council by around £0.4m. The increases in cost associated with this additional grant are already included in the Council's budget estimates.

New homes bonus

- 12.35 Despite a year-on-year reduction in the national funding for NHB, Dorset Council's share increased by £2.1m to £3.8m. This increase had been anticipated in the budget proposals that were developed for scrutiny so there is no further funding to account for.

Rural services delivery grant

- 12.36 RSDG is maintained at its 2021/22 level which is £2.5m for Dorset Council. This was anticipated in the budget proposals developed for scrutiny.

Social care grant

12.37 Government has confirmed that there will be an additional £0.7m available for social care in 2022/23. £63m of this comes through the iBCF (see above) with the remaining £636m coming as additional social care grant.

12.38 For Dorset this increases funding year-on-year by £4m to £13.3m. The majority of costs associated with this increase in funding have already been built into the budget proposals so this funding will help to reduce the budget gap that this brought about.

Market sustainability and fair cost of care fund

12.39 The Government outlined at Spending Review 2021 that social care reform funding would be part of Core Spending Power. In 2022/23, this will be the Market Sustainability & Fair Cost of Care Fund worth £162 million. The Government is consulting on the methodology for distribution of this fund, with a preference for the existing adult social care relative needs formula.

12.40 The 2022/23 funding is to ensure local authorities prepare their markets for reform and move towards paying providers a fair cost of care, according to local circumstances. Government expects local authorities to carry out activities such as:

- a cost of care exercise to determine sustainable rates and identify how close they are to them
- engage with providers to improve data on operational costs and number of self-funders to better understand the impact of reform on the local market
- strengthen capacity to plan for, and execute, greater market oversight and improved market management to ensure markets are well positioned to deliver reform ambitions; and
- use this additional funding to genuinely increase fee rates, as appropriate to local circumstances.

12.41 The statement makes further funding for this purpose, worth £600 million in 2023/24 and another £600 million in 2024/25, conditional upon the conclusion of the cost of care exercise, a publication of a provisional three-year market sustainability plan on how councils intend to move to a sustainable rate fee and a grant spending report. The Department will make available ongoing support and there will be ongoing monitoring and governance of fund spend that councils must participate in across the three-year period.

12.42 Dorset's share of this £162m national fund is £1.2m but costs are expected to be commensurate, meaning the grant is neutral for the net budget proposals.

2022/23 services grant

12.43 In his statement, the Secretary of State acknowledged that "Local government delivers a range of services that are at the core of every community" as he announced a one-off 2022/23 services grant worth £822m. This is being distributed using the settlement funding assessment (SFA) formula and for Dorset this amounts to £3.1m.

12.44 The grant is not ring fenced and Government intends the allocations for 2022/23 to be one-off and will consult on how best to use and distribute the overall quantum from 2023/24 onwards. The grant includes funding for the

increase in employer national insurance contributions, which Dorset Council estimates will cost around £1m. We cannot make assumptions about how much of this grant will be added to base funding at this stage.

Dorset Council core spending power (CSP) changes

- 12.45 The table below sets out year-on-year changes in the published CSP figures and also shows the difference between the figures assumed in our budget proposals that were prepared for the Scrutiny Committees, and the provisional settlement figures.

Illustrative Core Spending Power of Local Government:				Annual increase £ millions	Comparison with draft budget proposals £ millions
	2021-22 £ millions	2022-23 £ millions			
Settlement Funding Assessment	44.3	44.3	0.0	-0.2	
Compensation for under-indexing the business rates multiplier ¹	2.3	3.6	1.3	2.0	
Council Tax Requirement excluding parish precepts ^{2,3}	263.9	273.9	9.9	-1.8	
Improved Better Care Fund	12.1	12.5	0.4	0.4	
New Homes Bonus	1.7	3.8	2.1	0.0	
Rural Services Delivery Grant	2.5	2.5	0.0	0.0	
Social Care Grant ⁵	9.4	13.3	4.0	4.0	
Market Sustainability and Fair Cost of Care Fund	0.0	1.2	1.2	1.2	
Lower Tier Services Grant	0.4	0.4	0.0	0.0	
2022/23 Services Grant	0.0	3.1	3.1	3.0	
Core Spending Power	336.6	358.5	21.9	8.6	

- 12.46 As mentioned, our estimates of the council tax yield are (£1.8m) higher than the CSP calculation figures which effectively gives us an increase over our expectations of around £10.4m. After allowing for a revised growth in the council tax base, our budget gap was £4.1m, leaving around £6.3m.
- 12.47 Of this remainder, Cabinet has indicated that they wish to support an investment in the Housing Team of around £0.75m (subject to confirmation of a business case for this) and note that the £1.2m market sustainability fund will require commensurate spend.
- 12.48 In order to support a strong Housing Strategy, and to establish Dorset as an excellent Housing Authority, there needs to be investment in enabling the provision of housing at the best value. Currently, £1.2 million is spent on paying irrecoverable costs related to housing people in bed and breakfast and temporary accommodation. We also have more than 300 homeless households in expensive temporary accommodation. In order to fulfil our responsibilities, and to deliver good value, affordable housing for people, it is necessary to support the development of new homes with our Registered Provider Housing Association partners, to find better value temporary accommodation from the private rented sector and explore whether better use can be made of Council capital and assets. The wider aspirations of the Council to find better housing solutions across the population also support investment, and also relates to promoting good housing condition, energy efficiency and high-quality services.
- 12.49 After these proposed allocations, it is important that we do not commit any more funding as we have yet to work through the fine detail of the proposals to understand how much new expenditure, beyond the current budget

proposals, will be needed to satisfy the funding criteria. There is also increasing concern that inflation is building in the economy and this may result in further pressure on budgets, meaning it would be prudent to leave this unallocated amount in the contingency budget for now.

