

# Cabinet

## 4 October 2022

### Medium Term Financial Plan (MTFP) and budget strategy

#### For Decision

**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:

That Cabinet:

- (i) notes the national context and the headlines from the recent fiscal statement (the mini budget) set out in this paper and its potential impact on this Council and its plans;
- (ii) notes the updated cost pressures set out in this paper and the validation work that has been carried out on them;
- (iii) agrees/updates the assumptions being used in the Medium-Term Financial Plan (MTFP);
- (iv) notes the financial gap arising from (ii) and (iii) above;
- (v) agrees the 2023/24 principles for budget setting;
- (vi) notes the approach to closing the budget gap set out in this paper, recognising that this is work in progress;
- (vii) agrees that Portfolio Holders work with officers to continue to identify and develop further efficiencies and savings;
- (viii) endorses the next steps and timetable leading up to the 2023/24 budget being presented to full Council on 14 February 2023.

## **Reason for Recommendation:**

Councils are required by law to set a balanced budget. Essentially this means that expenditure is balanced by income without unsustainable use of one-off, or short-term sources of finance.

This paper is coming to Cabinet to provide an update on the budget gap for 2023/24 and the subsequent years of the MTFP and to update on progress on action/savings to date including the 2022/23 forecast performance against budget.

### **1. Executive summary**

The purpose of this report is to provide a framework for the budget for 2023/24 and the MTFP for 2023-2028, and to outline the work which will be undertaken during the autumn so the budget can be finalised for the full Council meeting in February 2023.

The MTFP shows how we intend to ensure that money will be prioritised to those services that matter most to residents and how the council will re-shape itself to be better able to deliver those services within the available funding.

This year's budget setting exercise takes place against a national and global background of extreme pressures for councils. There is high and sustained inflation and we have seen a prolonged period of political instability. War in Ukraine and its humanitarian and economic consequences are also being felt globally.

### **2. Financial implications**

Covered within the report.

### **3. Climate implications**

None specifically in this paper.

### **4. Other implications**

None that are not covered in this report.

### **5. Risk assessment**

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

Current Risk: High

Residual Risk: High

The council is required to set a balanced budget. The financial challenges in the aftermath of a pandemic and in the midst of the volatility and turbulence of the current and predicted global backdrop is extremely challenging.

Due to events since the 2022/23 budget was set, Dorset Council is anticipating the use of all of its contingency funding in the current year, and potentially some of its reserves. Savings plans are also falling short of those budgeted and if they cannot be recovered this will have a knock-on impact in 2023/24 and beyond.

Work continues to reduce costs wherever possible but there are certain service areas continuing to face unprecedented demand which cannot be satisfied as the market struggles to meet it. The Council is also part-way through implementing transformation and investment plans to reduce the cost base and inflation is impacting upon those plans themselves.

It is also not yet clear what the incoming Prime Minister's strategy will be for addressing the public finances and how this will feed through into the more detailed Local Government Finance Settlement, which is expected before Christmas.

## **6. Equalities Impact Assessment**

The council's budget is a framework for the council to achieve its priorities, and the requirement to achieve a balanced budget depends upon 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 subject to impact assessments.

## **7. Appendices**

None

## **8. Background papers**

[Budget strategy report 2022/23](#)

[Qtr1 financial management report to Cabinet 2022/23](#)

## **9. National and international contexts**

- 9.1 There is turbulence in global markets, economies, and political backdrops. Much – but by no means all – of this stems from war in Ukraine which is causing significant humanitarian and economic impacts. This comes with huge uncertainty for National Governments and local authorities alike. The volatility around the assumptions we need to make about the future make planning for sustainable public service delivery extremely challenging.
- 9.2 At the time of writing, general inflation is running at 9.9% - but the headline figure is only a limited indicator of the difficulties facing councils generally and this Council in particular. Dorset has geographical and demographic realities which accentuate general inflation. The rurality of the Council area means service delivery has its own challenges and the demographics of the population mean that there are specific challenges supporting residents to live well, independently for longer.
- 9.3 Even if we were able to predict price and volume pressures with total precision, the Council's budgets are effectively cash limited and it is clear that we will be in a situation where we will have to prioritise resources continuously throughout the year to ensure we manage funds effectively.

