

Cabinet

23 January 2023

Budget strategy and medium-term financial plan (MTFP)

For Recommendation to Council

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

Local Councillor(s): All

Executive Director: A Dunn, Executive Director, Corporate Development

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Report Status: Public

Recommendation:

Cabinet is asked to agree and to recommend to Council:

1. the revenue budget summarised in Appendix 1;
2. the increase in general council tax of 1.9987% and 1.9987% in the social care precept, providing a band D council tax figure for Dorset Council of £1,905.93; an overall increase of 3.9974%;
3. to note the council tax base agreed by the S151 Officer earlier in this budget setting process;
4. no change to the current scheme of Local Council Tax Support as set out in this report;
5. the capital strategy set out in Appendix 3 and note the review in progress around the current capital programme and emerging bids;
6. the treasury management strategy set out in Appendix 4;
7. the assumptions used to develop the budget strategy and Medium-Term Financial Plan (MTFP), as set out throughout this report and summarised in Appendix 5;
8. the recommended balances on earmarked reserves and on general funds, including the minimum level of the general fund, the application of a further £3.5m of reserves to support the safety valve agreement, and the repurposing of £3m of the Council's other reserves for spend-to-save investment in transformation;

9. the fees and charges policy set out in Appendix 6;
10. in making these recommendations, Cabinet is requested to consider and agree the responses to the recommendations and comments made as part of the budget scrutiny process (Appendix 7);
11. recommendations 1-6 from the 8 December 2022 Harbours Advisory Committee meeting regarding fees and charges, budgets and asset management plans;
12. agree and recommend to Council the flexible use of £5.3m of capital receipts for the purposes of transforming the Council's asset portfolio over the next three to five years. Work with DLUHC is ongoing to confirm this.

Reason for Recommendation

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

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

The draft budget proposals have been considered by the Place and Resources Scrutiny Committee and by the People and Health Scrutiny Committee and their recommendations are set out in appendix 8 for Cabinet consideration.

1. Executive summary

This report sets out proposals for Dorset Council's 2023/24 revenue and capital budgets and summarises the medium-term financial plan (MTFP), which covers the following four years to 2027/28. The report also includes the capital strategy and the treasury management strategy.

The budget proposals are built around the priorities identified in the Dorset Council Plan and were considered by the Dorset Council Scrutiny Committees on 10 and 12 January 2023. This paper contains details of Cabinet's responses to the matters raised by those Committees.

This budget continues to reflect members' priorities of resource allocation into front line services wherever possible and this is reflected in the areas of growth set out in the analysis in this paper.

In recent years, the Council's budget setting has taken place against a backdrop of a pandemic. Whilst the prominence of this global event may have waned, the impact is still being felt, not only through the virus still presenting itself and causing serious illness and death, but also in the aftermath of health and care systems coping with the continuing impact and the emerging arrangements, post-pandemic.

This budget is being set against a global economic backdrop of high inflation, economic volatility, a cost-of-living crisis and industrial action across many public services.

This paper also provides an update on funding announced in the local government finance settlement on 19 December 2022.

2. Financial implications

All covered within the report.

3. Well-being and health implications

None specifically identified in this report.

4. Climate implications

Protecting Dorset's natural environment is a key priority area, as articulated in the refreshed Council plan. Work is continuing to ensure that Council-wide approaches are embedded into both our operations and decision-making, and progress has been very strong with reductions in emissions of 26% from 2019 based on a number of significant financial commitments, including:

- The £10m Dorset Council capital has been invested into key areas such as fleet transition, electric vehicle infrastructure, street light replacements and estates.
- The £19m Salix Public Sector Decarbonisation scheme is now largely complete, with measures installed on over 200 buildings. Carbon emission reductions of around 20% on Dorset Council buildings have been achieved.
- An additional £2.7m has been secured for public electric vehicle infrastructure via the LEVI fund.
- The Low Carbon Dorset programme has completed projects with a total value of £15.1m, with another £2.3m total value contracted to complete by the end of January. The total value of projects is therefore likely to be £17.4m, and of this around £9m is match funding.
- Of the £4.5m allocated to Dorset for the Shared Prosperity Fund, around £400k has been provisionally allocated to support existing programmes.
- £385k of additional capital (including £285k of government funding) has been allocated to Healthy Homes Dorset programme to support Dorset Residents with home energy efficiency measures.
- £1.3m has been secured from Defra for Dorset to run the Farming in Protected Landscape scheme, which is being run by the Dorset AONB.
- Significant bids for funding have also been submitted to the Homes Upgrade Grant the Net Zero Pioneer funds.
- Appendix 1a shows the budget for climate change support costs of £0.2m. In addition to this there is further funding for climate change which sit within the relevant service areas.

As part of the ongoing re-alignment of resources towards the climate and ecological programme, during this financial year a Corporate Director has been appointed and four additional officers have now been added to the sustainability team. A climate and ecology operational group and Corporate Leadership Team (CLT) sub-group is now in operation, alongside a dedicated programme manager and programme support resources.

Communications support is now well embedded into the programme, and revenue support has been provided from the transformation team alongside

wider Council support for the Low Carbon Dorset project. Significant officer time from throughout Dorset Council is now committed to running projects such as electric vehicle infrastructure, fleet and estates transformation. It is expected that this corporate approach and realignment of resources will accelerate further during the next few years.

5. Other Implications

Nothing specific.

6. Risk assessment

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

Current Risk: High

Residual Risk: High

The Council is required to set a balanced budget. The financial climate remains extremely challenging, and the risks therefore remain high for all local authorities as we aim to deliver value for money and financial sustainability in a highly volatile environment.

The Council is forecasting an overspend in 2022/23. The Quarter 3 financial management report provides analysis of that estimate and is a separate item on the same agenda as this report.

The provisional local government finance settlement was published on 19 December 2022 and, though the Council is still working through the detail of some of this, headline conclusions and assumptions are set out in this report.

The short-term nature of the settlement is again a risk and affects our ability to plan for strategic service delivery in the longer term. This Council continues to call for a longer-term, rolling settlement which would provide greater certainty over resource levels.

Despite the mitigations and the governance framework around strategic and financial performance that the Council has in place, the S151 Officer deems the risk still to be *high*. Pressures continue to build in the Medium-Term Financial Plan (MTFP) and around the High Needs Block (HNB) of the Dedicated Schools Grant (DSG).

7. Equalities impact assessment

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

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

8. Appendices

1. High-level consolidated revenue budget summary and directorate budget summaries
2. Council tax resolution (for the Council report only)

3. Capital strategy 2023-2028
4. Treasury management strategy 2023/24
5. Summary of financial planning assumptions
6. Fees and charges policy 2023/24
7. Response to the issues raised by the Scrutiny committees
8. Harbours Advisory Committee budget proposals for 2023/24

9. Background papers

[Medium term financial plan and budget update to Cabinet 4 October 2022](#)

10. Introduction, context and priorities

- 10.1 The refreshed Dorset Council Plan 2022-24 was agreed by Council in October 2022. The plan is underpinned by five key priorities for 2022-24 and details the steps we will take to deliver our vision to make Dorset a great place to live, work and visit.

Driving economic prosperity - We will support sustainable economic growth across the county, enabling high-quality jobs through improvements to productivity, sustainability, and accessibility, creating great places to live, work and visit.

Creating stronger, healthier communities - We will enable our residents, working with partners, to develop strong networks of support and maintain strong communities. We will focus on the most vulnerable in our communities to improve wellbeing and reduce inequality through collaboration between public services, community leaders, residents and voluntary groups.

Creating sustainable development and housing - We will work with government, registered housing providers, community land trusts and local housing partners to deliver affordable, suitable and decent housing. We will ask for their support to help us promote our climate and ecological priorities by providing sustainable services such as rainwater harvesting, solar panels and other such approaches.