13. MTFP process and budget development

- 13.1 The budget and MTFP approved in February 2021 presented a total budget gap, including planned savings, of £39.4m from 2022/23 to 2025/26, of which £8.9m arose in 2022/23.
- 13.2 Following the revisiting of our assumptions, the financial impact of Covid-19, and accumulating cost and demand pressures, the budget gap moved on, as summarised in the table below, that was presented to Cabinet on 5 October.

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

- 13.3 It was clear that Covid-19 and the other factors mentioned were having a continuing impact on the MTFP and increased the budget gap to £36.1m in the first year. Cabinet gave a clear steer to officers that they should work with portfolio holders and lead members to identify a range of transformational options and efficiency savings that would help to close this budget gap over the autumn.
- 13.4 This figure was significant, but not out of step with others in the sector and particularly closely aligned others in the South West. Interestingly, understating the budget problem was a key factor in recent pronouncements made by Rob Whiteman, Chief Executive of CIPFA. In order to be able to develop effective plans to deal with budget pressures, we must ensure we consider all variables when scoping the size of the task at hand.
- 13.5 Over the ensuing weeks and months, officers worked through a number of savings and transformation options to develop strategic and tactical approaches to closing the budget gap. Much of this was shared with members at two informal briefings in November in order to help officers shape

formal budget proposals. This work enabled the budget gap to be reduced to £4.5m for 2022/23 as shown in the table, below.

Budget Gap as at 17/09/2021	£36,094,113
Adult Social Care precept @ 1%	-£2,658,397
Estimated New Homes Bonus funding	-£2,674,093
Children's additional budget pressures	£1,143,000
Children's efficiency savings	-£2,000,000
Children's transformation savings	-£2,127,501
General inflation	-£3,000,000
Adults transformational savings	-£3,805,000
Adults reduced budget pressures	-£1,489,878
Corporate efficiency savings	-£1,740,600
Place reduced budget pressures	-£1,463,315
Place efficiency savings	-£4,461,200
Reduction of contingency	-£2,500,000
DSG pay & income inflation	-£56,044
Collection Fund	-£3,000,000
Council Tax base	-£1,766,875
Budget gap as at 24/11/2021	£4,494,210

- 13.6 Further work on the council tax base, after the scrutiny report had been prepared, reduced the gap to £4.1m. It was not possible to do this work earlier as Regulations prescribe the date of 30 November for the process to begin.

14. Setting a balanced budget

- 14.1 In the October budget report to Cabinet, we reflected that all budget work needs process and method, and these must be structured around a framework – in this case, a draft statement of principles – to be used in developing the budget. The principles were intended to be constructed as helpful language to be used to describe how we would do our work to balance the budget and take difficult decisions about how to deliver the priorities and outcomes in the Council Plan. The principles are:
- i) we will not balance the budget strategy by using reserves
 - ii) resource allocation will be driven by the Dorset Council Plan and priorities
 - iii) services should be protected where possible but clearly demonstrate value for money and improved efficiency
 - iv) we should seek to maximise the savings from becoming a unitary council
 - v) we will develop short-term and long-term transformational savings plans
 - vi) we will continue to take an increasingly commercial approach
 - vii) we will use best practice around business cases for our decision making and we will be open to invest to save opportunities

viii) budgets should be realistic to achieve the objectives of the council and we must hold ourselves to account for their delivery and sound financial management.

- 14.2 These principles were in turn built upon the Council's priorities as set out in the plan approved by Council and summarised earlier.
- 14.3 Aligned to the Dorset Council Plan, Cabinet approved the Transformation Plan, which described the approach that the Council will take to redesigning services, so that the Council's priorities could be met with the funding available.
- 14.4 Significant progress has been made in delivering on these priorities. However, the Covid-19 pandemic continues to prove to be a huge challenge and the impact of the pandemic on the Council's financial position and performance has been dramatic as income levels have fallen while expenditure has increased. There is still a substantial amount of risk and volatility around our assumptions, but our latest forecasts for 2021/22 continue to show improvement and the recent Spending Review and Settlement were broadly positive despite significant amounts of detail still being evaluated.
- 14.5 The Council continues to face cost pressures, specifically but not exclusively from Covid-19, and these have been well documented in quarterly financial management reports to Cabinet, in specific briefings, and in the budget update provided for Cabinet in October. It is becoming increasingly difficult to differentiate between costs that are driven by Covid-19 and other pressures, so the finance team is no longer carrying out this analysis. More detail on budget movements is shown in the appendices to this paper and these should be read alongside the directorate updates, below.

15. New financial strategy

- 15.1 During 2021/22, as part of the response to the challenge of complex financial management during the pandemic, the Cabinet agreed a new financial management strategy statement.
- 15.2 The previous strategy had been written as a short-term policy prior to LGR and was mainly concerned with seeing the Council through the first year or so as a new organisation. However, the pandemic caused a pause in many areas of work, including on the financial strategy, meaning it was only approved by Cabinet on 8 November 2021.
- 15.3 The [strategy](#) brings together many aspects of the Council's business including financial management, commercialism, procurement, treasury, investments and reserves and is a document which underpins all financial management, including this budget strategy. It is essential reading alongside this report and will be updated annually as part of the budget preparation work.

16. Summary budget proposals

- 16.1 Prior to receipt of the provisional settlement, the budget for 2022/23 was still not balanced. This was mainly because officers had incorporated as much information as they could regarding costs, income and grants, but knew that further, new funding would be coming via the settlement which would improve the position.

- 16.2 Prior to the announcement, the Council had estimated that the amount of grant could be between £3.8m and £9.3m depending on which formula was used to distribute the funds. The actual increase (summarised earlier in this report) was £8.6m, increasing to £10.4m with our own revised estimates of council tax yield. However, some of this comes with further expenditure commitments and as also described earlier, it is recommended that further funding is held in contingency.
- 16.3 Fuller analysis of budget movements and savings is set out in the appendices to this report. If adopted, this budget strategy will deliver a balanced budget in 2022/23 and the following gaps, still to be resolved, for the following years of the MTFP.

