

## **Dorset Council financial strategy statement**

### **Update for draft outturn 31/03/2022 and MTFP 2023/24 preparations**

#### **Preamble**

This document was previously refreshed for the budget and MTFP for 2022/23, and this update takes account of the draft outturn position being reported to Cabinet in June 2022 and other events since the budget was approved by full Council.

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

Early financial strategy therefore developed in a less programmed way than the Council would have liked but we are back on track with this work and much has already been done and is referenced in this financial strategy statement for Cabinet approval. The revisions included in this update include reflections on the peer review follow-up visit in April 2022.

#### **Purpose and scope**

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

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

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

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

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

- key members of the Council's leadership teams helping them to develop and implement strategy and to resource and deliver the organisation's objectives sustainably and in the public interest
- actively involved in and able to bring influence to bear on, all material business decisions
- leading the promotion and delivery by the whole organisation of good financial management
- delivering and developing a finance function that is resourced to be fit for purpose and continuously improving
- appropriately qualified, suitably experienced, competent, confident and authoritative.

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

## **Member engagement and ownership**

Member engagement in financial management is positive and this was reflected in the report and subsequent follow-up correspondence from the LGA finance peer challenge team.

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

The development of the budget strategy and MTFP is also heavily influenced by members through informal briefings and seminars as well as formal, pre-Cabinet scrutiny, group briefings and for 2022/23, plans to examine base budgets as well as incremental proposals for change. The Council also has several hands-on members who regularly take copies of our financial model and carry out their own scenario modelling and other testing.

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

### **A financial model**

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

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

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

### **Clearly articulated plan and objectives**

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

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

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

- economic growth – we will deliver sustainable economic growth, increasing productivity and the number of high-quality jobs in Dorset, creating great places to live, work and visit

- unique environment - we will help to deliver sustainable development while protecting and enhancing Dorset's environment
- suitable housing - we will work with registered housing providers, community land trusts and local housing partners to deliver affordable, suitable and decent housing
- strong, healthy communities - we will work with residents and partners to build and maintain strong communities where people get the best start and lead fulfilling lives
- staying safe and well - we will work with all our residents to have a good quality of life.

Additionally, the Council has emerging priorities for its mission statement over the final two years of the current administration as well as to set the strategic context for the organisation's future.

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

### **Measuring performance & value for money**

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

#### Performance management

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

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

Performance is also reviewed by the scrutiny committees, which meet six times each year. Performance is reviewed at every other meeting with a view to informing forward plan items to scrutinise areas where there are any issues that need to be better understood (good or bad). The intention is to make dashboards available on the council's internet site.

A variety of performance monitoring tools are in place and being worked on at the service and directorate levels and Cabinet also receives quarterly reports of progress against the council plan priorities.

#### Value for money

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

- comparing ourselves to the best in terms of both performance, cost and value for money
- challenging whether Dorset Council is best placed to provide the service and also the best way to provide the service including different ways of working; different service delivery options and exploring commercial market options. This could also include reviewing any currently outsourced services

- consulting our customers (internal and/or external) to find out what they want from the service.

A key piece of work is a systematic benchmarking exercise across all of the Council's services to identify strong and weak areas of performance and cost. This will enable a prioritisation exercise to deliver a timeline for fundamental service review. This work has started but progress has been slow due to staffing resource and we are currently reviewing how we might progress this work.

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

### **Strategy for reserves**

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

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

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

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

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

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

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

### **Earmarked reserves**

Earmarked reserves are set aside for specific purposes and each of these is set out clearly in the Cabinet outturn report for 2021/22. Responsibility for advising Council on the adequacy of reserves rests with the S151 Officer. The level of earmarked reserves is reviewed at least twice each financial year, once during closedown/accounts production and once during budget setting.

The S151 Officer is required to give an assessment of the adequacy of reserves as part of the assurance work around the budget each year. That assessment will have regard to the Council's reserves strategy statement.

### General fund

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

Dorset Council's strategy is to set its lower limit at 5% of the budget requirement and its upper limit at 10%. For 2022/23, the budget requirement was £331.6m giving rise to a lower limit of £16.6m and an upper limit of £33.2m. The Council closed the year ended 31 March 2022 with a balance of £33.2m on the general fund, the balance being increased as part of the reserves review at 31/03/2022. The operating range and limits are revisited each year as part of budget strategy and medium-term financial planning.

### **Outturn 2021/22 (context)**

The draft outturn for 2021/22 (unaudited) is being reported to Cabinet in June 2022 and will include this document as an appendix. There was a small overspend for the year which fell to be funded from the general fund, this in turn was topped-up to £33.2m as set out in the approved budget strategy for 2022/23.

As part of the emerging financial strategy response, Cabinet also declared it necessary to set aside significant reserved funds for potential risks around council tax and business rates collection in future. Moving out of lockdown does not mean everything will return to normal for collections (for example). 2021/22 saw use of the Council's collection fund support grant to bolster income from council tax during the year.