Protecting our natural environment, climate and ecology - We will improve access to, and use of, Dorset's environment in a sustainable way which protects it for future generations.

Becoming a more responsive, customer focused council - We will continue to be responsive, fair, and efficient in how we deliver services to our customers by listening and learning from their experiences. We will strive to constantly improve with an emphasis on innovation and working with you in a collaborative approach.

- 10.2 Aligned to the Dorset Council Plan, Cabinet has approved the Transformation Plan, which described the approach that the Council is taking to redesigning services, so that the Council's priorities can be met with the funding available.
- 10.3 Significant progress has been made in delivering on these priorities. However, the Covid-19 pandemic and now the cost-of-living crisis continues to prove to be a huge challenge. The impact on the Council's financial position and performance has been dramatic as income levels have fallen while service

demand and expenditure has increased. There is still a substantial amount of risk and volatility around our assumptions, and this is covered in more detail later in this report. The local government finance settlement has been broadly positive despite some of the policy detail needing clarification.

- 10.4 The challenge for 2023/24 and beyond continues to be how will the Council achieve a balanced budget whilst continuing to provide high quality services for the residents of Dorset.

11. Environmental volatility and uncertainty and budget assumptions

- 11.1 It is extremely difficult to estimate how future inflation and other global events will be felt by local authorities. However, we are required by law to set a balanced budget and we must build our MTFP and budget strategy with the best information and knowledge we have available and with clarification around the risks involved and the mitigations supporting them.
- 11.2 The latest budget assumptions are shown in the table in appendix 5 for transparency. It should be noted that these are forecasts of what will happen on top of the base budget that was built for 2023/24. We should also be clear that there are cases where the reader may disagree with the assumptions – there may be a challenge around the level at which we have set inflation, for example.
- 11.3 The approach to inflation for 2023/24 has been to include pay inflation of 4% and to add 6% for general inflation. The Council expects a continuation of good contract management practice with suppliers to ensure productivity, efficiency and sustainability are also reviewed at the same time as the scope for price increases. The Council’s budgets are essentially cash limited and we cannot therefore afford to award full inflationary uplifts for all service contracts.
- 11.4 As well as general inflation, the budget proposals make provision for further, specific inflation where we know that this is going to be necessary – and in some cases, where we have received specific grant from Government to deliver this, such as the expectations around increases in care markets resulting from increases in the minimum wage. A summary of price increases built into the budget across directorates, in addition to general inflation, is shown in the table below.

	Original assumption 2023/24	Revised assumption 2023/24
Council tax increase	<2%	<2%
Council tax base growth	0.75%	1.2%
Social Care Precept	1%	2%
Business rates growth	0.50%	4.67%
Pay award	2.00%	4.00%
General inflation	2.50%	6.00%
Increase in fees & charges	2.50%	5.00%
Pension deficit contribution	0% +£750k	0% -£988k

12. Fees and charges

- 12.1 An average increase in fees and charges that the Council levies has also been estimated at 5%. For some services the charges will be higher, and in others it will be lower.
- 12.2 The Council has also developed a fees and charges policy for full implementation from 2023/24. This is attached at Appendix 6. The policy has been through the Corporate Leadership Team and Senior Leadership Team and has also been considered by the Place & Resources Overview Committee on its way to Cabinet as part of this budget strategy.
- 12.3 Implementation and subsequent monitoring to ensure the success of policy objectives is a significant step towards the Council covering more of its costs and placing less demand on general funding. Increasing income also comes with increased risk, however, especially when operating in a competitive market. As revenues grow, so does risk and the resource required to manage new business efficiently.

13. Provisional local government finance settlement

- 13.1 The local government finance settlement was announced on 19 December 2022. It followed the publication of a finance policy statement on 12 December that set out Government's intentions for the local government finance settlement for the next two years.
- 13.2 The Council is still working through the detail of the statement, but the headlines and assumptions we are making and including in the budget strategy are set out below and throughout the rest of this report.
- 13.3 Headline information for the sector is shown in the table below, for the five years Dorset Council has been established. More detail follows on the Council's own draft settlement figures.

Illustrative Core Spending Power of Local Government:					
	2019-20	2020-21	2021-22	2022-23	2023-24
	£m	£m	£m	£m	£m
Settlement Funding Assessment	14,559.6	14,796.9	14,809.7	14,882.2	15,671.1
Compensation for under-indexing the business rates multiplier	400.0	500.0	650.0	1,275.1	2,204.6
Council Tax Requirement excluding parish precepts ¹	27,767.8	29,226.9	30,308.2	31,922.5	33,838.4
Improved Better Care Fund	1,837.0	2,077.0	2,077.0	2,139.8	2,139.8
New Homes Bonus	917.9	907.2	622.3	556.0	290.6
Rural Services Delivery Grant	81.0	81.0	85.0	85.0	85.0
Winter Pressures Grant ²	240.0	-	-	-	-
Social Care Support Grant	410.0	-	-	-	-
Social Care Grant ³	-	1,410.0	1,710.0	2,346.4	3,852.0
Market Sustainability and Fair Cost of Care Fund	-	-	-	162.0	-
ASC Market Sustainability and Improvement Fund ⁴	-	-	-	-	562.0
Lower Tier Services Grant	-	-	111.0	111.0	-
ASC Discharge Fund	-	-	-	-	300.0
Services Grant	-	-	-	822.0	464.2
Grants rolled in	231.6	232.3	238.1	238.6	-
Funding Guarantee	-	-	-	-	136.0
Core Spending Power	46,444.9	49,231.4	50,611.4	54,540.5	59,543.8
Change in CSP (£ millions)	-	2,786.5	1,380.0	3,929.1	5,003.3
Change in CSP (%)	-	5.66%	2.73%	7.20%	8.40%

Settlement Funding Assessment (SFA)

- 13.4 SFA is the local share of business rates and revenue support grant (RSG). Members will recall that Dorset Council has received no RSG up until this point – in fact our RSG was negative and was offset by the Government by

using the central share of business rates. However, for the 2023/24 settlement, Government has rolled some other grants into RSG meaning that Dorset Council now receives £654k from this funding source.

- 13.5 Contextually, RSG nationally is being increased by CPI% for 2023/24 before grants are rolled in so those that continue to receive it will benefit from this funding growth. Dorset Council finds this a particularly unhelpful aspect of the national funding arrangements.

Business rates

- 13.6 The business rates multiplier is being frozen at 0.499 but councils will be compensated for this through S31 grant. The exact quantum of this is unclear at present until we complete our own business rates modelling work.
- 13.7 Dorset Council does not simply take the headline figures for business rates budgets from the settlement, this means we do not set a budget which has the same core spending power (CSP) uplift as the settlement. Dorset Council has allowed for around £2m increase in the business rates yield in 2023/24 but there is too much risk in setting a less prudent estimate before the NNDR1 figures are produced. The Council does its own calculations based on circumstances we understand better locally than are modelled in Government's formula.

Council tax

- 13.8 The announcements have confirmed that the existing limit for a local referendum will be raised to 3% – so a proposal to increase council tax by 3% or more will trigger a local referendum. There is also provision for councils with social care responsibilities to raise the adult social care precept by a further 2%. These changes apply for 2024/25 as well as 2023/24. Dorset Council has not yet made any policy decisions around council tax levels beyond 2023/24.
- 13.9 These budget proposals include a core council tax increase of 1.9987% and an adult social care precept increase of 1.9987%. The proposed total increase is therefore 3.9974%, which results in an annual band D council tax charge of £1,905.93. This is an increase of around £1.40 per week on the 2022/23 charge. The council tax charges proposed for each band for 2023/24, for Dorset Council only, are set out in the table, below.