Previous Year Budget 2021-22	MTFP Yr1 Budget Setting 2022-23	MTFP Yr2 2023-24	MTFP Yr3 2024-25	MTFS Yr4 2025-26	MTFP Yr5 2026-27
312.407 DC net Budget	331.580	350.523	361.049	370.773	384.387
312.407 DC Funding resources	331.580	335.453	346.489	354.941	363.612
Accumulative Gap					
-0.000 (Surplus) / Deficit	-0.000	15.069	14.560	15.833	20.775

17. Directorate-level context updates

- 17.1 This section of the report deals with the budget contexts for each of the Council's Directorates.

Adult Services & Housing

- 17.2 The overall budget proposed for Adults and Housing is an increase of £13.288m, to £141.251m, an increase of 10.38%.
- 17.3 Adults and Housing have had another year dealing with the continuing pressures of Covid-19, a health and social care system under immense pressure and continuing homelessness. The narrative below provides the context in which Adults and Housing are delivering services which are creating additional budget pressures.

An increase in demand for our services and increasing cost

pressures on providers which means the Council has to buy more care and pay more for it. This is a national issue for all Adult Social Care departments, but Dorset has increased pressures due to demographics and rurality. The average cost of individual packages has increased significantly from pre-covid levels.

An increase in demand related to rising social, economic and health

pressures - including financial hardship, homelessness, mental and physical ill-health, domestic abuse and family or household breakdown. A shortage of available affordable housing in the private and social rented sectors. Increased competition from holiday let and sale market driving rental price increase and limiting availability.

The longer-term impact of Covid on the health system with delays in treatment leading to more people arriving at the Adult Social Care 'front door' in crisis and requiring on average more care.

- 17.4 Despite this, the Adults and Housing directorate has been working hard to manage with what is available and maximising all external funding sources and continuing to provide good outcomes for residents in Dorset.
- 17.5 The 2022/23 budget proposal has been set to provide the Council with a realistic and manageable budget to reflect current and forecast demand and practice. Achieving this baseline means transformation and tactical service change programmes that can be implemented from a stable starting position. The proposed budget is based on local information, evidence and on the national datasets on cost of care.
- 17.6 Analysis by the National Audit Office long-term financial projections for the cost of care in Dorset indicate a 7% year on year rise in the gross cost of care over the next ten years. This is higher than the 4.5% (low) to 5.3% (median) figures published by the National Audit Office in March 2021 which are based on pre-Covid averages for demand and prices in England and Wales. The increase in the gross cost of care to Dorset Council in 2022/23 is estimated to be £10.3m.
- 17.7 The Council notes however that the Government via the White Paper for Adult Social Care is bringing in requirements to bring parity to the cost of care charged to the Local Authority and to self-funding individuals. They are also introducing a care cap of £86,000 from 2023 and raising the minimum threshold to pay for/contribute to care from £23,250 to £100,000 in 2023 so these changes will need to be scoped to ensure the 7% increase proposed is sufficient.
- 17.8 £17.293m of additional funding is required to provide a realistic and manageable budget. This includes pay-related cost increases and utility increases (£1.046m), adult service user placements (£10.3m), additional staffing pressures (£0.069m), base budget for Housing posts previously grant funded (£0.401m) and 2021/22 transformation savings not achieved (£5.477m).
- 17.9 The above pressures have been offset by 2022/23 Transformation savings (£3.805m) and additional Housing benefits savings (£0.200m) to give a net increase to the budget of £13.288m.
- 17.10 The Directorate is focussed on delivering a transformation programme looking at prevention and early intervention and homelessness working with Public Health, aligning services and workforce to further develop locality models, closer working with health, and shaping and stimulating the market.
- 17.11 There are risks within all budgets, particularly those demand led services that sit within Adults and Housing services. All modelling and strategic budget planning has been based on the best information and projections available. However, pressures and demands are subject to change and this can have a significant budgetary impact.

Children's Services

- 17.12 The overall budget proposed for Children's Services is an increase of £2.739m, to £74.481m, an increase of 3.82%.
- 17.13 A key aspect of financial strategy has been to establish budgets that reflect current and planned demand and practice. Achieving this baseline means transformation and tactical service change programmes can be implemented from a stable starting position.
- 17.14 £8.96m of additional funding is required to do this. This covers all pay-related costs, fees and charges and expected utility increases, including the new NI Levy funding requirement (£2.55m), external placements (£2.78m), traded income (£1.29m), the funding for The Harbour (£1.25m), Demand pressures in the Special Guardianship Order (SGO)/Children Who are Disabled service (£0.97m), Delivery of Children Who are Disabled Strategy - Service Manager (£0.075m) and addressing the DSG income budget historic anomaly (£0.052m).
- 17.15 A new financial model for Children in Care has been developed for the 2022/23 budget build. This is based on the children in care cohort at September 2021. Children are removed from the model when they turn 18. An assumption for growth, based on approximately eight new entrants per month (reflecting what is currently happening) is included. Additional funding to cover framework price increases and reflect what is happening with external residential providers is added, along with the 2021/22 budget pressure.
- 17.16 Also, within the model are two plans to reduce the number of children in external placements and to seek permanence arrangements for approximately 30 children in care. These two plans total £1.2m and would be an extra budget pressure if they did not exist.
- 17.17 The model creates a funding envelope of £28.2m for 425 children in care, a reduction on the current number (441 November 2021).
- 17.18 Children's Services have developed an ambitious evidence-based transformation programme comprising five themes: Mockingbird Family model, Holistic Safeguarding, Family Hubs, Our Digital Family Offer and 0-25 Conception to settled adulthood. The transformation programme aims to deliver £14.9m cashable savings over five years, £2.2m in 2022/23. To help deliver this programme £1.6m funding for 2022/23 has been made available (total funding for the programme is £2.5m). The transformation programme started in November 2021. Transformation funding is not a base budget change and therefore is not included in Appendix 1g.
- 17.19 Efficiency savings (tactical) from reviewing services totals £2.09m. This comprises delivery of Children Who are Disabled Strategy - review of provision and services (£1m), Review of Traded Services (£0.6m) and efficiency savings across delivering improvements to packages of support (£0.4m). The ending of pay protection is also included. The combined savings for 2022/23 from the transformation and efficiency is £4.3m.
- 17.20 There are also cost reductions from review of services that will not make short-term financial savings but are part of next year's budget; review of Dorset Council run nurseries and the music service. The second year of The

Harbour project saving has also been included. The business case approved by Cabinet in March 2020 stated 2022/23 savings of £1.9m.

