Cabinet
21 June 2022
Draft outturn report 2021/22

For Decision

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

Local Councillor(s): All

Executive Director: A Dunn, Executive Director, Corporate Development

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Report Status: Public

Brief Summary:

This report comes to Cabinet with information about the Council's draft, unaudited financial performance for the year ended 31 March 2022 and the financial position at that date.

Recommendation:

Cabinet is asked to

1. Note the draft outturn and the financial performance for the year ended 31 March 2022; and
2. agree the revised financial strategy statement set out in appendix 1 and reserves position set out in the main body of this report; and
3. note and agree the position and actions around the arrears of council tax, business rates and other income;
4. note the progress made against the action plan that was developed following the finance peer challenge review; as summarised in the update letter at appendix 2.

Reason for Recommendation:

Although this report does not seek formal approval from Cabinet for the reported outturn, the financial performance for the year and the financial position at 31 March 2022 are important aspects of financial management as they mark the start of the next medium-term financial plan update (MTFP) and budget strategy development for 2023/24.

In addition to reporting outturn, with the financial performance for the year materially complete, it is important for Cabinet to review the risks the organisation now faces and to consider areas where it wishes to make strategic investments and/or to repurpose and prioritise its reserves to facilitate these aims.

1. Financial Implications

The financial performance for the year and the position at year-end are set out in this document. The report also summarises the impact on the 2022/23 budget and the MTFP.

The actions to reduce the balance and age of debt and arrears following the increases in these numbers during the pandemic and more recently the cost of living rises, are critical to reducing debt as well as supporting residents and businesses to pay what is due. Most of the charges levied by the Council – and all local taxes – are underpinned by national, legal requirements so they must be supported by appropriate and proportionate recovery action by all local authorities.

2. Climate Implications

The outturn for the year and the position at 31 March 2022 have no impact on financial or other assumptions around the Council's climate and ecology strategies.

3. Well-being and Health Implications

The Council has continued its focus on keeping people safe and well, particularly during the pandemic but also in managing the transition out of national restrictions.

The Council continued to play an essential role in distributing Government grants to individuals, businesses and other qualifying groups during the year.

4. Other Implications

None specific.

5. Risk Assessment

5.1 HAVING CONSIDERED: the risks associated with this decision; the level of risk has been identified as:

Current Risk: Low

Residual Risk: Low

Reporting draft outturn against budget has very limited risks.

6. Equalities Impact Assessment

No specific equalities issues have emerged in drafting the Council's various reports on financial performance and position.

7. Appendices

1. Financial strategy statement
2. Finance peer review challenge update

8. Background Papers

2021/22 budget strategy report

Financial management report Qtr1 2021/22

Financial management report Qtr2 2021/22

Financial management report Qtr3 2021/22

2022/23 budget strategy report

9. Budget setting 2021/22 and context

9.1 2021/22 was Dorset Council's third year and once again involved setting a strategic budget and MTFP against a one-year settlement from Government. The early years of the Council have proved challenging yet positive as the organisation continues to deliver savings from reorganisation into a single unitary authority at the same time as dealing with a global pandemic and now experiencing and supporting residents and businesses through a periodic of sustained inflation, affecting almost all prices for businesses and individuals.

9.2 The Council's budget requirement was £312.4m and was funded from rural services delivery grant (£2.5m), new homes bonus (£1.7m), business rates (£44.3m) and council tax (£263.9m). More detail is set out in the budget strategy report at the link above.

9.3 Members will recall that the Council had been anticipating an overspend against its budget for much of the year. During 2020/21, reserves were realigned to sit within a new financial management strategy and were better aligned with risks facing the organisation as well as to take advantage of opportunities to invest in areas where pressures on the revenue budget can be reduced.

9.4 Risk remains and needs careful monitoring and reporting during the year. At the time of writing, inflation in the UK has reached 9% and most commentators expect this to rise further. Whilst the Council made some provision for inflation in its 2022/23 budgets, and also has a contingency budget to support price fluctuations, it is also important to remember that the pressure on costs could not and should not be dealt with by the Council alone.