2023/24	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Core	£1,110.84	£1,295.98	£1,481.12	£1,666.26	£2,036.54	£2,406.82	£2,777.10	£3,332.52
Social Care Precept	£159.78	£186.41	£213.04	£239.67	£292.93	£346.19	£399.45	£479.34
Total	£1,270.62	£1,482.39	£1,694.16	£1,905.93	£2,329.47	£2,753.01	£3,176.55	£3,811.86

- 13.10 The council has calculated its tax base as 152,424 band D equivalent properties, compared with 150,617.9 for the previous year. The Council is also anticipating a £1.6m surplus on the council tax collection fund for 2022/23 and this is factored into the 2023/24 budget as one-off funding.

Public sector pay

- 13.11 Public sector pay costs increased significantly in 2022/23 with the implementation of the £1,925 increase across all spinal column points. This added around 8% to Dorset Council's pay bill.

13.12 As noted earlier, for 2023/24 the assumed pay increase is 4%, which amounts to approximately £6m.

13.13 The national living wage (NLW) will increase by 9.7% to £10.42 from 1 April 2023. It will apply to people aged 23 and above, and the Government continues to aim for a NLW which is two-thirds of median incomes by 2024.

Delaying charging reform – repurposed funding

13.14 Government has already announced that charging reforms for adult social care will be deferred by two years from the planned implementation date of October 2023. What is now clear is that £1.265bn in 2023/24 and £1.877bn in 2024/25 will be distributed as additional funding to the social care grant as a repurposing of that funding. More details on Dorset Council's share of the fund are below.

New grant funding for discharge

13.15 £300m in 2023/24 and £500m in 2024/25 is being made available nationally. This is 50% of the funding announced for this purpose at the Autumn Statement – NHS England will receive the other 50%. Funds will have to be pooled through the Better Care Fund (BCF) process, but this is in addition to the existing BCF rather than repurposing. More details on Dorset Council's share of the fund are below.

Ringfenced grant to support capacity and discharge

13.16 Nationally, £400m in 2023/24 and £683m in 2024/25 is being provided in a separate, ringfenced grant for capacity and discharge. More details on Dorset Council's share of the fund are below.

Fair cost of care funding

13.17 £162m nationally is being made available in each of the next two years to support further work on the fair cost of care. This started in 2022/23 and is therefore a continuation of the funding to support work in this area. Dorset Council receives £1.2m through this fund.

Services grant

13.18 The Services Grant will be reduced from £822m to £464.2m nationally. The Government suggests this is to account for the cancellation of the increase in National Insurance Contributions and to route some funding to the Supporting Families programme.

13.19 The distribution of the remaining grant will continue to follow the Settlement Funding Assessment as previously. Dorset's allocation of this grant amounts to £1.7m compared with £3.1m in 2022/23.

New homes bonus

13.20 The New Homes Bonus will continue in 2023/24 with a new round which will attract no legacy payments. Dorset Council's allocation is £1.8m in 2023/24, compared with £3.8m in 2022/23. This reduction had been assumed in our budgeting work.

Rural services delivery grant

13.21 The rural services delivery grant will remain unchanged, Dorset Council's share is £2.5m in 2023/24.

Lower tier services grant

13.22 The lower tier services grant (£111m nationally) and a proportion of expired new homes bonus legacy payments (£276m nationally) will be repurposed to guarantee that all authorities will see an increase in Core Spending Power (CSP) of at least 3%, before additional council tax income is factored in.

13.23 Dorset Council's position is such that we do not benefit from this fund as our increase in CSP is above 3%.

Dedicated Schools Grant (DSG)

13.24 The Government has announced the extension to the statutory override for the DSG for the next three years from 2023/24 to 2025/26. In practical terms this means that the cumulative overspend on the DSG will not fall to be funded from the Council's reserves but will instead continue to be treated as a separate, negative reserve on the Council's balance sheet.

13.25 Cabinet's approval is also sought for the Council's safety valve agreement with the Department for Education (DfE) in the form of an additional £3.5m of reserves in 2023/24 to reduce the cumulative overspend. Previous planning assumptions were that this would be funded from the revenue budget.

Dorset Council core spending power (CSP) changes

13.26 The table below sets out year-on-year changes in the published CSP figures. The settlement was broadly in line with our expectations. Additional funding for social care was provided but this will be neutral to the budget and is as described above in this report, with further detail in the service-specific areas below.

Illustrative Core Spending Power of Dorset Council:					
	2019-20	2020-21	2021-22	2022-23	2023-24
	£m	£m	£m	£m	£m
Settlement Funding Assessment	43.6	44.3	44.3	44.3	46.6
Compensation for under-indexing the business rates multiplier	1.4	1.8	2.3	4.5	7.8
Council Tax Requirement excluding parish precepts ¹	241.3	251.5	263.9	276.0	292.2
Improved Better Care Fund	10.4	12.1	12.1	12.5	12.5
New Homes Bonus	3.8	3.0	1.7	3.8	1.8
Rural Services Delivery Grant	2.4	2.4	2.5	2.5	2.5
Winter Pressures Grant ²	1.7	-	-	-	-
Social Care Support Grant	2.9	-	-	-	-
Social Care Grant ³	-	9.0	9.4	13.3	22.3
Market Sustainability and Fair Cost of Care Fund	-	-	-	1.2	-
ASC Market Sustainability and Improvement Fund ⁴	-	-	-	-	4.0
Lower Tier Services Grant	-	-	0.4	0.4	-
ASC Discharge Fund	-	-	-	-	1.7
Services Grant	-	-	-	3.1	1.7
Grants rolled in	1.1	1.1	1.2	1.2	-
Core Spending Power	308.7	325.2	337.7	362.7	393.2
Change in CSP (£ millions)		16.5	12.6	25.0	30.5
Change in CSP (%)		5.35%	3.86%	7.40%	8.41%

14. Local council tax support (LCTS) scheme

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

- 14.2 LCTS replaced the National Council Tax Benefit Scheme in 2013. It is means tested and is based on customers' circumstances. If successful, an applicant can reduce their council tax liability by up to 100%. In line with government criteria, the Dorset scheme provides that older people and working age customers who are vulnerable may receive a reduction of up to 100% of their council tax liability. For working age customers who are not vulnerable, awards are capped at 90%.
- 14.3 So, for example, a working-age customer who is not vulnerable has a council tax charge of £2,000 per year. Based on their income and household circumstances, they are entitled to maximum council tax support. The maximum support is limited to 90% of the charge, so their award would be £1,800 and they will still have to pay the remaining £200.
- 14.4 The cost of the LCTS scheme is met by the collection fund in the same way as council tax discounts, exemptions and reliefs. The cost of the scheme for the 2021/22 was £29m, the cost of the scheme in 2022/23 will be advised as part of the current year's outturn reporting.
- 14.5 In preparing this budget strategy report, consideration has been given to the current scheme to assess if it is still fit for purpose. Officers have reviewed the scheme and propose no changes for 23/24. We have given full consideration to the effectiveness of the scheme and the impact of covid 19 and the cost-of-living crisis on our current customers and are satisfied that no proposals should be made at this time.
- 14.6 We continue to monitor the scheme and have scheduled a full review during 2023/24. Any potential modelling and option changes which will be subject to full, detailed public consultation to ensure Dorset residents continue to receive the most suitable, affordable support.
- 14.7 As part of the Autumn Statement 2022 it was announced that Local Authorities would be provided with funding under the Council Tax Support fund. Recipients of LCTS with a balance to pay in respect of the 2023/24 liability will be awarded £25 towards reducing any sum due. If the total amount to pay is less than £25 they will be granted the amount due up to £25 as accounts cannot be placed in credit. Customers will not need to claim this additional support as entitlement will be calculated and applied on their behalf.
- 14.8 As of 1 December 2022, Dorset Council was providing LCTS to 22,320 claimants.
- 15. Flexible use of capital receipts**
- 15.1 Dorset Council is undertaking a service reconfiguration of both its Assets & Property department and Regeneration and Economic Development functions.
- 15.2 A whole-system approach to converging these two strategic functions will lead to the delivery of restructuring leading to transformation. £5.3m of previously unallocated capital receipts will be used to fund the service reconfiguration, structural changes, and operating model refinements to provide the Council with a centralised, corporate landlord property and asset management approach as agreed by Cabinet in November of 2020.