9.4 This Council has made no secret of its ambition. It is set out variously and can be seen in places such as the reframed council plan and in our capital programme. It is therefore extremely frustrating that economic circumstances beyond our control mean our ambition must be temporarily limited to ensure future viability and sustainability. We simply cannot deliver the breadth and depth of services we wished to in the current climate and achieve best value for money.

## **10. Mini budget statement 23 September 2022**

10.1 The Chancellor of the Exchequer, Kwasi Kwarteng, delivered a mini budget statement on 23 September 2022. More detail will follow in the coming days and weeks, and this will help inform the Council's budget strategy as it develops.

10.2 The Chancellor announced that his budget was intended to deal with three key principles; reforming the supply side of the economy, delivering responsible public finances, and cutting taxes to boost growth. He trailed a raft of measures that are aimed at delivering against these principles. Many of these are outside the scope of this report and can be found in other sources but the headlines which could be directly or indirectly of interest are set out in the following paragraphs.

10.3 The public statement was relatively quiet around resources for public services, despite public finance being a cornerstone of the fiscal statement. Areas where there could be local impacts for Councils, however, include the following:

### National insurance

10.4 National insurance will return to 2021 levels from 6 November 2022. The Health & Social Care levy has been cancelled and the additional costs falling on the NHS and Social Care Services will be funded through general funding and taxation. There is concern in the sector about the quantum being made available for the adult social care funding reforms and the case for reviewing this continues to be pressed with Government.

### Support for energy bills

10.5 There will be a range of measures to mitigate the impact of energy price rises for businesses and individuals. This is likely to cost around £60bn in total in 2022/23 (£31bn for households and £29bn for businesses) but the Chancellor estimates this will reduce inflation by five percentage points. The costs of future support are unclear.

### Corporation tax

10.6 The planned increase in corporation tax from 19% to 25% from 1 April 2023 will not go ahead. This is estimated to save business around £19bn.

### Personal tax

- 10.7 The basic rate of income tax will be reduced to 19p in the £1 from 1 April 2023. The current higher rate of income tax of 45p in the £1 will also be abolished leading to a single higher rate of 40%. Stamp duty thresholds have also been raised.

#### Universal credit

- 10.8 The Government will raise the Administrative Earnings Threshold to bring more claimants who are in work and on low earnings into a more intensive conditionality regime and provide more work coach support. The Government will also strengthen the sanctions regime to set clear work expectations of claimants.

#### Investment zones

- 10.9 The Chancellor announced the creation of investment zones. Government is in discussions with 38 local authorities that have [expressed an interest](#), including Dorset Council. Further details of this will be available in due course and any decision to create investment zones in Dorset will be taken through the appropriate process, in line with the Council's constitution.

#### Surplus public sector land

- 10.10 As well as signalling commitment to reform the planning system, the Chancellor gave a commitment to promoting the disposal of surplus land and specifically mentioned housing as part of this initiative. There is also further potential flexibility around the use of receipts from these disposals to support reinvestment in public services.

#### Tax simplification

- 10.11 The Office of Tax Simplification is to be abolished and there will be a new mandate on the Treasury and HMRC to focus on simplification of taxation. No specific reference has been made to council tax or business rates at this stage.