9.5 The Council's budget is essentially fixed in cash terms and its ability to raise income is limited. There are national controls in place around council tax and business rates and ability to generate income from trading is relatively limited in the short-term as well as potentially at odds with wider economic development ambitions.

9.6 Despite the risk around this report being deemed low, and in spite of the financial risk being downgraded to medium at the time of the budget report, pressures are building in the economy and the Council is not impervious to these.

10. Financial performance for the year

Overall performance

10.1 The financial performance for the year was an overspend of £571k. This overspend falls to be financed from the general fund. Headline performance against budget is summarised in the table below.

Directorate	Net Budget	Forecast Outturn	Forecast (Overspend)/ Underspend	
	£k	£k	£k	%
People - Adults	115,843	118,062	(2,219)	(1.92%)
People - Children's	71,432	72,256	(824)	(1.15%)
Place	72,961	72,716	245	0.34%
Corporate Development	23,844	23,364	480	2.01%
Legal & Democratic Services	5,703	5,379	324	5.68%
Public Health	3,356	3,356	0	0.00%
Total Service Budgets	293,139	295,133	(1,994)	(0.68%)
Central Finance	(273,171)	(274,594)	1,423	(0.52%)
Whole Authority	19,968	20,540	(571)	(2.86%)

10.2 The draft outturn is within 3% of the revised net budget but contextually is perhaps better expressed as a proportion of the £293.1m net budget ie 0.19%. This is a significantly better performance than had been predicted earlier in the year and one which reflects positively on the Council's performance in response to covid and other operating and cost pressures arising during the year.

10.3 Directorate-specific narrative is set out in the following paragraphs.

Children's Services

10.4 The Children's Services outturn was £72.256m compared with a net budget of £71.432m, an overspend of £0.824m (1.15%). This is a positive outcome for a demand-led directorate operating in an ever-changing environment.

10.5 The Quarter 3 forecast indicated a £2.75m overspend, so there was an improvement of £1.93m between the last predictions reported to Cabinet and the draft outturn. The narrative below considers major variances from budgets during the year as well as any risks or other factors that need to be considered in the next iteration of the MTFP.

10.6 There were two main structural budget issues that were reported during the year occurred as forecast: external placements (£2.27m overspend) and lost trading income due to a change in operating model (£1.2m shortfall in income).

10.7 These have been offset by carefully managing vacancies and agency budgets, increases in grants and other funding and underspending non-pay budgets, for example in-house fostering underspent by £1.38m.

10.8 Examples of unbudgeted grants and funding during the year include the Covid Winter grant (£0.279m), Monitoring and Brokering Grant (£0.242m) and Aiming High funding (£0.08m).

10.9 Non-pay budgets include a £0.07m underspend on training costs. The Directorate also delivered £4.75m (97%) of targeted transformation and tactical savings during the year.

10.10 Both structural issues (external placements and lost trading income) have largely been addressed during the 2022/23 budget build. External placement budgets have been remodelled to reflect the November cohort, expected demand and savings. £1.2m lost trading income for 2022/23 is £0.6m with transformational funding for new posts to achieve this target.

10.11 However, there are risks within the 2022/23 budget that will require careful monitoring and management. Risks include capital project delays and the subsequent impact on revenue budgets, inflation (particularly for placements and externally provided services) and the delivery of transformation and tactical savings.

Dedicated Schools Grant (DSG)

10.12 The DSG was overspent by £16.088m. The grant is split into four blocks, with the High Needs Block (HNB) overspending by £16.2m, and underspends in the Early Years Block (£0.05m) and Central Services to Schools Block (£0.065m). The Schools Block had no variance.

10.13 The 2021/22 overspend is in line with the February forecast, presented to March Schools Forum. The outturn position is also slightly below the required *Safety Valve* 2021/22 DSG outturn position. In March 2022, the Department for Education (DfE) and Dorset Council signed a £42m agreement to eradicated Dorset's cumulative DSG deficit by 2025/26. The first year of the agreement required Dorset's in-year DSG deficit to be £16.1m to receive £17.5m of DfE support.