15.3 Changes will result in increased strategic capacity, new business partnering roles into the services, additional delivery capacity, and further operational support capability to identify and drive additional land and asset reviews to release surplus sites generating further longer-term revenue savings for the authority whilst providing land holdings primarily for residential and economic development activities.

16. MTFP process and budget development

16.1 The budget approved in February 2022 showed there was a MTFP gap, including planned savings, of £20.775m from 2023/24 to 2026/27, of which £15.069m arose in 2023/24.

16.2 Following on from a review of our assumptions and accumulating cost and demand pressures, the budget gap moved on as summarised in the table below, which was presented to Cabinet on 4 October 2022.

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>

16.3 It was clear that rising demands were having an impact on the MTFP and increased the budget gap from £15m to £29m. Cabinet requested that officers should work with their Portfolio Holders and Lead Members to consider a wide range of transformation and efficiency savings that would close the budget gap.

16.4 Over the time since then, officers have worked through a number of savings and transformation options to help close the budget gap. This information was shared with all members at informal briefings. This work has enabled the budget gap to be closed as follows:

Budget Gap as at 22/09/22	£29,040,798
Increase in council tax yield	(£3,424,528)
Increase in business rates growth	(£2,008,443)
Change in grants	(£1,218,085)
Change in inflation	£80,221
Change of DSG support to reserves	(£3,500,000)
Decrease in Adults pressures/savings	(£6,100,900)
Decrease in Corporate pressures/savings	(£1,451,699)
Decrease in Children's pressures/savings	(£1,250,026)
Decrease in Place pressures/savings	(£967,831)
Reduction of pay estimates built in centrally	(£2,199,193)
Change in LGPS secondary rate	(£1,738,000)
Change in collection fund surplus	(£1,600,000)
Reduction in contingency	(£1,262,314)
Use of grant funding	(£2,500,000)
Reduction in rent recovered	£100,000
Budget Gap as at 22/12/22	<u>£0</u>

17. Setting a balanced budget

17.1 In the October budget report to Cabinet, we reflected that all budget work needs process and method, and these must be structured around a framework – in this case, a draft statement of principles – to be used in developing the budget. The principles were intended to be constructed as helpful language to be used to describe how we would do our work to balance the budget and take difficult decisions about how to deliver the priorities and outcomes in the Council Plan. The principles are:

- i) we will not balance the budget strategy by using reserves
- ii) resource allocation will be driven by the Dorset Council Plan and priorities
- iii) services should be protected where possible but clearly demonstrate value for money and improved efficiency
- iv) we should seek to maximise the savings from becoming a unitary council
- v) we will develop short-term and long-term transformational savings plans
- vi) we will continue to take an increasingly commercial approach
- vii) we will use best practice around business cases for our decision making and we will be open to invest to save opportunities
- viii) budgets should be realistic to achieve the objectives of the council and we must hold ourselves to account for their delivery and sound financial management.

17.2 These principles were in turn built upon the Council's priorities as set out in the plan approved by Council and summarised earlier.

17.3 Aligned to the Dorset Council Plan, Cabinet approved the Transformation Plan, which described the approach that the Council will take to redesigning services, so that the Council's priorities could be met with the funding available.

- 17.4 Significant progress has been made in delivering on these priorities. However, the legacy of the Covid-19 pandemic, and the rapid rise in inflation have had a dramatic impact on the Council's financial position and performance. There is still a substantial amount of risk and volatility around our assumptions.
- 17.5 The Council continues to face cost pressures specifically relating to the state of the global economy and these have been well documented in quarterly financial management reports to Cabinet, in specific briefings and in the budget update provided for Cabinet in October. More detail on budget movements is shown in the appendices to this paper and these should be read alongside the directorate updates below.

18. New financial strategy

- 18.1 During 2021/22, as part of the response to the challenge of complex financial management during the pandemic, the Cabinet agreed a new financial management strategy statement.
- 18.2 The previous strategy had been written as a short-term policy prior to Local Government Reorganisation (LGR) and was mainly concerned with seeing the Council through the first year or so as a new organisation. However, the pandemic caused a pause in many areas of work, including on the financial strategy, meaning it was only approved by Cabinet on 8 November 2021.
- 18.3 The strategy was subsequently revised and approved by Cabinet as part of the review of the outturn for 2021/22 and preparations for the budget round for 2023/24. It brings together many aspects of the Council's business including financial management, commercialism, procurement, treasury, investments and reserves and is a document which underpins all financial management, including this budget strategy. It is essential reading alongside this report and will continue to be updated annually as part of the budget preparation work.
- 18.4 The only notable – and exceptional - departure from the financial management strategy for 2023/24 is that £3.5m of contributions from reserves are being used to support the SEND strategy through the safety valve agreement with the DfE. This was previously planned to come from revenue budget contributions, but reserves will be used instead in 2023/24 to make a one-off contribution to reduce the cumulative debt. Funding has been earmarked for this purpose.

19. Summary budget proposals

- 19.1 Analysis of budget movements and savings is set out in the individual Directorate/Service sections of this report and in the appendices. If adopted, this budget strategy will deliver a balanced budget in 2023/24 and the following gaps, still to be resolved, for the following years of the MTFP.

	Previous Year Budget 2022-23	MTFP Yr1 Budget Setting 2023-24	MTFP Yr2 2024-25	MTFP Yr3 2025-26	MTFS Yr4 2026-27	MTFP Yr5 2027-28
DC net Budget	333.226	347.262	368.858	382.781	395.212	413.403
DC Funding resources	333.226	347.262	355.044	363.628	372.448	381.508
Gap (Surplus) / Deficit	0.000	0.000	13.815	19.153	22.763	31.895

20. Directorate-level context updates

20.1 This section of the report deals with the budget contexts for each of the Council's directorates.

Adults Services & Housing

- 20.2 Adults and Housing have had a busy year supporting the system with the demand from Hospital Discharges with no additional funding. Through the ICB, partners are seeking a way forward to rebalance demand across the out of hospital pathway, improve system resilience and improve outcomes for people.
- 20.3 A step towards this is the accelerator programme which is jointly funded with our health colleagues through the Better Care Fund. This is a positive step forward which aims to deliver new bedded reablement services, investment in creating capacity across the community to support long-term care through homecare and a model of trusted assessment which will minimise hospital assessment for on-going care need and speed up the discharge process.
- 20.4 In year, a national fund of £1.36bn was allocated to support changes to the fee levels paid by local authorities, and the associated reform of commissioning systems that will be required. The Council was required to do three things to access the fund:
- undertake 'cost of care' exercises for 65+ care homes and 18+ domiciliary care settings;
 - develop a market sustainability plan, using the cost of care exercises as a key input to identify risks in the local market, with a final plan to be submitted in February 2023; and
 - submit a spend report detailing how funding allocated for 2022/23 is being spent in line with the fund's purpose.
- 20.5 Dorset Council was allocated £1.152m in 2022/23 which was used alongside additional, non-recurrent funding from health, to move towards paying the fair cost of care to its providers based on the findings from the cost of care exercise.
- 20.6 As set out in the Autumn Statement, the government is making available up to £2.8 billion of additional funding in 2023/24 and up to £4.7 billion in 2024/25 to support adult social care and hospital discharge. The biggest funding increase for adult social care in history.
- 20.7 This will put the adult social care system on a stronger financial footing and improve the quality of and access to care for those who need it, and includes:
- £600 million in 2023/24 and £1 billion in 2024/25 will be allocated through the Better Care Fund to support hospital discharge, helping people regain or maximise independence as soon as possible and freeing up NHS beds for those who need them;
 - £1.3 billion in 2023/24 and £1.9 billion in 2024/25 will be distributed to local authorities through the Social Care Grant, ringfenced for adult and children's social care;