- 17.21 There are risks with all budgets, but particularly those for demand-led services, many of which are within Children's Services. Models and budgets are based on the best information and projections available at the time, however we are working continuously with children and families. Needs and demands can swiftly change, and this can have a significant budgetary impact.
- 17.22 Nationally, demand pressures on Children's Services continues to rise. Recent research commissioned by the County Councils Network (CCN) has estimated the total number of children in care could hit 100,000 by 2025. This would increase the number of children requiring external residential placements. This is not part of our budget proposals as this is not presently happening in Dorset, however this is an important piece of work to acknowledge as part of risk management and service and financial planning.
- 17.23 Our assessment of the national modelling is that this demand risk could translate into a cost pressure of up to £2.8m for Dorset Council. The centrally held contingency fund will be used to mitigate this risk. Consequently, if levels of demand for placements increase above plan during the year, funding will be released from contingency and transferred into the Childrens services placement budget.
- 17.24 Finally, a central theme for Children's Services has been to increase the number of in-house placements. This was a principal driver for The Harbour initiative.

Place Directorate

- 17.25 The overall budget proposed for the Place Directorate is an increase of £6.833m, to £81.77m, an increase of 9.12%. Gross expenditure is around £148.7m, and £66.9m of income is earned.
- 17.26 As would be expected, the approach for developing the Place Directorate budget for 2022/23 takes account of much of the turbulence seen in the current year. Issues include acknowledging and correcting budget issues that have been in place since Local Government Reorganisation, reviewing and acknowledging where savings aspirations cannot be met, uncertainty around commercial income streams in the post-lockdown world and ongoing aspirations for convergence and/or transformation.
- 17.27 The budget process has therefore been one that focuses on a budget that is as realistic as possible whilst acknowledging that affordability constraints and uncertainty in some areas mean that the budget is not risk-free. The major issues in each area are discussed below.
- 17.28 The main components of the budget increase are:
- SEND transport financial pressures £2.915m
 - Other operational financial pressures and savings £1.068m
 - Pay awards, increments, and other non-pay inflation where applicable £2.850m.

17.29 Dorset Council's climate and ecological emergency strategy delivery plan was approved by Cabinet in July. Tackling climate change is everyone's responsibility so the budget proposals for 2022/23 include a significant financial commitment to this. A new Corporate Director will be appointed to coordinate the Council's activities, including:

- overseeing a £10m climate change capital budget
- overseeing the £19m decarbonisation grant
- managing the Council's £750k revenue commitment to climate change
- attracting additional Government funding.

17.30 In Place-Based Services, the current year has benefitted from favourable prices in relation to our recyclate disposal. Forecasting for recyclate prices is notoriously difficult, given the nature of the global markets for supply and demand. Nonetheless, we are proposing an improvement from the current year budget (as set, which turned out to be cautious) and at the same time highlight this as a potential call on contingency to act as a buffer against the market volatility. This is offset by a nationwide uplift in domestic waste volumes – thought to be a consequence of the pandemic, at a cost of approximately £0.5m.

17.31 In Economic Growth and Infrastructure, the focus of the service continues to be the transformation of the planning system, the operations within Dorset Travel (which now include SEND Transport) and providing consistency of parking charges across Dorset. The Planning service faces a number of financial issues, including historical income and staffing budgets which now need realignment.

17.32 For the Assets and Property Service, the focus in the coming financial year continues to be the drive to realise revenue income from the council's asset base whilst realigning the reshaping of the overall portfolio through prudent disposals which provide the council with a capital receipt for future reinvestment.

17.33 In Libraries, Archives and Customer Services the main budget activity has been to reflect the permanent reopening of customer services. This cost is offset by a number of savings proposals across the services.

Public Health Dorset

17.34 Public Health Dorset is a shared service established to provide public health functions to the two unitary authorities, Dorset Council and BCP Council. In order to fulfil statutory duties to improve health and wellbeing, and reduce inequalities in health, both Councils receive a ring-fenced grant from the Department of Health and Social Care. This is passed to councils via the DLUHC. The grant must be used to provide mandated public health services, but it can also be used to support wider interventions to improve health and wellbeing.

17.35 Each of the Councils retains part of the grant to deliver services outside the scope of the shared service agreement, but still within grant conditions.

Corporate Services

- 17.36 The overall budget proposed for Corporate Services is an increase of £613k, to £30.111m, an increase of 2.08%.
- 17.37 The proposals incorporate identified budget pressures of £2.4m offset by cost reductions of £1.8m. The majority of these have come from reductions in contract spend, and changes in staffing structures as the Council continues to benefit from becoming a unitary authority. Further details are identified in Appendix 1.
- 17.38 Corporate Services consists of the Corporate Development Directorate, Business Insight, Intelligence and Communications, and the Legal and Democratic Services teams.
- 17.39 The role of Corporate Services is threefold:
- to provide direct support and services to residents (e.g., the Revenues and Benefits team and the Land Charges Service)
 - to support colleagues in the Place Directorate, in Children’s Services and in the Adults and Housing Directorate so they can provide the best services they can within financial and legal constraints
 - to provide those essential corporate services required of an organisation of our size and scale.
- 17.40 During 2021/22 the department has continued to establish itself after LGR, providing crucial services which have enabled the Council to continue to function throughout the Covid-19 pandemic as well as delivering significant aspects of the front-line response including business grants, enhanced business rates reliefs, and other national initiatives.