10.14 The cumulative DSG deficit, including the 2021/22 overspend, application of the first tranche of *Safety Valve* funding and Dorset Council funding, is £27.7m. Without the support this would be £55m.

10.15 For future years, to receive the remaining £24.4m DfE funding, Dorset Council is required to keep within specified, maximum in-year DSG deficits, use £10m of reserves and build £13m of DSG support into the Medium-Term Financial Plan.

10.16 The collective effort above, plus potentially a transfer between blocks within the DSG, would eliminate what was forecast to be a DSG cumulative deficit projection of £77.5m. In other words, if Dorset Council had not reached agreement with the DfE, then it would potentially be exposed to a £77.5m liability.

10.17 The historical DSG deficit is a long and well-documented risk stemming from a change in government legislation in 2014. The number of children who require an Education Health and Care Place (EHCP) continues to rise and coupled with Dorset Special Schools reaching capacity, has seen an increase in the use of generally more expensive special school places.

10.18 In March 2022, the government launched a SEND (Special Educational Needs and Disabilities) Review: *Right support, right place, right time*. The green paper outlined three main challenges facing SEND and alternative provision (summary from the Society of County Treasurers briefing paper):

- outcomes for children and young people with SEND or in alternative provision are consistently worse than their peers across every measure;
- navigating the SEND system and alternative provision is not a positive experience for too many children, young people, and their families;
- despite the continuing and unprecedented investment, the system is not financially sustainable. The green paper states that "Two thirds of LAs (local authorities) have deficits in their DSG budgets as a result of high needs cost pressures" and stated that the national total deficit was over £1bn in 2020-21.

10.19 The outcome of the SEND review will likely influence SEND practices, Dorset's future DSG outturn positions, and therefore the *Safety Valve* agreement. It is too early to quantify this risk.

<u>Adults Services & Housing</u>

10.20 The Adults Services & Housing outturn was £118.062m compared with a net budget of £115.843m, an overspend of £2.219m (1.92%).

10.21 The Qtr3 forecast indicated a £7.557m overspend, so there was an improvement of £5.337m between the last predictions reported to Cabinet and the draft outturn. The final quarter's improved performance was achieved through the consolidation of health funding towards support for hospital discharge over the pandemic, several in-year grants and improved savings delivery. The narrative below considers major variances from budgets during the year as well as any risks or other factors that need to be considered in the next iteration of the MTFP.

10.22 The Adult Care Packages budget ended the year with an overspend of £3.662m. The main drivers for the overspend were as follows:-

- Adults and Housing had a challenging savings target of £7.982m in year, of this £5.485m was achieved but savings of £2.370m could not be delivered.

- £1.292m overspend due to the continuation of the Hospital Discharge Programme following Covid-19. This was caused through a mixture of increased complexity of packages as well as increases in price.

10.23 The Adult Care Budget ended the year with an underspend of £1.085m. There were a number of vacancies across the Directorate in the year, particularly within Locality and Specialist Teams which were the primary cause of this.

10.24 Commissioning and Improvement had an underspend of £0.6m due to some staff vacancies being unfilled and underspends on contracts including the Integrated Equipment Store, Dorset Accessible Homes, major adaptations and supported employment. Some of these underspends are the result of Covid-19 and the delays in progressing works.

10.25 Housing overspent by £0.292m due to higher bad debt provision. The rest of the budget was broadly in balance. The bad debt provision related to rent arrears, and where tenant contributions, in excess of the element paid by Housing Benefit, have not been recovered. Good progress is being made in improving former tenant and current arrears.

10.26 The main risk factors that will impact Adult Social Care over the next 12 months are the introduction of the care cap, the market sustainability and fair cost of care exercise and any ongoing increase in hospital discharges.

10.27 The impact of the pandemic has been that we now support an additional 400 people receiving long-term care over our normal profile of demand. The additional people receiving service were also placed at a period of pandemic escalation when additional health funding for care fees was available which has increased our average prices for this year. Clarity over ongoing additional health support for the long-term impacts of the pandemic on the Adult Social Care budget will be important in helping us meet new demand within the available funding envelope.