- £400 million in 2023/24 and £680 million in 2024/25 will be distributed to local authorities through a ringfenced grant for adult social care.
- 20.8 The overall 2023/24 budget proposed for Adults and Housing is £160.641m before savings. This includes £19.412m of additional funding as set out below:
- pay-related cost increases and utility increases (£2.409m)
 - increases in care market costs (£11.649m)
 - housing general inflation (0.056m)
 - fees and charges increase (-£1.445m)
 - market sustainability and fair cost of care (£3.997m)
 - cost of discharge programme (£1.746m)
 - cost to support reforms (£1.0m).
- 20.9 The above pressures have been offset by 2023/24 transformation savings (£3.40m), tactical savings (£2.873m) and additional grant funding of (£7.185m) as follows:
- £1.746m through the Better Care Fund to support hospital discharge, helping people regain or maximise independence as soon as possible and freeing up NHS beds for those who need them;
 - £3.997m to support the Market Sustainability Plan and Fair Cost of Care to be fully delivered by 2025;
 - £1.443m for additional social care support.
- 20.10 The total net budget for Adults and Housing for 2023/24 is £147.183m, an increase of £5,953m.
- 20.11 Adult Social Care and Housing have developed a ten-year plan that will look to deliver improved outcomes and greater financial sustainability to manage future demand and market sustainability. The programme looks to deliver prevention, short term care, quality, and sustainability through six programmes of work.
- 20.12 There are risks within all budgets, particularly those demand led services that sit within Adults and Housing services. All modelling and strategic budget planning has been based on the best information and projections available. However, pressures and demands are subject to change, and this can have a significant budgetary impact. For example, in December 2022 there has been a 30% increase in people and families presenting to us as being homeless, or at risk of being homeless. This has placed pressure on our capacity to either prevent homelessness or find people a settled home to live in. Performance in preventing and relieving homelessness has been good but this masks an underlying increase in demand which requires investment in measures to find settled housing options for people in need of a home.
- 20.13 Plans are being developed to recalibrate the current plans to transform the approach to homelessness and to remove the reliance on expensive bed and breakfast accommodation to relieve homelessness. Because of the sharp

30% increase in homelessness need and demand, and a broader rise in need for supported, adapted or affordable homes, this requires an expansion of the approach to prevent homelessness so that it succeeds at this scale and finds suitable alternative housing for greater numbers of people in need. The transformation plans will be calibrated so that there is effective investment of Government grants and Council resources to save the current £1.5 million spent on Bed and Breakfast accommodation and provide a cost-effective way to prevent and relieve homelessness.

Children's Services

- 20.14 The overall budget proposed for Children's Services is an increase of £3.368m, to £77.804m, an increase of 4.5%.
- 20.15 The Directorate's ambitious, five-year transformation plan is a key component of the 2023/24 budget, along with the *Dorset Children Thrive* locality model and closer working with partners from various agencies, delivering six priorities, including all children and young people within Dorset having the best start to life. Remodelling budgets to deliver these priorities remains a critical activity.
- 20.16 2023/24 will be the third year of the Children's Services transformation programme, with projected in-year savings of £3m. There have also been savings of £0.935m for the third year of The Harbour project in Weymouth.
- 20.17 Budget increases centre on two main themes for 2023/24; pressures that impact all council services, such as pay inflation, general inflation and cost of increments and pay awards (£5.586m); and specific budget increases for Children's services, totalling £2.47m.
- 20.18 Specific budget increases cover nine areas designed to support Children's priorities, including the best start to life for all children and young people. A summary is provided in the table below.

Area	Description	£m
Pay related and General changes	As per all Directorates, additional funding for pay awards, increments and other pay adjustments. This also includes fees and charges and gas and electricity changes.	5.586
High Needs Block Recharge update	The School and Early Years Finance (England) Regulations 2022 have been reviewed to identify appropriate expenditure for the HNB recharge. Changes annually.	0.328
Special Guardianship Order increased costs	Increase in the number of children with SGOs, therefore reducing the number of Children in Care. After a transitional period, financial allowances are assessed.	0.250
Children who Are Disabled Services - Intensive Support Packages	Increased need in support packages for children with complex needs to live at home. This covers overnight short breaks demand and cost pressures.	0.695

Area	Description	£m
Impact of the National Transfer Scheme for Unaccompanied Minors	Dorset's revised Nation Transfer Scheme threshold is 67 (from 47). This is part of an Unaccompanied Minors strategy. This requirement is to fund non-placement costs (e.g. Social Workers, Interpreters, Personal Assistants).	0.366
Children's Advice and Duty Service (ChAD) - New staffing structure	Formalise ChAD as a 7-day service, including bank holidays and weekends, operating from 8am – 8pm only during this time.	0.300
Inflationary increase in Premature Retirement Compensation budget	Children's Services hold Premature Retirement Costs, Dorset Council's Pensions team have advised that these need to be increased to match nationally agreed pension increases.	0.180
Leaving Care service development	The number of Care Leavers in Dorset will exceed the number of Children in Care this year. To fulfil our statutory responsibilities and ensure the best life chances, additional posts are required to support these young people.	0.150
Keeping In Touch service capacity	Additional posts to ensure court-ordered contact between child and family can be facilitated.	0.105
Growing our own: Student Social Workers	Part of a strategy to have 21 Student Social Worker positions by 2025	0.100

20.19 The Children in Care model has been updated to reflect the cost of the current cohort in 2023/24, assumed new entrants and leavers, inflation and the application of the transformation programme as most transformation projects within Children's affect the Children in Care cohort, now and in the future.

20.20 Nationally, Children's Services budgets are under significant pressures. Understanding the national context and identifying appropriate risks is important when setting a budget. There is one clear message; Children's Services nationally are experiencing significant service pressures and will potentially be subjected to a major policy shift within the next 1-2 years.

20.21 The County Council Networks (CCN) states the national picture for part of Children's Services budgets

"With demand and costs rising each year, councils overspent their Looked After Children budgets by £450m last year – a 9% overspend."

20.22 Dorset does buck this trend though, for example through the locality model and maintaining early help services, the 2021/22 outturn position was £0.8m, or 1%, over budget.

20.23 However, Dorset Council is not immune to the experiences of other local authorities, particularly the weekly costs of external providers. The 2021

Competition and Markets Authority (CMA) report into Children's Social Care stated;

"The CMA's market study found that large private sector providers of fostering services and children homes appear to be making higher profits in England and Wales than the CMA would expect in a well-functioning market. This suggests that local authorities may be paying more for these services than they need to..."

- 20.24 The Sufficiency Strategy for Dorset Council is delivering the creation of more in-house residential provision, and investing in our fostering service, however this takes time to deliver and is a challenge with the current construction market.
- 20.25 The Association of Directors of Children's Services (ADCS) have highlighted Nationally an increase in the number of children being taken into care while waiting long periods for children and adolescent mental health services [CAMHS], often at significant cost.
- 20.26 Children's Services are likely to experience a major policy change during 2023 as the Children's Social Care reforms (based on the MacAlister independent review) are announced:
- "The review's final report argued that the current children's social care system was "increasingly skewed to crisis intervention, with outcomes for children that continue to be unacceptably poor and costs that continue to rise". It concluded that "for these reasons, a radical reset is now unavoidable".
- 20.27 The report said that without fundamental changes the number of children in care would increase from the current level of 80,000 to 100,000 in 2032. It also said that costs could increase from £10bn to £15bn per year. It indicated that implementing its recommendations would lead to 30,000 more children living safely and thriving with their families by 2032 compared with the current trajectory.
- 20.28 The report set out its conclusions and recommendations in the areas of family help, child protection, family, the care market, the care experience and the workforce." (Source: House of Lords Library).
- 20.29 Dorset is already implementing many of the independent report's recommendations, however a full assessment will be required when more detail is available. Additional funding may be announced to support the implementation of the review's recommendations.
- 20.30 Dorset Council is part of the National Transfer Scheme for Unaccompanied Asylum-Seeking Children (UASC). Nationally set thresholds have risen from a requirement to take 47 to 67 unaccompanied children during 2022/23, and potentially will change again during 2023/24. Home Office funding does not necessarily cover the full costs for supporting these young people, and therefore this remains a risk.
- 20.31 In summary, there is still significant risk within the 2023/24 Children's Services budget, including the delivery of the ambitious transformation programme, wider demand pressures, appropriate funding and support from partner organisations and expected policy change.