18. Transformation and savings opportunities

- 18.1 The October budget report to Cabinet set out that the organisation needed a short-term focus on savings as well as a longer-term emphasis on transformation. This has been brought into sharper focus given that a significant portion of the current transformation savings are not being delivered and the budget gap for next year was significant.
- 18.2 Significant work to develop, test and validate savings opportunities and transformation plans has therefore been carried out – and continues – to crystallise the summary programme set out in the table below.

	Tactical Transformation		Total
People - Adults and Housing	£200,000	£3,805,000	£4,005,000
Corporate Services	£1,807,600	-	£1,807,600
People - Children's	£2,091,700	£2,227,500	£4,319,200
Place	£4,461,200	-	£4,461,200
Contingency, capital financing and other central budgets	£2,500,000		£2,500,000
Total	£11,060,500	£6,032,500	£17,093,000

- 18.3 More work is in progress to identify savings and transformation over the longer term for continuing input into the MTFP and the budget strategy. This

will continue to be reviewed through the relevant Boards and Committees and will dovetail with the timetable set out elsewhere in this report.

- 18.4 The original and supplementary 'invest to save' transformation funds have also been fully committed and if further investment is required, funding must be identified to enable this. Whilst the repurposing of reserves is not currently advocated given the risks around the HNB deficit, it might be that some modest use of reserves can be sanctioned if a robust business case to do so can be delivered.
- 18.5 However, the advice of the S151 Officer is to await the outcome of the 2021/22 financial year to see if any financial resources are available to support short-term transformation investment from current year budgets. From 2023/24, the MTFP includes an annual sum of £5m for modernisation programme delivery and this will fund transformation work from that point on.

19. Risk

General uncertainty, the pandemic and a single-year settlement

- 19.1 There is risk in any set of budget proposals. We are facing a future where we are unclear how the pandemic will play out. Like every council – and Government itself - we are facing a number of potential scenarios each of which carry varying levels of volatility and uncertainty in our planning assumptions. The Government has committed some additional one-off funding to 2021/22 and is attempting to deliver lasting solutions for the medium term. However, while this is still developing, the Council is faced with a further, short-term funding solution for a single year only which makes strategic planning very challenging.
- 19.2 We are limited in what we can do at this stage to mitigate much of the environmental and economic risk, but we will remain focused on delivery of the work programmes required to support services to Dorset's residents, within the budget available. Continuous monitoring of the agreed budget will be key to ensuring we keep abreast of the operating environment and make important, well-informed, timely decisions about our activities and their consequences.

Dorset Council post-LGR

- 19.3 Dorset Council is fortunate in that local government reorganisation enabled it to reduce its cost base, identify adequate reserves to see it through early years and set a robust reserves strategy for the future. But reserves cannot be relied on as a sustainable source of finance, we can only spend them once and doing so reduces our capacity to mitigate the risks that reserves provide for, as well as reducing resilience against unknown future events (see budget principles and the section on reserves elsewhere in this paper).

Inherent volatility in demand

- 19.4 Even without the impact of Covid-19, there is considerable risk around our planning assumptions for growth in demand and pressure on costs. The budget gap quoted in this paper is after allowing for reasonable and forecast growth in demand for Adults' Services and Children's Services but both locally and nationally, demand for people services continues to challenge capacity and budgets. This will become even more pressing if the impact of national or

local measures to contain the impact of Covid-19 (and variants) mean that councils are required to deliver more or different services to safeguard residents.

Transformation and savings risks

- 19.5 There is also inherent risk in any transformation programme or other tactical savings plan in ensuring the right work is done in sufficient time to realise savings in line with the plan. These things are not always entirely within the Council's control – some will involve consultation, others require specific resources to be deployed to deliver them and as we saw in the pandemic, sometimes these plans cannot be delivered because officer time and effort is reprioritised elsewhere.

Inflation

- 19.6 There is also significant inflationary pressure building in the economy. At the time of writing this report, headline inflation is running at 5.1% and opinion is divided on whether this is a shorter-term and temporary bubble, or whether it will be longer term, and sustained. Either way, it is important for the Council to include an element of price increases in its financial plans although we cannot provide for all of this because our budgets are effectively cash limited.
- 19.7 Our approach to inflation is therefore to provide for general inflation at 2% and further specific inflation within service budgets where we know there will be particular pressures. It will be necessary for us to continue to carry out effective contract management so that we ensure that a robust and value for money approach is taken to supplier increases. We cannot afford to simply increase contract prices by inflation. We will work positively with our supply chain to discuss all aspects of contract performance – including pricing – but this must be within the context of overall affordability within the Council's budget. It is also the reason that we are recommending that some of the unallocated funding from the settlement is added to contingency for the time being.

High Needs Block

- 19.8 Dorset Council, like many other authorities nationally, has an accumulated overspend on the High Needs Block (HNB) of the Dedicated Schools Grant (DSG). At 31/03/2021 this was £39.1m and this is expected to increase to around £55m by 31/03/2022.
- 19.9 Regulations currently in place stipulate that this must be shown separately on councils' balance sheets as a negative, unusable reserve. However, the instrument that prescribes this treatment expires on 31/03/2023 and from that point on, cumulative deficits will fall to be funded by the local authority itself.
- 19.10 Dorset Council is already implementing an ambitious plan to deliver additional, high-quality capacity and to achieve outstanding provision within the budget envelope, but this will take time as well as the resources the Council has already committed to the programme.
- 19.11 However, the risks around the Council having to absorb the eventual overspend itself on 1 April 2023 are immense and the size of the deficit by that stage, compared with the Council's reserves, could cause technical solvency issues for the Authority. It is principally for this reason that the

Council should not commit to any material use of reserves until the outcome of national work on the HNB deficit concludes.