#### Immediate market reaction

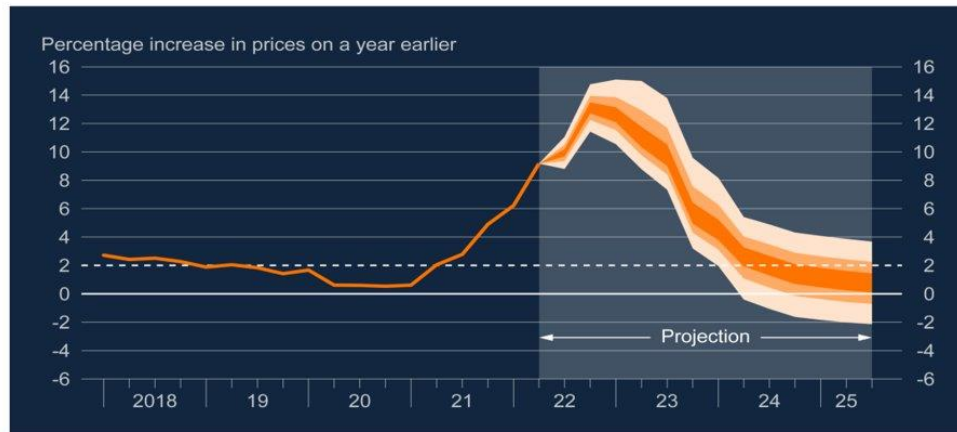
- 10.12 Markets reacted almost immediately to the fiscal statement, with both the dollar and the euro strengthening against the pound.
- 10.13 The yield on bonds also increased as the market moved to price-in increased risk from borrowing to fund tax cuts. There have already been some material movements in medium-term borrowing rates and some analysts have revised their medium-term interest rate forecast to 5.5%.

### **11. Financial contexts**

- 11.1 The Council started this planning round with a budget gap of £15.069m for 2023/24 as the opening position from the last MTFP round. We know from other reports so far this year, that cost and volume pressures have been steadily building, however, and much of the detail of this is set out below.

- 11.2 Since setting the last MTFP, the Council also reached agreement with the Department for Education around funding for the safety valve work supporting the longer-term strategy for SEND. Cabinet has already seen and approved plans for significant capital investment in SEND capacity and the commitment to support that with £3.5m of revenue funds in 2023/24 now also needs to be included in our formal financial plans.
- 11.3 The Qtr1 report to Cabinet set out a forecast overspend for the full, current year of £6.6m (1.99% of a net budget of £331m). The Portfolio Holder indicated at that stage that he was not minded to re-open the budget at that stage but would await the Qtr2 position and make a more informed decision about any need to act at that point. Work to refine the forecast position for the year has continued over the summer and the final significant piece of work to be carried out before the Qtr2 data is ready, is a robust review of savings plans to ensure they are on target.
- 11.4 Failure to deliver savings will impact not just on the current year, but also the base budget for 2023/24 if they cannot be recovered in time for the new year beginning. We must also review whether short-term savings have been made this year to help offset those that fall short from planned work. Whilst this is sound, in-year financial management, the base budget impact of this for future years also needs to be understood.
- 11.5 We also know that inflation has reached double digits in recent months and though it has dipped marginally below that at the time of writing, many commentators are predicting that this could rise again. The magnitude of further increases is subject to a range of forecasts, all of which mean the Council's current plans could be unaffordable as currently set out. Not only is general inflation running at 9.9%, but specific inflation in many Council budgets like fuel and energy outstrips even those numbers.
- 11.6 However, looking at the ONS fan chart, below, of future inflation expectations, it would seem reasonable to assume 6% as the inflation rate average for 2023/24.

**Chart 4: CPI inflation projection based on market interest rate expectations**



Sources: ONS and Bank calculations.