10.28 The number of people Local Authorities are required to fund will increase as well as the rates paid as they become responsible for a greater percentage of the market.

10.29 Alongside this there will be an increase in the number of assessments that will need to be undertaken resulting in additional workforce requirements. The Government also requires Local Authorities to move towards paying providers a fair cost of care and to prepare their markets for adult social care reform.

10.30 Dorset Council is currently making arrangements to end its contract arrangements with Tricuro Ltd and transfer its business to Care Dorset Ltd. The costs of the transition to the new arrangements fall to the Adults Services budget.

Public Health

10.31 The public health grant for 2021/22 for BCP council was £20.052m and for Dorset council was £14.214m. Agreed local authority contributions for the year gave a shared service budget of £25.036m.

10.32 Final outturn was £24.331m, resulting in a £0.706m underspend which has been added to reserves. The figures in the table, above are net, so they do not reflect the numbers shown in this analysis, which are gross grant income and expenditure and transfers to reserves. The £3.3m budget and actual reflect carry forward and spend of COMF grant from previous years.

Place Directorate

10.33 The Place Directorate outturn was £72.716m compared with a net budget of £72.961m, an underspend of £0.245m (0.34%). The figures include the final three-month payment of a grant from central government to mitigate the impact of lost income (*sales fees and charges grant*), at a value of almost £896k across the Place Directorate.

10.34 The Qtr3 forecast indicated a £2.426m overspend, so there was an improvement of £2.181m between the last predictions reported to Cabinet and the draft outturn. The narrative below considers major variances from budgets during the year as well as any risks or other factors that need to be considered in the next iteration of the MTFP.

10.35 The Assets and Property budget ended the year with an overspend of £14k. Assets and Property budgets were affected by a wide range of issues including:

- savings targets that were included in the budget and not achieved (and budget adjusted for 2022/23)
- shortfall of income from staff car parking and café
- underspend in the Repairs and Maintenance (R&M) budget due to new operating model and difficulty with engaging with contractors in the post-covid/post-lockdown market
- underspends in the postage budget and County Hall utility costs
- a major staffing restructure early in the financial year achieved savings as planned, and some ongoing vacant posts
- the change of operating model did not facilitate the full recovery of budgeted costs from capital schemes (there is ongoing work to address this, and budgets have been adjusted for 2022/23).

10.36 Growth and Economic Regeneration now also sits within Assets and Property and ended the year with an underspend of £219k, largely due to vacant posts and other minor underspends.

10.37 The Highways service ended the year at £141k overspent:

- Parking Services underachieved the income target by £1.165m, but it is acknowledged that income targets were ambitious against the background of continued covid-19 restrictions and increased working from home. Actual car park income was £365k higher than the previous year. 57% of car park income was cashless, compared to 33% in the previous year. Car park expenditure was up but staffing costs were £260k down compared to prior year.

- Highways Infrastructure and Assets ended the year at just over £1m underspent. In addition to the previously reported one-off rebate on the Streetlighting PFI contract, there were also savings from streetlighting energy costs (due to LEDs), additional contributions from the Transforming Cities Fund and reduced expenditure across a number of budget headings.
- Highways Operations ended the year at just £2.1k overspent, although this does include higher costs in Construction Delivery and Winter Maintenance offset by additional income from road closures and permitting.

10.38 The Planning Service ended the year at £967k overspent, broadly in line with the forecast. The Planning Service has experienced a number of financial issues in 2021/22 including unachieved savings, shortfalls against income targets and difficulties with recruitment resulting in high agency costs. These issues are addressed as far as possible in the 2022/23 budget.

10.39 Dorset Travel ended the year £1.565m overspent, again broadly in line with predictions. Transformational savings targets could not be achieved although tactical savings initiatives were implemented to offset most of this. The main overspend – and main continuing concern – is the SEND transport budget, which transferred to Place Directorate part way through the year, and which overspent by £1.85m. Considerable additional funding has been put into the 2022/23 budget against this heading.