Future national strategy implementation

- 19.12 There is considerable risk around the implementation of future national strategies for care services. We know that *build back better* will present significant operational and financial challenges for us, many of which are still unquantifiable as the national frameworks are still subject to consultation and finalisation before the impacts can be modelled with any degree of confidence.
- 19.13 Many of the reforms will present opportunities and risks for the Council and these are very firmly on the radar, including national funding and business rates reforms as well as service delivery strategies for care (such as the adult social care reform whitepaper).

Risk management and reporting

- 19.14 The Council has robust governance and reporting processes around risk and concerns around containing expenditure within the budget can be escalated through this framework at any time. The S151 Officer is required to provide assurance as part of the budget strategy, and this is set out later in this report.

20. Reserves, balances, contingency and resilience

General funds

- 20.1 The balance of Dorset Council's general fund closed at £31.5m on 31 March 2021 (still subject to audit confirmation). Any overspend in the current year will impact on that balance unless it is financed via the use of other reserves.
- 20.2 In 2018 the Shadow Council commissioned an independent report from the Chartered Institute of Public Finance and Accountancy (CIPFA) which recommended that the Council should retain as a minimum, 5% of its budget requirement as a general fund reserve. The S151 Officer recommends this approach is continued for 2022/23 and with reference to the net budget requirement calculation set out in Appendix 1a, Cabinet is recommended to agree a minimum level for the general fund of £16.6m.
- 20.3 However, as in previous years, prudence would suggest that it would be better to hold a higher level of general reserves to provide for risks which are not mitigated through specific earmarked, reserves. Cabinet is therefore recommended to set a level of general reserve at double the value of this minimum level, £33.2m and that the operating range therefore be set at £16.6m to £33.2m. Outside of these parameters, intervention will be required to lower or raise the general fund balance.

Other reserves and reserves strategy

- 20.4 As well as the general fund, the Council has other earmarked reserves which are set aside to mitigate against specific risks that may arise during the year or beyond. These reserves cannot be repurposed without impacting on the mitigation they provide against the risk profile of the organisation. A fuller narrative on risks and reserves was provided as part of the 2020/21 [outturn report](#) to Cabinet and no change to those reserves is proposed at this stage other than for the general fund.

- 20.5 It is also important to note the S151 Officer's concerns, earlier, around the prudent use of any reserves given the current Regulations surrounding the HNB deficit.

Contingency budget

- 20.6 It is prudent for any organisation to set a contingency budget to provide for unforeseeable circumstances arising during the year. The key is to set the contingency budget as accurately as possible, so it strikes a good balance between allowing the organisation to manage risk whilst not causing a diversion of material funds away from front line services where there are clearly continuing pressures.
- 20.7 The level of the general fund balance, the additional funding being put into directorate budgets and the review and consolidation of the Council's reserves during 2020/21 will all strengthen the organisation's resilience, and this means it is possible to reduce the Council's *base* budget for contingency to £5m. In 2022/23, it should be noted that the starting position for the contingency budget will be higher due to the unallocated funding from the settlement that is temporarily allocated here.
- 20.8 The recent, high profile cases for Children's Services departments in other councils is one example where a call on the contingency budget might arise. But it is important to note that this fund is also a useful resource to deal with other unforeseeable pressures of price, demand or activity that occur within the year that cannot be accommodated within Directorates' base funding levels. The volatility around recycle commodity prices is another example of where the contingency fund can support the smoothing of the base budget in the Place Directorate.

Resilience

- 20.9 The proposed level of the general fund, the specific, earmarked reserves available, and the contingency budget all support resilience alongside a robust budget process that has taken place during the budget setting process.
- 20.10 The Council is also continuing to develop its value for money framework and reports are regularly taken to Audit & Governance Committee on this subject. Value for money is a key and continuing cornerstone of good governance and it is essential that it is embedded in every financial decision we make. Given the financial pressures that are building in the system, and continuing price and demand pressures on the Council's budgets, value for money is essential in managing what are essentially cash-limited funds whilst delivering excellent value services for residents.

21. Capital programme

- 21.1 The Council's capital programme has been impacted significantly by the pandemic, with many projects unable to proceed in line with original timelines. This resulted in quite significant slippage of the programme from 2020/21 into 2021/22 which itself came on top of slippage in the programme that was already being carried forward from earlier years.
- 21.2 In order to ensure capital spending continued to give value for money and was being deployed in line with Council objectives, the Capital Strategy and Asset Management Group (CSAM) reviewed the 2021/22 programme

(including all slippage brought forward) during the year as part of the development of the capital programme for 2022/23. This resulted in approximately £10m being released as it was no longer required or from underspends on completing projects. CSAM also oversaw the bidding process for new funds which has resulted in the draft capital programme set out at appendix 4.

- 21.3 Appendix 4 (ii) sets out a summary of the proposed new bids to Cabinet. These amount to some £14.3m and are the only aspect of the programme which needs new Cabinet approval, the remainder of the programme is already approved from previous years but is included again here. Good governance would indicate that the Cabinet and Council should agree the entire programme again, including both new and existing commitments.
- 21.4 These new bids are in addition to the £27.9m of approved funding already in the programme for 2022/23 (carried forward from MTFP2021/22).
- 21.5 Cabinet members should note that this sets out the complete programme as it stands at the publishing date. The headlines can therefore be summarised as:
- £103.6m of slippage brought forward from previous years into 2021/22
 - £62.6m of funding that was approved for 2021/22 in the capital programme
 - £27.9m of spending that was for 2022/23 when the 2021/22 MTFP was approved
 - £20.6m of subsequent adjustments to reflect new funding or Cabinet decisions taken in-year (e.g. SEND capital strategy)
 - £14.3m of bids for new funding
- 21.6 The proposed capital programme to 31/03/2023 therefore amounts to £228.9m. The exact size of the programme for 2022/23 will be subject to further amendment as we have not yet completed the current year so we cannot yet confirm the exact size of the carry-forward. There are also likely to be further projects and programmes that arise during the year through funding from external resources, and these will be incorporated into the programme and reported to Cabinet each quarter.
- 21.7 Members might wish to note the proposals to continue with a capital contingency budget and a minor works budget. Both of these worked well in 2021/22. Although exact project proposals are still being developed, attention is also drawn to an annual capital budget of around £2m (£10m across the MTFP period) to further the response to the Council's climate and ecology emergency. Details of the programme of work are available separately.
- 21.8 The capital programme is significant and careful consideration therefore needs to be given to affordability of financing costs in the revenue budget. The two components of capital financing that impact on the revenue budget are minimum revenue provision (MRP) and the interest charges on borrowing.
- 21.9 If the new bids for capital funding are approved, it will cause a longer-term financing pressure for the revenue budget. The MTFP already included an increase of £0.25m each year for MRP costs but assumed that net interest

costs would remain broadly the same. The new bids and the approval of the SEND capital strategy during 2021/22 therefore mean that additional financing costs will be incurred.