### **Contingency budget**

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

In the early years of Dorset Council, the risks were inherently higher, so the contingency fund was maintained at a relatively high value to reflect this. As the organisation matures, it is reasonable to expect that departmental base budgets will be able to be set on a much more sustainable basis and the need for contingency would therefore reduce. This theme was developed further during the 2022/23 budget round, but at the same time it also became clear that significant inflationary pressures will be building - nationally and globally.

Clearly a budget has to be set at a particular point in time and inflation will change as the year unfolds and therefore cannot be included comprehensively in budgets. It is also important to remember that Council budgets are effectively cash limited by caps on council tax, the reality of business rates yields, and the ability of the Council to generate income from other sources. Nor should the Council attempt to fully fund inflationary pressures as a matter of policy; being in business carries an element of risk and it would be inappropriate for suppliers to assume that there is no commercial downside in a contractual relationship with the public sector. Whilst Dorset Council aims to work positively and sustainably with as many local businesses as are appropriate, it should not attempt to mitigate all risks of being in business for them.

### **Resilience**

Each year, following submission of the RO forms, CIPFA produces a set of resilience indicators for local authorities. CIPFA's Financial Resilience Index is a comparative

analytical tool designed to support and improve discussions surrounding local authority financial resilience. The index shows a council's performance against a range of measures associated with financial risk.

The most recent data is for the year 2020/21 and therefore provides a mid-Covid picture of the resilience of authorities as they weathered the pandemic.

For Dorset, the indicators show that we are not outliers in any particular measure and that although there are areas where we will want to sustain focus as we prepare the budget strategy and MTFP for 2023/24, there are no areas of specific concern. It is also important to note that Dorset's demographics, geography and strategic choices are factors leading to particular outcomes in the resilience data. The high population of older people, for example, affects the measures around Adult Social Care, so although regard must be given to the indicators, Members also make specific choices around where and how financial resources are allocated, meaning these are the right outcomes for the policy decisions that the Council takes.

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

### **Medium Term Financial Plan (MTFP)**

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

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

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

The budget strategy and MTFP report and associated appendices for 2022/23 can be found [here](#). It is also worth setting out that as part of agreeing the budget, all councillors are invited to briefings on the budget prior to detailed consideration by the Council's Place & Resources, and People & Health Scrutiny Committees. Both of these Committees make recommendations/observations to the Cabinet as a result of their scrutiny and Cabinet responds as part of the process of agreeing a budget to recommend to full Council in February each year. For 2021/22, these recommendations can be found in Appendix 7 of the budget strategy report.

### **Capital strategy**

The Council approves a capital strategy statement each year as part of the budget setting process. The capital strategy for 2022 to 2027 was set out in appendix 3 to the Council's budget strategy paper.

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

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

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

The capital programme in any period comprises

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

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

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

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

The latest capital strategy is [here](#) and the capital programme is [here](#).

### **Treasury, investment & borrowing strategies**

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

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

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

The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates

remaining much lower than long-term rates, it is likely to be more cost effective in the short term to use internal resources or borrow short-term loans rather than long term loans.

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

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

### **Asset management strategy**

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

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

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

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

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

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

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

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

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

## Commercial strategy and commercialisation transformation programme “being more commercially minded”

The aim of the Commercialisation Transformation Programme, “Being commercially minded”, [ [Commercialisation \(sharepoint.com\)](https://sharepoint.com) ] is to bring together a more cohesive framework for evaluating resourcing decisions and outcomes in respect of all commercial related activities across four themes, as illustrated below:



### Theme 1 - behaving in a more business-like way

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

#### Objectives

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

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

#### Theme 2 - being business friendly

*Aim: To promote local growth and prosperity*

##### Objectives

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

#### Theme 3 - commissioning as one council

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

##### Objectives

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

#### Theme 4 - making money

*Aim: Doing something that generates profit*

##### Objectives

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

#### **Commercial Network**

To support and compliment “Being more commercially minded” a Commercial Network for officer collaboration has been developed to help the Council’s commercialisation aims. The network provides a forum that:

- encourages discussions, share information and ideas
- creates a space for officers to reach out with questions
- provides means to identify opportunity for collaboration
- aims to inspire mutual learning, knowledge share and provide support

- promotes a One Council approach to ‘Being more commercially minded’

### **Commercially Minded – Learning Hub**

Training and resources for officers are very much a focus of “Being more commercially minded” across all the four themes of the programme. To facilitate this a dedicated Commercially Minded area in the Council’s Learning Hub has been created [Explore | Dorset Council \(learn.link\)](#)

This provides training varying from contract management guides with an on-line contract management module to resources such as procurement awareness and summary of the Council’s Contract Procedure Rules and Scheme of Delegation. More training and resources to be added as and when needs are identified.

