

Cabinet

7 November 2023

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 updated cost pressures set out in this paper and the validation work that has been carried out on them;
- (ii) agrees/updates the assumptions being used in the Medium-Term Financial Plan (MTFP);
- (iii) notes the financial gap arising from (ii) and (iii) above;
- (iv) agrees the 2024/25 principles for budget setting;
- (v) notes the approach to closing the budget gap set out in this paper, recognising that this is work in progress;
- (vi) continues to press local MPs and work with peers to press the case for additional funding;
- (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 2024/25 budget which will be presented to full Council on 13 February 2024.

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 2024/25 and the subsequent years of the MTFP and to update on progress on action/savings to date including the 2023/24 forecast performance against budget.

1. Executive summary

The purpose of this report is to provide a framework for the budget for 2024/25 and the MTFP for 2024-2029, 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 2024.

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. There is also ongoing international conflict with the humanitarian and economic consequences are also being felt globally.

2. Financial implications

Covered within the report.

3. Climate implications

The Council's budget continues to fund action set out in the climate and ecological emergency action plan, including a £10m capital expenditure commitment over the term of the current MTFP.

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. Dorset Council is anticipating fully using its budgeted contingency in the current year (2023/24), and will require circa £12m use of reserves. Approved savings plans are also falling short of those budgeted and if they cannot be recovered this will have a knock-on impact in 2024/25 and beyond.

The Council also continues to pursue improved Value for Money (VFM) seeking to deliver services which balance relatively low cost of delivery, high productivity, and valued outcomes.

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.

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 2023/24](#)

[Qtr1 financial management report to Cabinet 2023/24](#)

9. National and international contexts

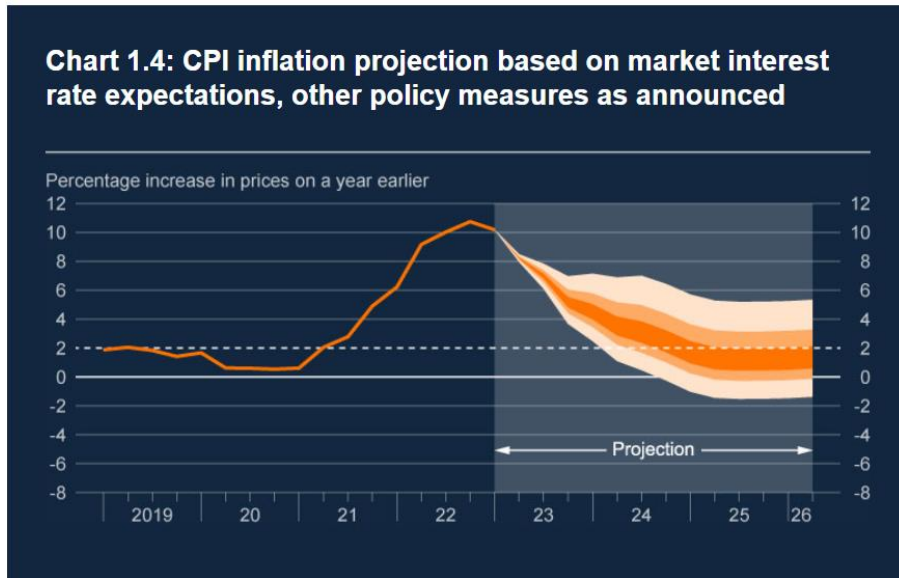
- 9.1 There is ongoing and sustained turbulence in global markets, economies, and political backdrops. Much – but by no means all – of this stems from ongoing international conflict, in particular when considering the economic impact, the war in Ukraine and recent events between Israel-Gaza which is causing significant humanitarian harm and have significant economic impact.
- 9.2 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.
- 9.3 The Local Government Association has reported that councils in England are facing a funding gap of almost £3 billion over the next two years just to keep services standing still. Significant pressures are impacting on all services especially Adult Social Care, Children's Social Care and SEND Transport.

- 9.4 At the time of writing, general inflation is running at 6.7% - but given the scope of products CPI is based on, this headline figure is only a limited indicator of the cost pressures 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.
- 9.5 Even if we were able to predict price and volume pressures with total precision, the Council's budgets are effectively cash limited and we remain in a situation where we are required to prioritise resources continuously throughout the year to ensure we manage funds effectively.

10. Financial contexts

- 10.1 The Council started this planning round with a budget gap of £13.815m for 2024/25 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.
- 10.2 The Quarter 2 report to Cabinet sets out a forecast overspend for the full, current year of £11.985m (3.4% of a net budget of £347.6m). Work to refine the forecast position for the year has continued over the summer with additional pressures being built into the forecast as well as savings targets not being on track to be achieved.
- 10.3 Failure to deliver savings will impact not just on the current year, but also the base budget for 2024/25 if they cannot be recovered in time for the new year beginning. We must also review whether short-term or non-recurrent savings which 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.
- 10.4 We also know that inflation has reduced in recent months and though it has continued to reduce at the time of writing, many commentators are predicting that the reduction in inflation is not reducing as quickly as it had hoped. Not only is general inflation running at 6.7%, but specific inflation in many Council budgets like fuel and energy outstrips even those numbers.