10.40 Environment and Wellbeing budgets ended the year £224k underspent, made up of £492k underspend against Country Parks (largely from additional income) and £256k overspend for Leisure Services which have been impacted by post-pandemic reduced income all year. Harbour finances are ringfenced, with any underspends or overspends being applied to their respective reserves, and hence do not affect the figures being reported here.

10.41 Community and Public Protection (CPP) budgets ended the year at £82k underspent. CPP contains a wide range of services, with a wide range of outcomes: pan-service savings of £100k have not been achieved, and Bereavement Services and Licencing experience adverse income budgets with outturn positions of £51k adverse and £155k adverse respectively. However, the Registration Service experienced a positive income situation in relation to the wedding market, coming in at £172k favourable. The Coroner and Mortuary Service, a partnership with BCP council, was able to return £129k of funds to the Dorset Council corporate centre.

10.42 Waste – Commercial Waste and Strategy ended the year at almost £2.5m favourable. As noted previously, the market for waste recyclate has provide extremely positive income prices during 2021/22, which together with some other budget adjustments means that the waste disposal budget ended up at almost £2.2m favourable variance. Positive variances from the Commercial waste service, the Garden Waste service, and the Container Charging service account for the balance. The waste disposal budget has been adjusted accordingly in 2022/23.

10.43 Waste Operations including Dorset Council fleet services ended the year at £434k adverse. This is largely caused by the fleet budget, with overspends against vehicle parts and R&M, and reduced external income through MOTs.

10.44 Customer Services, Archives, and Libraries collectively ended the year at £487k underspent, largely in the areas of Customer Services and Libraries due to vacancies.

10.45 In summary, there were no new issues emerging in the closing stages of the year. The concern for the 2022/23 budgets are as stated previously; the extent to which the budget is reliant upon customer income and the associated wider economic issues, and inflation.

Corporate Development

10.46 The Corporate Development outturn was £23.364m compared with a net budget of £23.844m, an underspend of £0.48m (2.01%).

10.47 The Qtr3 forecast indicated a £0.19m underspend, so there was an improvement of £0.29m between the last predictions reported to Cabinet and the draft outturn. The narrative below considers major variances from budgets during the year as well as any risks or other factors that need to be considered in the next iteration of the MTFP.

10.48 Finance & Commercial was £0.3m overspent, caused principally by loss of court costs income.

10.49 Human Resources was £0.15m underspent, mainly relating to vacancies, lower corporate training spend and increased income.

10.50 Digital and Change was £0.13m underspent through vacancies across the service and additional income.

10.51 ICT Operations was £0.13m underspent mainly through a cost that was incorrect applied in the previous year.

10.52 Community Grants were £0.13m underspent due to repurposing spend against an alternative external funding source within the remits of the funding conditions.

10.53 Chief Executive's Office was £0.09m underspent through vacancies and reduced subscriptions.

10.54 A further £0.15m underspent across the other services within Corporate services, mainly through vacancies.

Legal & Democratic Services

10.55 The Legal & Democratic outturn was £5.379m compared with a net budget of £5.703m, an underspend of £0.324m (5.68%).

10.56 The Qtr3 forecast indicated a £0.078m overspend, so there was an improvement of £1.102m between the last predictions reported to Cabinet and the draft outturn. The narrative below considers major variances from budgets during the year as well as any risks or other factors that need to be considered in the next iteration of the MTFP.

10.57 Democratic Services were £0.15m underspent which was related to reduced travel spend, associated costs for Member meetings and vacancies across the team.

10.58 Legal Services were £0.12m underspent through vacancies and lower software costs/general supplies and services.

10.59 A further £0.05m underspent across Assurance and Land Charges through increased income/additional funding received.

Central budgets

10.60 The outturn on central budgets was £274.594m compared with a net income budget of £273.171m, a net shortfall of £1.423m (0.52%).