20.32 To mitigate some of this risk, ringfenced Social Care grant of £3.7m has been made available to the Directorate. This grant will provide a degree of stability as Children's services enters what could be a very challenging and changeable period.

Place Directorate

20.33 The overall budget proposed for the Place Directorate is an increase of £4.962m, to £86.718m, just over 6%. Gross expenditure is £155m, with £68m of income earned, specific grants, or other contributions.

20.34 The approach for developing the Place Directorate budget for 2023/24 attempts to take account of much of the turbulence seen in the current year. The primary issue is to deal with the impact of high inflation as experienced on a national level, as well as funding the national pay awards. Where possible, Place Directorate has attempted to mitigate these rising costs through increases in fees and charges and absorbing other service-specific pressures through savings measures.

20.35 It should be acknowledged that the budget as proposed has uncertainty in some areas meaning that it is not risk-free. The major issues in each area are discussed below.

20.36 The main components of the budget increase are:

- pay awards and other related central adjustments £7.519m
- energy cost pressures £1.066m
- service-specific pressures £1.476m
- savings proposals £5.119m

20.37 Our arrangements for energy costs are via a purchasing consortium and is known as LASER. Costs are known for the period October 2022 to September 2023, but costs for the second half of the year are not yet clear. This is the same arrangement that has been in place for Dorset Council since inception, but the risk of inadequate budget setting for 2023/24 is considerably higher than in previous years due to the significant price rises seen in the international energy market.

20.38 The current year has benefitted from favourable prices in relation to our recycle disposal. Forecasting for recycle prices is notoriously difficult, given the nature of the global markets. Nonetheless, we are proposing a small improvement compared with the current year's budget (not the actual performance) and at the same time highlight this risk as a potential call on contingency to act as a buffer against the market volatility. Setting the budget for recycle price can never be considered risk-free.

20.39 Additional funding is proposed to be added to the budget for service specific pressures, but only where there is a near unavoidable commitment to do so. The major items within the service specific pressures are:

- funding of inflation with Waste contracts £958k
- Dorset Travel £360k
- vehicle fuel £250k

- flood defence staffing £150k
- Waste Operations – part year of collection crew £106k
- Waste Strategy – from 1 January 2023 legislation relating to persistent organic pollutants will be enforced (£100k).

These are partly offset by service specific new income for rent receivable for Coombe House and South Walks House.

20.40 Dorset Travel is facing cost pressures of circa £2.5m in the current year. There is a national picture where all aspects of travel, but especially SEND transport, are facing significant cost increases - well above the rate of inflation. There are two things of note within these budget proposals regarding travel. Firstly, significant emphasis is now being placed on transport transformation, with the intention to reduce overall cost. Whilst it is hoped that transformation will reduce costs, there is the contingency budget which could be used to mitigate the risk. Secondly, given the wide range of issues facing Dorset Travel and in some recognition of these issues, the budget has been increased by £360k.

20.41 The vehicle fuel budget has been increased by 6% as part of the default budget assumptions and by a further £250k for fuel-specific pressures. This is to reflect the high price increases seen during the summer of 2022, resulting in a considerable forecast of overspend for the current year. At the time of writing, vehicle fuel prices have been on a slow but steady reduction, but the risk remains. The addition of a further £250k should address vehicle fuel prices in 2023/24 if there is no deterioration. It is also worth noting a potential but unconfirmed rise in vehicle fuel duty as part of the Government's spring budget statement, which is not budgeted for.

20.42 There is a total of £5.119m of savings assumed within the proposed budget, which budget holders will need to deliver. Three of the most significant savings proposals are:

- reduction in the running costs of the property estate due to disposals £531k
- net savings arising from the customer transformation programme £500k
- net savings arising from the transport transformation programme £250k.

The remainder of the savings proposals (£3.838m) are numerous and are not set out in full here especially given that a small number of these are sensitive and still subject to consultation. However, these can be summarised as:

- Additional income generation £2.771m
- Service efficiencies £707k
- Staffing and vacancy factors £360k

The largest income generation targets sit within Parking (£1.355m), Assets and Property in relation to rent reviews (£400k) and waste chargeable and trading services (£355k).

Service efficiencies includes reduction on spend on interims (£250k) and a reduction in assumptions relating to recycle price (£160k).

20.43 The Harbours Advisory Committee met on the 8 December 2022 and set out the harbours 2023/24 budget considerations. For reference, the reports are attached as an appendix 8 to this report. The proposals are based on assumptions and principles that are consistent with those used for the rest of the Dorset Council budget but acknowledging that any surplus generated remains ringfenced for each individual harbour. There are no specific items arising to draw to the attention of Cabinet or Council.

Public Health Dorset

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

20.45 Each of the Councils retains part of the grant to deliver services outside the scope of the shared service agreement, but still within grant conditions. Grant allocations for 2023/24 are not yet available.

Corporate Services

20.46 The overall budget proposed for Corporate Services is an increase of £5.2m, to £35.574m.

20.47 The proposals incorporate identified budget pressures of £5.8m partially offset by cost reductions of £0.5m. The increase is largely related to pay, pension and inflationary changes together with reductions in some income streams. Further details are identified in Appendix 1.

20.48 Corporate Services consists of the Corporate Development Directorate, Business Insight, Intelligence and Communications, and the Legal and Democratic Services teams.

20.49 The role of Corporate Services is threefold:

- to provide direct support and services to residents (e.g., the Revenues and Benefits team and the Land Charges Service)
- to support colleagues in the Place Directorate, in Children's Services and in the Adults and Housing Directorate so they can provide the best services they can within financial and legal constraints
- to provide those essential corporate services required of an organisation of our size and scale.

20.50 During 2022/23 the department has continued to provide crucial services which have enabled the Council to function as well as continuing to deliver significant front-line response including business grants, enhanced business rates reliefs, and other national initiatives.

21. Transformation and savings opportunities

21.1 Savings proposals and additional income targets included within the budget proposals are summarised in the table, below.

	Savings	Additional Income
Adults	(£4,773,000)	(£1,500,000)
Children's	▶ (£3,935,000)	
Corporate	(£33,850)	(£85,000)
Place	(£2,348,013)	(£2,771,310)
Total Service Savings	(£11,089,863)	(£4,356,310) ▶
Central Finance	(£4,750,312)	
Total Savings	(£15,840,175)	(£4,356,310)

21.2 Work continues to identify savings and transformation over the longer term for continuing input into the MTFP and the budget strategy. This work is regularly reviewed through the relevant Boards and Committees.

22. Risk

General uncertainty, the pandemic and a single-year settlement

22.1 There is risk in any set of budget proposals. Like every council – and Government itself - we are facing a number of potential scenarios each of which carry varying levels of volatility and uncertainty in our planning assumptions. Whilst Government has provided some policy ambition for 2024/25, these aims will be subject to the regular process of consultation as well as national and global events between now and when the next settlement is announced.