- 21.10 At present it is not possible to be specific about what these are likely to be and there are a number of reasons for this. Principally, the Council has a relatively high level of cash balances already available to it. This cash would be the first call for investment funding before any borrowing was required. Borrowing is also well below our capital financing requirement and more importantly, below the amount that was assumed when the budget was set – meaning there is some headroom in the existing base.
- 21.11 There is also a very high chance of significant slippage from 2022/23 into 2023/24 because the sheer scale and ambition of the programme is likely to be undeliverable in full before 31 March 2023. Given these considerations, it is therefore unlikely that the approval of the new bids would need any additional capital financing in 2022/23. However, it is recommended that a similar CSAM-led review of the programme is carried out in the spring/summer of 2022 in order to inform likely financing pressures for 2023/24 and beyond. At this stage, it is prudent to add £1m per year to the MRP budget, and a further £1m per year to the interest payable budget over the lifetime of the MTFP, from 2023/24.
- 21.12 The commitment to the capital programme in this budget round therefore amounts to almost £350m in total.

22. Engagement with and scrutiny of the budget

- 22.1 The proposals set out in this budget strategy and MTFP have been developed over a considerable period. The Council operates a ten-year, rolling financial model and this is consolidated into a five-year MTFP, the first year of which is the budget. Although the proposals for 2022/23 have therefore been some time in the making, it is in the year of preparation that any budget proposals come under most scrutiny.
- 22.2 In order to make the development of the budget inclusive, there have been a number of briefing sessions for members during the year. There are also specific directorate-focused arrangements in place for Portfolio Holders and Lead Members and any member can ask questions or request information about financial management at any point.
- 22.3 In readiness for this budget round, the Council also commissioned a finance peer review through the Local Government Association (LGA) and Cabinet was presented with the peer team's comments and management's responses at its meeting in on 5 October. This budget is the fourth for Dorset Council and having matured after LGR and grown through a pandemic, it was important to carry out a review of position, performance, strategy and practice as the best way of informing the new budget strategy and MTFP. The peer review report and responses are available [here](#).
- 22.4 As well as quarterly financial reports to Cabinet to keep all members abreast of budget development, there is also a separate and specific paper on early stages of budget process, principles and strategy which went to Cabinet on 5 October 2020. Following this, was a good level of member engagement before during and after the two informal briefing events that took place in

November prior to the meeting of the People and Health Scrutiny Committee on 10 December and the Place and Resources Scrutiny Committee on 7 January. Feedback from both Committees along with Cabinet responses is set out in appendix 7.

- 22.5 Cabinet is receiving all of these, post-scrutiny proposals for consideration and recommendation to full Council on 15 February.

23. Consultation, communication and equality

- 23.1 Dorset Council's 2021/22 budget was approved by Full Council in February 2021. Members have been updated on the Council's financial performance throughout 2021/22, through quarterly finance reports to Cabinet, and through regular updates at all-member seminars. Two budget seminars were also convened for all members in November (base budget briefing) and in December (budget proposals).
- 23.2 In October 2021 Cabinet also received a paper outlining the initial, high-level budget assumptions for 2022/23, and these assumptions have continued to be refined as the budget setting process has developed through the autumn.
- 23.3 The 2022/23 budget proposals are driven by the Dorset Council Plan and priorities. The Plan was initially agreed by Council in February 2020 following wide consultation with partners, the public, local businesses, Town and Parish Councils, employees and other stakeholders throughout Dorset. More than 1,600 responses were received through the consultation, and these were used to shape - and continue to shape - the new Council's priorities, as reflected in the budget proposals and MTFP.
- 23.4 The Executive Director for Place also leads consultation with the business sector and managers throughout the organisation share information regularly with businesses in the supply chain to ensure they are aware of and can contribute to the conversations around priorities and resources.

24. Other factors influencing budget strategy development

- 24.1 The Council's **Transformation Plan** has been refreshed and was approved at the November Cabinet meeting. We will need to make sure that spend to save opportunities are integrated into the financial planning process to ensure investment comes at the right time to ease pressure on the revenue budget. We should also be mindful of the impact that the pandemic has had on our previous plans and how the diversion of resources to support residents and businesses through the response and recovery meant that the Council was unable to deliver the programme of work that would have generated savings in our cost base.
- 24.2 The **Asset Management Strategy** continues to be implemented as the Council "right-sizes" its estate after convergence of the predecessor councils' property portfolios. The plan describes the options to acquire, retain and divest property that will help us deliver transformed services, generate capital receipts, reduce running costs and help the Council operate in a modern and efficient way.
- 24.3 The Asset Management Strategy dovetails with the **Dorset Workplace Strategy** which enables the Council to deliver better services more flexibly in a range of ways to meet Dorset residents' needs.

24.4 Delivering better value will also be the aim of our emerging **Commercial Strategy**. Cabinet has recently approved a new Procurement Strategy and we now look to strengthen our commercial approach further – not just through better procurement and contract management, but also through more effective income management and better relationships with our customers and our supply chain.

25. S151 Officer assurance

25.1 Part 2 (Section 25) of the Local Government Act 2003 requires officers with responsibilities under s151 of the Local Government Act 1972 to make a statement regarding the robustness of estimates and the adequacy of reserves at the time the budget is set.