10.61 During the year, £4.6m of grant was received to support local collection funds. Much of that was used to support the budget for the year while the remainder has been added to reserves to mitigate any continuing risk that collection rates may still not fully recover during 2022/23.

10.62 The contingency budget was also taken into an "overdrawn" position to add to reserves where commitments had been made in 2021/22 but these costs will fall in 2022/23 and to increase the balance on the general fund as agreed by Council when agreeing the 2022/23 budget strategy in February 2022.

10.63 Capital financing costs were well within budget and around £1m of funding has also been transferred into a reserve in case this is needed to support the financing of the capital programme in 2022/23. If the capital programme is not fully delivered in 2022/23 and there is slippage, this reserve can be released.

Collection funds

10.64 The in-year council tax collection rate was 95.96%. This compared favourably with the previous year (95.15%) but was still lower than 2019/20 at 97.94%. There was a shortfall against budget as a result of this and the ensuing higher provision for bad debts, and £0.644m of the £4.3m grant to support local tax collection has been used to bring this back into line with budget. The remainder of the grant has been added to reserves to mitigate potential further shortfalls with a small realignment of reserves that the Council retains to support collection funds.

10.65 April 2022 saw a significant increase in the number of council tax customers signing-up to pay by direct debit. We suspect this was partly driven by Government indicating that direct debit customers would be the earliest to benefit from the £150 support payments that would be made to help with the cost of living. Whatever the reason, the April collection rate was 10.75% - the highest for Dorset Council.

10.66 The in-year business rates collection rate was 93.24%. Again, this compared well with the previous year (88.34%) but was still some way behind the pre-pandemic 2019/20 collection rate of 97.67%. There was a shortfall of £2.293m against the budget as a result of this and the collection fund reserve was used to support this. The reserve itself has been returned to the £5m level agreed by Council, through rationalisation of other reserves, as described elsewhere in this report and appendices.

10.67 The April 2022 collection rate for business rates was 12.1%, significantly higher than the preceding two years and almost at pre-pandemic levels of 12.56% for April 2019.

10.68 During the year, arrears of council tax and business rates increased, as did the provision for bad debts. This was inevitable given the national and global economic situation and the slow and gradual return to regular collection processes through the courts service. More detail is included in the debt management section of this report.

11. General fund position and other earmarked reserves at year-end

11.1 The overspend of £571k for the year falls to the general fund to finance. The Qtr3 finance report indicated a £1.297m overspend, so there was an improvement of £726k between the last forecast reported to Cabinet and the draft outturn.

11.2 As well as covering the overspend, Council agreed that the general fund should be increased to £33.2m when approving the budget strategy in February 2022. The fund started the year with a balance of £31.5m so taken together, the £2.27m required to do this must be funded from the reorganisation of other reserves.

11.3 The impact of the outturn position on the Council's general fund and its earmarked reserves is set out below. The same analysis is used as in last year's outturn report, albeit the numbers vary marginally between the draft outturn reported to Cabinet and the audited figures.

	31/03/2021 £000	31/03/2022 £000
General fund	(31,515)	(33,207)
Reserves purpose/use		
Risk mitigation/alignment	(55,795)	(53,053)
Deferred grants	(25,401)	(24,293)
For investing/service provision	(14,990)	(14,055)
Accounting requirements	(30,173)	(30,521)
Funding (restricted eg S278)	(9,038)	(25,401)
PFI reserves	(8,357)	(7,727)
Partnerships/joint reserves	(2,386)	(2,261)
Traded services	(415)	(483)
Total earmarked reserves	(146,554)	(157,794)

11.4 Members might recall that the outturn for 2020/21 involved around £15m of reserves being repurposed, so the ability to add further to reserves at the end of 2021/22 is a reflection of progress that the Council made against the potential financial performance that was reflected in quarterly progress reports. This addition to reserves improves the Council's resilience and is necessary to mitigate some of the continuing risks to the budget, such as inflation.