22.2 The Council is limited in what can be done at this stage to mitigate much of the environmental and economic risk, but we will remain focused on delivery of the work programmes required to support services to Dorset's residents, within the budget available. Continuous monitoring of the agreed budget will be key to ensuring we keep abreast of the operating environment and make important, well-informed, timely decisions about our activities and their consequences.

Dorset Council post-LGR

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

Inherent volatility in demand

22.4 Even without the impact of Covid-19 and then the cost-of-living crisis, there was considerable risk around our planning assumptions for growth in demand and pressure on costs. The funding proposals set out in this paper provide for reasonable forecasts of growth in demand for Adults' Services and Children's Services but both locally and nationally, demand for people services continues to challenge capacity and budgets.

Transformation and savings risks

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

Inflation

- 22.6 There is also still significant inflationary pressure in the economy. The November inflation rate eased slightly to 10.7% and opinion remains divided on whether this is a shorter-term, temporary phenomenon, or whether it will be longer-term, and sustained. Either way, it is important for the Council to include an element of price increases in its financial plans although we cannot provide for all of this because our budgets are effectively cash limited.
- 22.7 Our approach to inflation is therefore to provide for general inflation at 6% and further specific inflation within service budgets where we know there will be particular pressures. It will be necessary for us to continue to carry out effective contract management so that we ensure that a robust and value for money approach is taken to supplier increases. We cannot afford to simply increase contract prices by inflation. We will work positively with our supply chain to discuss all aspects of contract performance – including pricing – but this must be within the context of overall affordability within the Council's budget. It is also the reason that we are recommending that some of the unallocated funding from the settlement is added to contingency for the time being.

High Needs Block

- 22.8 Dorset Council, like many other authorities nationally, has an accumulated overspend on the High Needs Block (HNB) of the Dedicated Schools Grant (DSG).
- 22.9 The Regulations in place to provide for the current accounting treatment of this deficit were due to fall away on 1 April 2023 but this has now been deferred until 1 April 2026. The immediate risk of this overspend falling to the Council to fund has therefore subsided but longer-term risk remains that the overspend will fall to be funded by councils.
- 22.10 Dorset Council is already implementing an ambitious plan to deliver additional, high-quality capacity and to achieve outstanding provision within the budget envelope, but this will take time as well as the resources the Council has already committed to the programme. Dialogue with DfE continues.

Future national strategy implementation

- 22.11 There is considerable risk around the implementation of future national strategies for care services. We know that adult social care cap and associated reforms have been deferred for two years but as we have seen, additional funding is still being provided.

22.12 There are further reforms which will impact on the MTFP in due course and these will be built into the Council's financial model as and when more policy and financial detail is available.

Risk management and reporting

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

22.14 The S151 Officer has also commissioned SWAP to review the work that has been done to underpin the assurance statement that is given in this budget report and that will be reported to the Audit and Governance Committee in due course.

23. Reserves, balances, contingency and resilience

General funds

23.1 The balance of Dorset Council's general fund closed at £33.2m on 31 March 2022. Any overspend in the current year will impact on that balance unless it is financed via the use of other reserves.

23.2 In 2018 the Shadow Council commissioned an independent report from the Chartered Institute of Public Finance and Accountancy (CIPFA) which recommended that the Council should retain a minimum of 5% of its budget requirement as a general fund reserve. The S151 Officer recommends this approach is continued for 2023/24 and with reference to the net budget requirement calculation set out in Appendix 1, Cabinet is recommended to agree a minimum level for the general fund of £17.35m.

23.3 However, as in previous years with similar risk and volatility of planning assumptions, prudence would suggest that it would be better to hold a higher level of general reserves to provide for risks which are not mitigated through specific, earmarked, reserves. Cabinet is therefore recommended to set a level of general reserve at double the value of this minimum level, £34.7m and that the operating range therefore be set at £17.35m to £34.7m. Outside of these parameters, intervention will be required to lower or raise the general fund balance.

Other reserves and reserves strategy

23.4 As well as the general fund, the Council has other earmarked reserves which are set aside to mitigate against specific risks that may arise during the year or beyond. These reserves cannot be repurposed without impacting on the mitigation they provide against the risk profile of the organisation. A fuller narrative on risks and reserves was provided as part of the 2021/22 [outturn report](#) to Cabinet and no change to those reserves is proposed at this stage other than for the general fund and for the support for the safety valve agreement.

23.5 In its policy announcement on 12 December, Government signalled its intention to sustain focus on the levels of councils' reserves, particularly given the substantial increases in balances seen at some councils during the pandemic years. The Government will explore a potential user-friendly

publication on local authority reserves, using data currently collected through the local authority revenue expenditure and financing (outturn) statistics. The exact use to which this information will be put remains uncertain at this stage.

Contingency budget

- 23.6 It is prudent for any organisation to set a contingency budget to provide for unforeseeable circumstances arising during the year. The key is to set the contingency budget as accurately as possible, so it strikes a good balance between allowing the organisation to manage risk whilst not causing a diversion of material funds away from front line services where there are clearly continuing pressures.
- 23.7 For 2022/23, the contingency budget was set at £9.5m and provided for some fairly specific risks around inflation and pay award costs being in excess of funding provided in services own base budgets. These risks remain, although our assumptions are that they will be at a level that causes less risk and pressure for the contingency budget. Despite this however, it is still recommended that the Council sets the contingency budget at £8.2m. This represents 2% of the net budget.

Resilience

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

24. Capital programme

- 24.1 The Council's capital programme was impacted significantly by the pandemic and EU exit in particular, and the problems this has caused with the supply chain, and now inflation in the construction sector continue to cause slippage.
- 24.2 In presenting the Qtr2 finance report to Cabinet in November, the Portfolio Holder for Finance, Cllr Gary Suttle, indicated that a review of the programme would be needed as the Council could be trying to deliver too many projects. Since then, further work has been started to review existing projects as well as new bids coming forward for 2023/24, but this work has not yet concluded.
- 24.3 At this stage, the S151 Officer is therefore advising against further projects being approved as part of the budget setting process. It is possible that some currently approved projects will cease or be deferred as part of the current review, and this will allow the programme to be reprioritised.
- 24.4 As long as we proceed within the currently agreed capital total, there will be no further pressure on the revenue budget. The treasury management budget itself is also currently outperforming its targets due to slippage in the

capital programme, high cash balances available for investment and reduced borrowing. These factors allow some headroom for capital spend in 2023/24 if that is the result of the review work. Staying within our agreed capital total will not put further pressure on the revenue budget in 2023/24. There are currently bids for £47m for 2023/24 but these are not being considered until the review work concludes.

- 24.5 No new detail is therefore provided for the capital programme over and above what was approved in the 2022/23 budget, as updated by quarterly financial management reports. The headlines can therefore be summarised as:
- £106.2m of slippage brought forward from previous years into 2022/23
 - £149.3m in total of funding that has been approved for 2022/23 in the capital programme
 - £48.2m of spending that was approved for 2023/24.
- 24.6 The agreed capital programme to 31/03/2024 therefore amounts to £197.5m. As well as the outcomes from the current review, there are also likely to be further projects and programmes that arise during the year through funding from external resources, and these will be incorporated into the programme and reported to Cabinet each quarter.
- 24.7 Members might however, wish to note and agree the proposals to continue with a capital contingency budget and a minor works budget. Both of these currently work well and allow flexibility to address unforeseeable pressures that arise in the year without recourse to Cabinet in advance.
- 24.8 The commitment to the capital programme in this budget round therefore amounts to almost £301.6m in total.