25.2 There are also other safeguards aimed at ensuring local authorities do not over-commit themselves financially. These include:

- the Chief Financial Officer's powers under section 114 of the Local Government Act 1988, which requires a report to the Cabinet and to all members of the local authority if there is or is likely to be unlawful expenditure or an unbalanced budget;
- the Local Government Finance Act 1992, which requires a local authority to calculate its budget requirement for each financial year, including the revenue costs which flow from capital financing decisions. The Act also requires an authority to budget to meet its expenditure after taking into account other sources of income. This is known as the balanced budget requirement;
- the Prudential Code, introduced under the Local Government Act 2003, which has applied to capital financing and treasury management decisions;
- the assessment of the financial performance and standing of the authority by the external auditors, who give their opinion on the council and the value for money it provides as part of their annual report to those charged with governance.

25.3 The robustness of the budget critically depends on the maintenance of a sound financial control environment including effective financial management in each of the Council's service directorates. Dorset Council's scheme of financial management sets out the responsibilities of all those involved in managing budgets and incurring commitments on behalf of the Council. The revised financial strategy statement is also a key document in setting out financial management arrangements, responsibilities and strategy for the Council.

25.4 Whilst financial projections are based on realistic assumptions, known demand and well-formed models, some budgets are subject to a degree of estimation error as actual expenditure can be determined by factors outside of the Council's control, for example demand for provision for adults with complex needs. Some activity is also subject to more volatility and things can change very quickly and unexpectedly.

- 25.5 It is also generally not appropriate or affordable to increase budgets simply to reflect overspends in current or previous years. A reasonable degree of challenge to manage within the resources available is necessary and monitoring of expenditure, in order to take corrective action if necessary, is particularly important during a time of budget reductions.
- 25.6 The Council has well-developed arrangements for financial monitoring during the year. Budget performance is reported quarterly through the Cabinet and scrutinised by a number of other committees, including Audit & Governance Committee. There is also a well-defined model of finance staff working as business partners alongside service managers to support financial management and control. The Council's financial management system also operates on a self-service basis, enabling all officers to interrogate financial information at any point in time.
- 25.7 Finance business partners routinely report to Directorate Leadership Teams each month and the S151 Officer meets weekly with the Lead Member for Finance, Commercial and Capital Strategy. There is also an officer group - Capital Strategy and Asset Management Group (CSAM) - that monitors progress against the current capital programme and deals with the pre-Cabinet governance arrangements for managing the bidding and financing process for all capital expenditure proposals to Cabinet.
- 25.8 Member involvement in budget development has been extensive again this year, particularly through meetings of the Performance Leadership Board, regular update reports to the Portfolio Holder, Leader and Deputy Leader, the wider Cabinet and in all-member briefings.
- 25.9 The budget itself has also been subjected to all-councillor scrutiny, firstly through two briefing sessions, led by Portfolio Holders and Executive Directors, then more formally through the People and Health, and the Place and Resources Scrutiny Committees which were held on 10 December 2021 and 7 January 2022 respectively. These budget proposals have therefore been developed by the Council's officer group, led by the Executive Directors, and with significant input from members, and co-ordination by the finance team. In order to gain further assurance about the affordability of the Council's strategy and plans, each Executive Director is taking personal responsibility for their budget through a formal sign-off process which will also form part of their performance assessment during the year.
- 25.10 Taking all these factors into consideration, I consider that the estimates prepared in line with the strategy explained in this report to be robust. In more "normal" times, I would also consider the levels of reserves, as set out earlier in this report, to be adequate. However, the falling away of the current Regulations surrounding the treatment of the HNB cumulative overspend from 1 April 2023 is a cause for grave concern. This overspend is a national phenomenon rather than a local one, brought about by the provisions of the Children and Families Act 2014 and the changes for SEND provision ushered in after that.
- 25.11 Government created a significant shift in the demand curve for SEND provision and while this Council continues to implement its SEND (and other) strategies to deal with the capacity, quality and financial implications of the

Act, this cannot be done in the short term and the burden of funding national policy must not fall solely to local taxpayers. Given the likely size of the deficit, I am therefore unable to give assurance that the level of reserves is adequate over the lifetime of the MTFP, to deal with the cumulative deficit on the HNB if this does fall to be funded by the Council from 1 April 2023. In that scenario, there is a real risk that the authority will not be able to meet its statutory responsibility to set a balanced budget in 2023/24 without significant and dramatic reductions in other budgets across the whole council.

25.12 Despite the steps taken to gain assurance and the processes, controls and monitoring that the Council has in place, the challenge and complexity of managing activity and associated expenditure within these estimates should not be underestimated. Against the backdrop of Covid-19 and our inability to be more certain over funding arrangements beyond the first year of our MTFP, the future will therefore remain challenging and balancing future years' budgets will require sustained transformation. Continued, close monitoring – as referenced in our processes, above - will be required during the year and prompt action will be needed if performance and forecasts vary materially from budget

26. Summary and conclusions

26.1 The financial climate remains extremely challenging. Although the Spending Review was perhaps slightly more positive than we might have been anticipating, a single-year settlement for local government hampers our ability to invest effectively in future service strategy.

26.2 There are clearly still challenges ahead meaning the Council started planning for 2022/23 early to develop and implement robust plans to fit within our assumed budget envelope and to keep all members well informed around budget development and strategy.

26.3 Members of the two scrutiny committees have considered the information in the draft budget proposals as part of their scrutiny processes and their feedback and recommendations are set out in Appendix 7 for Cabinet's consideration.

26.4 The assurance statement that I am able to give is qualified beyond the first year of the MTFP due to the material impact that the removal of the statutory instrument for the HNB deficit will have on the Council's balance sheet. Whilst I believe these budget estimates to be robust and that reserves would be adequate in more normal circumstances, the threat of the HNB deficit could cause significant financial concerns for this Council.

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.