11.5 During 2021/22, the Council also applied £10m of its reserves to support the High Needs Block (HNB) of the Dedicated Schools Grant (DSG) as part of the arrangements agreed with the Department for Education that led to DfE agreeing to a further £42m of grant across the MTFP period. As well as the £10m application in 2020/21, another £10m has been set aside to match the DfE funding commitment.

11.6 A summary of the reserves set aside for risk mitigation/alignment is set out below. The Council has relatively less flexibility around the use of the remainder of its reserves, so these are not analysed further, here.

	31/03/2021 £000	31/03/2022 £000
Risk mitigation/alignment		
CT collection fund	(6,000)	(6,000)
NNDR collection fund	(4,236)	(5,000)
Sponsored academy conversions	(2,533)	(1,478)
Organisational restructure	(2,500)	(2,500)
Emergency measures (winter)	(1,000)	(1,000)
MTFP equalisation	(29,694)	(17,487)
General insurance	(6,097)	(6,370)
Project costs mitigation	(2,300)	(2,300)
DSG/HNB strategy support	0	(10,000)
Other risk-aligned reserves	(1,435)	(918)
	(55,795)	(53,053)

11.7 More information on the Council's reserves and strategy is set out in the financial strategy statement in Appendix 1.

12. Capital outturn and financing

12.1 The approved capital programme for the year was £181.8m, including carry-in of slippage from previous years. The total spend was significantly less, at £85.6m.

12.2 The slippage against individual projects, and the detailed financing arrangements were reviewed as part of budget setting for 2022/23, and further work to restate the capital programme approved by Council in February is nearing completion, now the outturn for 2021/22 is clearer. This process is overseen by the Capital Strategy and Asset Management Group (CSAMG) and will be reported to Cabinet at the end of Qtr1.

12.3 £63.7m of the capital expenditure during the year was externally financed (mainly grants from Government). The Council funded the remaining £21.9m from its own cash resources. The Council had sufficient cash balances to avoid borrowing for the capital programme in 2021/22 and actually reduced the balance of borrowing to £182.3m compared with £221.2m at 31 March 2021.

12.4 In December 2021, changes were made to the CIPFA Prudential Code for Capital Finance in Local Authorities. These made clear that any new borrowing requirement must be directly and primarily related to the functions of the authority, with any financial returns either related to the financial viability of the project or incidental to the primary purpose. The revisions also set out that local authorities must not borrow to acquire assets primarily to generate an income stream.

13. Sundry debt management

13.1 The net sundry debt position at 31 March 2022 grew by £4.91m to £33.37m. £12.57m (38%) of this is less than 30 days old.

13.2 The Council had been expecting increases in the level of overall debt given the economic circumstances. The introduction of *breathing space* and the limited capacity of the Courts Service over the past two years led the Council to commission SWAP internal audit services to review debt policy and process. Officers are now working on the implementation of the auditors' recommendations and progress will be monitored through Audit & Governance Committee.

14. Local taxation

Council tax

14.1 The value of council tax unpaid at 31 March 2021 was £27.545m. During 2021/22 £7.798m of this was collected and the balance of historic arrears was therefore reduced to £19.747m.

14.2 The value of all council tax levied in 2021/22 was £338.9m and the unpaid amount at the end of the year was £12.548m, giving an effective, in-year collection rate of 96%.

14.3 These headline figures need to be taken in the context of the wider economic realities that local taxpayers have lived through, although of course there is a legal requirement on all taxpayers to pay what is due. The collection and recovery processes are now resuming after significant periods of closure during the pandemic and the Council remains confident that arrears will reduce, and collection rates will continue to improve. Further updates on collection rates are provided quarterly to Cabinet in financial management reports.

Business rates (non-domestic rates – NDR)

14.4 The value of business rates unpaid at 31 March 2021 was £10.195m. During 2021/22 £3.839m (net) of this was collected and the balance of historic arrears was therefore reduced to £6.356m.

14.5 The value of all business rates levied in 2021/22 was £80.3m and the unpaid amount at the end of the year was £5.362m, giving an effective in-year collection rate of 93%.

14.6 The situation with business rates is similar to council tax and again has been a common theme for councils nationally in the circumstances we have experienced.