- 11.7 Pay increases for 2022/23 are also likely to be well ahead of budgets and put further pressure on the current year's outturn as well as increasing the base for 2023/24 and beyond. We must also remember that many of our suppliers are also under financial pressure and while the Council cannot underwrite business risks in the supply chain, we are committed to economic growth, high quality local employment and training and vibrant communities, all of which require us to spend locally and sustainably.
- 11.8 The challenge for 2023/24 and beyond is therefore immense; how will the Council achieve a balanced budget whilst continuing to provide an increasing quantum of high-quality services for the residents of Dorset?
- 11.9 There is currently no clarity over the length of the settlement that local government might expect in national expenditure decisions. The political landscape is such that a previous DLUHC Secretary of State, Michael Gove, indicated that there would be a settlement for more than one year, but this is now less certain given the changes in that office, the change in Prime Minister, another DLUHC Secretary of State and the general economic outlook.
- 12. Financial modelling assumptions and the initial budget gap**
  - 12.1 We have already considered the background to the financial planning work for 2023/24. We will now turn our attention to the update of our MTFP, our planning assumptions and the starting point this gives us.
  - 12.2 When Council approved the 2022/23 budget in February 2022, there were still gaps in future years' financial plans as shown in the table below.

MTFP Yr1	MTFP Yr2	MTFP Yr3	MTFS Yr4	MTFP Yr5	MTFP Yr6	MTFP Yr7	MTFP Yr8	MTFP Yr9	MTFP Yr10
2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m	2031-32 £m	2030-31 £m
279.033	286.434	297.237	305.455	313.892	322.564	331.476	340.633	350.037	359.709
46.313	46.544	46.777	47.011	47.246	47.482	47.720	47.958	48.198	48.439
6.234	2.475	2.475	2.475	2.475	2.475	2.475	2.475	2.475	2.475
<b>331.580</b>	<b>335.453</b>	<b>346.489</b>	<b>354.941</b>	<b>363.612</b>	<b>372.521</b>	<b>381.671</b>	<b>391.066</b>	<b>400.710</b>	<b>410.623</b>
331.580	350.523	361.049	370.773	384.387	398.457	412.998	428.030	443.571	459.639
0.000	(15.069)	(14.560)	(15.833)	(20.775)	(25.936)	(31.328)	(36.965)	(42.861)	(49.016)

- 12.3 Rolling forward the financial model and rebasing for the new year and decisions approved by Cabinet since the budget was set, is the first part of the new financial planning process and the finance team continues this work with managers across the Council.
- 12.4 In drawing up the draft budget proposals for 2022/23, a number of assumptions were made for 2023/24 and beyond in the MTFP model which will have to be revisited now - and continuously - up to the point at which the budget is set, as further information becomes available.
- 12.5 The current and proposed, revised assumptions for the budget for the year ahead are set out in the table below, but it should be noted that these are work in progress at this stage. Assumptions about income are clearly the drivers in the budget strategy work as the ability to raise income is what effectively caps our budget with a cash limit which must then be balanced by addressing our expenditure plans.

	<b>Original assumption 2023/24</b>	<b>Revised assumption 2023/24</b>
Council tax increase	<2%	<2%
Council tax base growth	0.75%	0.98%
Social Care Precept	1%	1%
Business rates growth	0.50%	0.50%
Pay award	2.00%	4.00%
General inflation	2.50%	6.00%
Increase in fees & charges	2.50%	5.00%
Employer pension contribution	0% +£750k	0% +£750k

#### Local taxation

- 12.6 Our working assumption for council tax is that the referendum cap will continue to be set at 2% and that the council will need to levy the full amount as part of delivering a balanced budget. We are also assuming a 1% adult social care precept in our workings.
- 12.7 Care will be needed with council tax modelling for the budget, due to the low collection rates that the Council is currently experiencing. Dorset



Council is not alone in experiencing challenges to the rate of collection of Council tax and these are drawn out clearly in quarterly Cabinet reports. The Qtr2 collection data will be available for review at the November Cabinet meeting.

- 12.8 Members will be aware from the outturn and the forecast reports, that business rates are also behind their predicted collection levels. This does not automatically flow through to a shortfall against budget as there are complexities around the accounting. However, there are some real concerns around income being collected and the size of arrears. More information will be provided in the Qtr2 report.