### **Commercial Board**

For compliment “Being more commercially minded” a Commercial Board has been established to provide support and peer challenge and consideration in respect of commercial activities to ensure that value for money is demonstrated and evidenced. It shall have oversight of commercial activity in such that it will:

- Seek assurance that the commercial activity discussed has been fully explored and evidenced by the business area concerned
- Make appropriate and timely considerations as required by them

### **Commercial Strategy – Commissioning and Procurement**

Under the “Being more commercially minded” programme, a revision to what was the Council’s procurement strategy was approved by Cabinet in November 2021 following recommendation from Place and Resources Overview Committee in September 2021.

This revision, titled Commercial Strategy – Commissioning and Procurement, brings more emphasis on commercial and commissioning, and for the Council to become more commercially minded and more business-like in its activities.

The purpose of the strategy is to provide a mechanism to ensure that the commercial approach to commissioning and procurement takes place in accordance with the Council’s strategic aims, that it is effective and delivers best value to residents.

The principles set out in the Strategy are complimentary to “Being more commercially minded” and supports the Council’s priorities of economic growth; unique environment; suitable housing; strong, healthy communities; and staying safe and well.

Strategy principles being:

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

The Commercial Strategy – Commissioning and Procurement is here [Document Commercial Strategy - Dorset Council](#)

Public Procurement Reforms

The strategy also aligns the Council with changing national legislation namely the Procurement Reforms which was introduced to Parliament as part of the Queen's Speech on 11 May 2022. Details [here](#)

This new legislation aims to streamline and simplify the public sector procurement regulations, which currently mirror EU rules. Making new UK procurement rules that are modern and flexible, with more focus on wider society benefit and community economic growth. It involves replacing the four different regulations covering public contracts, utilities, defence, and concessions with a 'single uniform framework'.

The outcome of the Procurement Bill will need to be considered and reflected, if needed, in any future revision of the strategy.

#### National Procurement Policy Statement (NPPS)

A head of the Reforms, the Government's National Procurement Policy Statement, that was published in June 2021, sets out that contracting authorities' procurement activity must support the delivery of national public sector priorities including generating economic growth, helping our communities recover from Covid-19 pandemic, and supporting the transition to net zero carbon. The importance of efficient, effective public procurement has been underlined by Covid-19 pandemic and that it can play a significant role in the country's economic recovery.

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

- **Social Value** - Creating new businesses, new jobs, and new skills; tackling climate change and reducing waste, and improving supplier diversity, innovation, and resilience.
- **Commercial and procurement delivery** - All contracting authorities should consider whether they have the right policies and processes in place to manage the key stages of commercial delivery and identified in this statement, where they are relevant to their procurement portfolio.
- **Skills and capability for procurement** - All contracting authorities should consider their organisational and capacity, with regard to the procurement skills and resources to deliver value for money.

Details on NPPs is [here](#)

#### **CIPFA FM Code**

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

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

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

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

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

The Council continues to build an evidence base of how it performs against the 17 standards set out in the code and which flow from the six principles. This work in progress is supported by the work stemming from the finance peer challenge.

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

### **Continuing funding challenges**

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

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

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

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

### **Council tax**

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

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

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

Dorset Council's band D council tax for 2022/23 is £1,832.67 and clearly any ambition to reduce council tax in real or relative terms would need to be balanced against the savings that this would require across services. Each 1% of council tax is worth £2.76m at 2022/23 rates.

### **Major Financial Risk**

The overspend on the Special Education Needs (SEN) High Needs Block (HNB) has been the single largest financial risk facing Dorset Council in recent years. It was therefore important for the Council to engage positively with the Department for Education (DfE) as part of the safety valve process and thereby secure financing to support the reduction of the cumulative deficit as part of the recovery strategy.

Whilst the implementation of the plan needs to continue effectively, and at pace in order to fit back into the DSG funding envelope, the agreement between Dorset Council and the DfE is welcome and makes significant contribution to the services being delivered from the DSG becoming sustainable over the medium term.

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

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

### **Next Steps**

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

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

- Surviving the pandemic and resetting the organisation's financial strategy
- Consolidating and right-sizing finance team and functions
- Expanding digital by default agenda further into operations/processing/customer interface
- Building resilience, competence and confidence in the finance team
- Embedding strong financial management throughout the Council as part of our culture
- Providing excellent decision support to the Council's leaders and managers
- Completing the audit of the first year's accounts and resetting the balance sheet
- Rationalising reserves and aligning funds with risk and investment requirements
- Refreshing and maintaining the long-term financial plan and financial strategy
- Delivering a balanced budget for 21/22 (and future years)
- Supporting delivery of tactical and transformational savings

- Developing the organisation commercial approach and behaviours
- Concluding arrangements for Revenue & Benefits Services
- Provide the financial support required to address the High Needs Block overspend
- Provide great financial support and impact within Adult Social Care
- Influence the development of the local integrated care system to ensure the health and care system improves for residents and taxpayers.