14.7 The Council recognises the impact that Covid-19 and the cost of living increases have had and continue to have on many residents and businesses. Local taxation is at the heart of the Council's revenue stream and we recognise the importance and legal requirements placed upon residents and businesses to pay their liabilities. On the whole Dorset residents and businesses conduct their local tax affairs effectively but the Council also recognises the need to support those in our communities who are facing financial difficulties, some for the first time ever.

14.8 The Revenues and Benefits teams work with residents and businesses to make sure they are accessing all available forms of financial support and are maximising the income they are entitled to, which in turn supports affordability. Officers also support residents and businesses to agree payment arrangements and plans to make sure liabilities are paid and outstanding amounts are recovered. For many customers, this is all that is required but some other debts need to move through the set stages of recovery and eventually, when appropriate, into more formal forms of enforcement.

14.9 The service maintains a recovery program but is also currently reviewing the action to be taken during 2022/23 as we manage full recovery cycles and the increase in customers showing signs of requiring support with the added pressures of the current cost of living increases. All stages of recovery will be undertaken during the year where appropriate, but it is right to help customers reposition where they need to with reminders so that we can support and signpost at the earliest opportunity and help people set new plans when required to make payments, catch up or adjust existing payment plans.

15. Financial planning, strategy and the MTFP

15.1 The Council will shortly start the process of refreshing the MTFP and developing the budget strategy for 2023/24. Recent budget rounds have seen significant turbulence and volatility, and the backdrop to setting the budget for next year to be very similar, with uncertainty around prices, markets and labour conditions.

15.2 There are significant and sustained inflationary pressures building in the UK economy and globally, driven principally by fuel and energy prices but the knock-on effect of these is increasingly apparent across other commodities and supply chains. Labour is also a significant concern, especially in the care sector although this is spreading to other areas where the Council needs to engage significant human resources in coming months, such as in gearing-up to meet the challenges of adult social care reform.

15.3 The first update of the refreshed update of the MTFP financial model will come to Cabinet in October for endorsement of the planning assumptions for the year ahead as well as the longer-term financial planning horizon.

16. Peer review and follow-up

16.1 Dorset Council is committed to continuous learning and improvement. During the Spring of 2021, the council invited the Local Government Association (LGA) to undertake a peer review of the council’s financial arrangements and in particular, the approach to managing the high needs block element of the dedicated schools grant (DSG).

16.2 The LGA peer challenge team spent three days speaking to Councillors, officers and partners. Before that, the team reviewed a range of documents, including a financial position statement the council had provided. At the end of the site visit, the team provided a presentation setting out their findings and a full report was submitted to Cabinet on 5 October 2021.

16.3 The report was accompanied by a set of key recommendations alongside responses from the Council; effectively forming an action plan. Council officers have taken this action plan forward and the work done since the initial visit was carried out has been considered again by the peer team and is the subject of the letter attached at Appendix 2.

17. Summary, conclusions and next steps

17.1 2021/22 was another challenging year financially with Covid-19 continuing to impact on income, expenditure, and in particular the collection funds. Financial support from Government was available to mitigate some of the impacts and further funds for these purposes have been used to strengthen reserves to mitigate the same pressures in future, should they persist.

17.2 The Council also continued to provide significant amounts of support for businesses and residents in Dorset through various forms of financial support from Government. This took significant resource alongside much of the other routine work that was going on and impacted on key Council teams meaning some regular areas of work (arrears and credit control for example) did not perform as well as previously.

17.3 The Council has also reprofiled its remaining reserves to prepare for any further financial and economic shocks and more detail on this is set out elsewhere in this paper. Cabinet’s approval for the further realignment of reserves with the revised financial strategy statement (appendix 1) is therefore sought.

17.4 The medium term continues to be of concern. 2021/22 concluded in a much better financial position than had been anticipated, and despite the short-term risk being downgraded from high to medium in the budget strategy paper, since then, inflationary pressures have been building in the economy and the Council will need to manage this as effectively as possible.

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