#### Pay award

- 12.9 Agreement for 2022/23 has still not been reached but the current proposals could add £7m to the base pay budget in the current year. In 2023/24, the underlying assumption was for 2% inflation but as can be seen from the table above, the proposal is to revise this upwards in line with broader sector expectations.
- 12.10 In 2022/23, the contingency budget has been effectively repurposed to deal with pay and non-pay inflation pressures that emerged after the budget was set and which could not be contained. Whilst the increased pay costs can therefore be partially absorbed in 2022/23, the impact is to eliminate the contingency budget, which would give the Council no remaining resilience in its 2023/24 budget to deal with matters that arise during the year. The recommendation is therefore that this is maintained at its base budget level of around £9.5m, if feasible.

### **13. Continuing and new budget pressures in the MTFP**

- 13.1 In addition to these revised planning assumptions which Cabinet is asked to consider, managers have been rebasing budgets for the current year and assessing the ongoing impact of spiralling inflation on activities and budgets.
- 13.2 There are also significant new pressures in 2023/24 as well as continuing impacts of price increases. A summary of all of these, building from the opening 2023/24 MTFP budget gap, is set out in the table below. The paragraphs that follow it cover more details on some of the more material budget pressures.

Budget Gap as at 18/01/22	£15,069,868
Increase in tax base growth	(£650,853)
Increase in central grants	(£880,000)
Increase in specific grants	(£11,956,608)
Additional estimate for pay award	£2,898,034
Additional estimate for inflation	£11,219,553
Additional income from fees and charges	(£2,068,056)
Additional estimate for energy	£952,807
Supporting DSG plan	£3,500,000
Fair cost of care allocations	£7,773,668
Reduce MRP	(£1,000,000)
Reduce interest paid for capital programme	(£1,000,000)
Additional income	(£598,000)
Reduce Adult Care Packages	(£5,692,372)
Reduce LAC packages	(£1,291,350)
Adults & Housing pressures	£1,468,634
Place pressures	£3,600,504
Children pressures	£3,614,830
Corporate pressures	£4,235,008
Estimated cost of increments	£3,500,000
Additional 2022/23 pay award	£6,848,345
Adults & Housing savings	(£300,000)
Place savings	(£4,825,856)
Corporate savings	(£377,358)
Reduction of Transformation	(£5,000,000)
Budget Gap as at 22/09/22	<u>£29,040,798</u>

13.3 Portfolio Holders and Lead Members will be working with Executive Directors and their team in the weeks ahead to understand and manage these pressures in order that the budget can be balanced.

#### 14. Draft budget principles

14.1 All budget work needs process and method, and these must be structured around principles to be used to develop the budget. The principles are intended to be constructed as helpful language we can use to describe how we will do our work to balance the budget and take difficult decisions about how to deliver the priorities and outcomes in the Council Plan.

14.2 These principles are set out below, for Cabinet's endorsement and to shape the remaining budget strategy work:

- we will not balance the budget strategy by using reserves;
- resource allocation will be driven by the Dorset Council Plan and priorities;
- services should be protected where possible but clearly demonstrate value for money and improved efficiency;
- we should seek to maximise the savings from becoming a unitary council;
- we will continue to take an increasingly commercial approach;
- we will use best practice around business cases for our decision making and we will be open to invest to save opportunities;

- 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;
- we will develop short-term and long-term transformational savings plans;
- resource allocation must take place within the overall framework of the financial strategy agreed by Cabinet;
- where possible, new funding from Government should be applied to existing spend priorities and pressures.

## **15. Transformation and savings**

- 15.1 We have identified that the organisation needs a short-term focus on savings as well as a longer-term emphasis on transformation. This is coming into sharper focus given that some of the current savings will not be delivered and more are still at risk.
- 15.2 More work is in progress to identify savings over the longer term for input into the MTFP as well as 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.