25. Engagement with and scrutiny of the budget

- 25.1 The proposals set out in this budget strategy and MTFP have been developed over a considerable period. The Council operates a ten-year, rolling financial model and this is consolidated into a five-year MTFP, the first year of which is the budget. Although the proposals for 2023/24 have therefore been some time in the making, it is in the year of preparation that any budget proposals come under most scrutiny.
- 25.2 In order to make the development of the budget inclusive, there have been a number of briefing sessions for members during the year. There are also specific directorate-focused arrangements in place for Portfolio Holders and Lead Members and any member can ask questions or request information about financial management at any point.
- 25.3 As well as quarterly financial reports to Cabinet to keep all members abreast of budget development, there is also a separate and specific paper on early stages of budget process, principles and strategy which went to Cabinet in October 2022. Following this, was a good level of member engagement before during and after the two informal briefing events that took place prior to the meeting of the People and Health Scrutiny Committee and the Place and Resources Scrutiny Committee on 7 January 2023. Feedback from both Committees along with Cabinet responses is set out in appendix 7.

25.4 Cabinet is receiving all of these, post-scrutiny proposals for consideration and recommendation to full Council in February 2023.

26. Consultation, communication and equality

26.1 The 2022/23 budget proposals are driven by the Dorset Council Plan and priorities. The Plan was initially agreed by Council in February 2020 following wide consultation with partners, the public, local businesses, Town and Parish Councils, employees and other stakeholders throughout Dorset. More than 1,600 responses were received through the consultation, and these were used to shape - and continue to shape - the new Council's priorities, as reflected in the budget proposals and MTFP.

26.2 The Executive Director for Place also leads consultation with the business sector and managers throughout the organisation share information regularly with businesses in the supply chain to ensure they are aware of and can contribute to the conversations around priorities and resources.

27. Other factors influencing budget strategy development

27.1 The Council's **Transformation Plan** is aligned to help deliver the Council plan and is focused on:

- a) Being more commercial – Modernising the way we operate to ensure we are business friendly, to behave in a more business-like way and commission as one council.
- b) Putting our customers first – Working together to design and deliver modern, accessible services to our customers.
- c) Delivering climate and ecological priorities – Ensuring our change programme delivers in line with our climate and ecological strategy.
- d) Making the best use of our assets and leading economic growth – Reviewing the council buildings and properties to ensure best use and value of assets and help drive prosperity whilst adopting a focus on places and spaces.
- e) Implementing a digital, intelligent, data led approach – Using our data to help us predict demand and improve our prevention agenda.
- f) Working with the Integrated Care System – Working with partners to transform our care services by removing traditional divisions between services, and ensure people and communities get the support and care that they need

27.2 The **Property Asset Management Strategy** continues to be implemented as the Council "right-sizes" its estate after convergence of the predecessor councils' property portfolios. The plan describes the options to acquire, retain and divest property that will help us deliver transformed services, generate capital receipts, reduce running costs and help the Council operate in a modern and efficient way.

- 27.3 The Asset Management Strategy dovetails with the **Dorset Workplace Strategy** which enables the Council to deliver better services more flexibly in a range of ways to meet Dorset residents' needs.
- 27.4 Delivering better value is also the aim of our developing **Commercial Strategy**. Cabinet has previously approved a new Procurement Strategy and we now look to strengthen our commercial approach further with the **fees and charges policy** (appendix 6)

28. S151 Officer assurance

- 28.1 Part 2 (Section 25) of the Local Government Act 2003 requires officers with responsibilities under s151 of the Local Government Act 1972 to make a statement regarding the robustness of estimates and the adequacy of reserves at the time the budget is set.
- 28.2 There are also other safeguards aimed at ensuring local authorities do not over-commit themselves financially. These include:
- the Chief Financial Officer's powers under section 114 of the Local Government Act 1988, which requires a report to the Cabinet and to all members of the local authority if there is or is likely to be unlawful expenditure or an unbalanced budget;
 - the Local Government Finance Act 1992, which requires a local authority to calculate its budget requirement for each financial year, including the revenue costs which flow from capital financing decisions. The Act also requires an authority to budget to meet its expenditure after taking into account other sources of income. This is known as the balanced budget requirement;
 - the Prudential Code, introduced under the Local Government Act 2003, which has applied to capital financing and treasury management decisions;
 - the assessment of the financial performance and standing of the authority by the external auditors, who give their opinion on the council and the value for money it provides as part of their annual report to those charged with governance.
- 28.3 The robustness of the budget critically depends on the maintenance of a sound financial control environment including effective financial management in each of the Council's service directorates. Dorset Council's scheme of financial management sets out the responsibilities of all those involved in managing budgets and incurring commitments on behalf of the Council. The revised financial strategy statement is also a key document in setting out financial management arrangements, responsibilities and strategy for the Council.
- 28.4 Whilst financial projections are based on realistic assumptions, known demand and well-formed models, some budgets are subject to a degree of estimation error as actual expenditure can be determined by factors outside of the Council's control, for example demand for provision for adults with complex needs. Some activity is also subject to more volatility and things can change very quickly and unexpectedly.

- 28.5 It is also generally not appropriate or affordable to increase budgets simply to reflect overspends in current or previous years. A reasonable degree of challenge to manage within the resources available is necessary and monitoring of expenditure, in order to take corrective action if necessary, is particularly important during a time of budget reductions.
- 28.6 The Council has well-developed arrangements for financial monitoring during the year. Budget performance is reported quarterly through the Cabinet and scrutinised by a number of other committees, including Audit & Governance Committee. There is also a well-defined model of finance staff working as business partners alongside service managers to support financial management and control. The Council's financial management system also operates on a self-service basis, enabling all officers to interrogate financial information at any point in time.
- 28.7 Finance business partners routinely report to Directorate Leadership Teams each month and the S151 Officer meets weekly with the Cabinet Member for Finance, Commercial & Capital Strategy. There is also an officer group - Capital Strategy and Asset Management Group (CSAM) - that monitors progress against the current capital programme and deals with the pre-Cabinet governance arrangements for managing the bidding and financing process for all capital expenditure proposals to Cabinet.
- 28.8 Member involvement in budget development has been extensive again this year, particularly through meetings of the Performance Leadership Board, regular update reports to the Portfolio Holder, Leader and Deputy Leader, the wider Cabinet and in all-member briefings.
- 28.9 The budget itself has also been subjected to all-councillor scrutiny, firstly through two briefing sessions, led by Portfolio Holders and Executive Directors, then more formally through the People and Health, and the Place and Resources Scrutiny Committees which were held in January 2023. These budget proposals have therefore been developed by the Council's officer group, led by the Executive Directors, and with significant input from members, and co-ordination by the finance team. In order to gain further assurance about the affordability of the Council's strategy and plans, each Executive Director is taking personal responsibility for their budget through a formal sign-off process which will also form part of their performance assessment during the year.
- 28.10 The Internal Audit Service have worked alongside the Council observing the budget setting process. They have provided me with a reasonable assurance opinion that the process has been based on sound evidence, assumptions and principles.
- 28.11 Taking all these factors into consideration, I consider that the estimates prepared in line with the strategy explained in this report to be robust. In more "normal" times, I also consider the levels of reserves, as set out earlier in this report, to be adequate for the risks that the Council is currently able to anticipate. The deferring of the end date of the Regulations around the DSG overspend is helpful in providing this assurance but the longer-term risk remains and the Council is focused on delivering the strategy which will eventually remove this risk.

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

29. Summary and conclusions

- 29.1 The financial climate remains extremely challenging. Although the Spending Review will allow us to make progress in many key areas of transformation and service improvement, a single-year settlement for local government still hampers our ability to invest effectively in future service strategy.
- 29.2 There are clearly still challenges ahead meaning the Council started planning for 2023/24 early to develop and implement robust plans to fit within our assumed budget envelope and to keep all members well informed around budget development and strategy.
- 29.3 Members of the two scrutiny committees have considered the information in the draft budget proposals as part of their scrutiny processes and their feedback and recommendations are set out in Appendix 7 for Cabinet's consideration.
- 29.4 Whilst I believe these budget estimates to be robust and that reserves are adequate, significant risk remains due to the global economic environment.

Aidan Dunn

Executive Director of Corporate Development