## **16. Further work to close the gap**

- 16.1 Clearly there is much work to be done and the proposed next steps are:
- a. continue to validate, test, challenge and update the budget assumptions;
  - b. continue to identify and implement savings, taking advantage of the financial efficiencies that becoming a unitary council has presented;
  - c. refresh the Transformation Plan and develop transformational savings which will reduce the financial gap whilst protecting front-line services;
  - d. continue to engage with consultation processes around funding formulas for the future and particularly for the CSR and settlement for 2022/23;
  - e. Cabinet to consider its approach to council tax. Each 1% change in the precept generates around £2.7m for the council. The Qtr 2 report to Cabinet will deliver clearer information about the collection rates for local taxes at the halfway point in the year.

## **17. Timetable**

- 17.1 The major milestones in the remaining budget and MTFP timetable are set out in the table, below.

4 October	Cabinet (high level framework)
1 November	Cabinet (Q2 and transformation)
15 November	Member Scrutiny Workshop 1
28 November	Member Scrutiny Workshop 2

9 December	Scrutiny Committee 1
12 December	Scrutiny Committee 2
17 January	Budget to Cabinet
14 February	Budget to full Council

## **18. Risk**

- 18.1 There is significant risk in our planning assumptions at this stage. Officers' initial work has led to the crystallisation of a £29m budget gap in 2023/24 that we now need to develop plans to close. We are also unclear how the spending review will translate into a settlement for local government, especially given the political and economic turbulence.
- 18.2 Adult Social Care reforms, inflation and pay awards continue to be the main focus but these are not our only risks. Risk and sensitivity of the budget to volatility in planning assumptions are key aspects of the financial model and budget development.

## **19. Capital programme**

- 19.1 The capital programme for 2022/23 was approved by Cabinet as part of the budget setting process and this figure was revised as part of the outturn report to Cabinet in July 2022, to clarify the actual slippage added to the 2022/23 MTFP approvals.
- 19.2 As noted in that report, the total programme now runs to some £259.8m of gross expenditure. As part of the refresh of the programme for 2023/24, this figure will be updated to reflect the revised SEND capital allocation approved by Cabinet in September and the additional investment earmarked for Adult Social Care spending approved in July.
- 19.3 CSAMG subgroups are also developing capital programme proposals for 2023/24 and beyond, so we are running the affordability work alongside the new bidding round. This will ensure there are clearly formed ideas to share with Cabinet prior to the budget work being completed and ready for Council consideration in February 2023.

## **20. Steer from Cabinet and next steps**

- 20.1 The council continues to press the case for additional resources with Government. We do this directly, through Dorset's MPs, with peers and through networks like the Society of County Treasurers (SCT), the County Councils' Network (CCN) and with the Local Government Association (LGA). But campaigning alone will not deliver enough resources to meet all of our challenges and we must focus on reducing costs and growing income at the same time.
- 20.2 Closing the budget gap cannot be achieved through efficiency alone; the magnitude of the cost reductions we need to deliver is too large and it is therefore inevitable that service delivery will be impacted. This paper talked earlier about delivering the Council's priorities and that is still our intention, but that ambition will necessarily be affected by the ways in

which we will need to change services to protect residents and deliver services in a way which keeps people safe and does as much as we possibly can to support employment and local prosperity.

- 20.3 Scrutiny of the budget process will also be more important than ever to ensure our methods and choices are the most appropriate way of closing the budget gap whilst delivering a sustainable organisation for the future. Place & Resources Scrutiny Committee is also due to review the developing Commercial Strategy's implementation with particular emphasis on income generation.
- 20.4 We will also need time to carry out any necessary public consultation on the proposals and to ensure officers have time to carry out equality impact assessments.

## **21. Summary and conclusions**

- 21.1 The circumstances surrounding the 2023/24 budget round are the most challenging in our collective memory. Dorset Council is not alone in facing significant financial challenges, but we do need to find local solutions as well as making the case for further national investment in resources for this Council.
- 21.2 Many of the pressures, risks and the national context is familiar to the rest of the sector. However, we do have to develop solutions to close the budget gap, and this will require creativity, energy and focus to be successful.

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.