- 10.5 However, looking at the ONS fan chart, below, of future inflation expectations, it would seem reasonable to assume 3.2% as the inflation rate average for 2024/25.



[Monetary Policy Report - August 2023 | Bank of England](#)

- 10.6 Pay increases for 2023/24 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 2024/25 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.
- 10.7 There is currently no clarity over the length of the settlement that local government might expect in national expenditure decisions. In advance of the Local Government Settlement in December, the Chancellor is scheduled to deliver their Autumn Statement on 22 November which may give early indication of the settlement, but to date there has been little indication on funding allocations for 2024/25.
- 10.8 In May 2022 the Government's Levelling Up and Regeneration Bill put forward discretionary Council Tax premium options on empty properties on second homes. It was expected that this would be available to local authorities from April 2024 subject to the bill receiving Royal Assent. At the time of writing this report, the bill is still making its way through the parliamentary legislative process and so the council will not be able to introduce the premium until the legislation receives Royal Assent. The Government has informed local authorities that any wish to adopt any changes arising from the bill will require a council resolution at least 12 months prior to the financial year in which the changes come into effect. This would mean that the bill would need to obtain Royal Assent before 1st

April 2024 in order to be adopted by 1st April 2025. Early work estimates for Dorset this could equate to circa £8m of additional funding, therefore further delays to this possible new income stream could prove challenging.

11. Financial modelling assumptions and the initial budget gap

- 11.1 Having considered the background to the financial planning work for 2024/25. We will now turn our attention to the update of our MTFP, our planning assumptions and the starting point this gives us.
- 11.2 Section 25 of the Local Government Act 2003 requires that an Authority's Chief Financial Officer (CFO) reports to Full Council when it is considering its Budget and setting its Council Tax for the forthcoming financial year. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that Members will have professional, authoritative advice available to them when they make their decisions.
- 11.3 Section 25 requires Members to have regard to this report in making their decisions in relation to the budget and the setting of council tax. The financial modelling assumptions in this section of the report are a key foundation to the CFO when forming a professional view on the robustness of these estimates and the adequacy of reserves.
- 11.4 When Council approved the 2023/24 budget in February 2023, 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
	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m	2030-31 £m	2032-33 £m	2031-32 £m
Council tax	292.109	301.465	309.797	318.363	327.168	336.215	345.509	355.053	364.866	374.953
Business rates (NDR funding)	50.199	50.450	50.702	50.956	51.211	51.467	51.724	51.983	52.243	52.504
Other grants treated as general funding	5.244	3.420	3.420	3.420	3.420	3.420	3.420	3.420	3.420	3.420
Total funding	347.553	355.335	363.919	372.739	381.799	391.102	400.653	410.455	420.529	430.877
Budget requirement	347.553	369.149	383.072	395.503	413.694	432.528	451.997	472.126	492.939	514.462
Budget gap (cumulative)	(0.000)	(13.815)	(19.153)	(22.763)	(31.895)	(41.426)	(51.344)	(61.670)	(72.410)	(83.585)

- 11.5 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.
- 11.6 In drawing up the draft budget proposals for 2023/24, a number of assumptions were made for 2024/25 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.

- 11.7 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.

Key assumptions	Original Assumption 2024/25	Revised Assumption 2024/25
Council tax increase	<2%	<3%
Council tax base growth	0.75%	0.38%
Social Care Precept	1%	<2%
Business rates growth	0.50%	6.90%
Pay award	2.00%	5.00%
General inflation	2.50%	3.20%
Increase in fees & charges	2.50%	5.00%
Employer pension contribution	0% +£240k	0% +£240k

Local taxation

- 11.8 Our working assumption for council tax is that the referendum cap will continue to be set at 3% and that the council will need to levy the full amount as part of delivering a balanced budget. We are also assuming a 2% adult social care precept in our workings.
- 11.9 Whilst Council Tax collection rates are improving, care will be needed with council tax modelling for the budget. The Qtr2 collection data will be available for review at this (November) Cabinet meeting.
- 11.10 Members will be aware from the outturn and the forecast reports, that business rates are also continuing to improve. However, there are some real concerns around income collection over the medium term as a result of the sustained economic instability, affecting in year collection rates and collection of arrears.

Pay award

- 11.11 The pay award for much of the public sector, including Local Government staff, is negotiated nationally. At the time of writing this report, agreement for 2023/24 has still not been reached but the current proposals could add £6m to the base pay budget in the current year. In 2024/25, the underlying assumption was originally for 2% inflation but as can be seen from the table above, the proposal is to revise this upwards to an average of 5% in line with broader sector expectations and the level of pay awards seen across the public sector.

Contingency

11.12 In 2023/24, the contingency budget has been effectively repurposed and subsequently deployed to deal with both pay and non-pay inflation pressures that emerged after the budget was set and which could not be contained within existing service budgets. Whilst the increased pay costs can therefore be partially absorbed in 2023/24, the impact is to eliminate the contingency budget, which would give the Council no remaining resilience in its 2024/25 budget to deal with matters that arise during the year. The recommendation is therefore to keep a contingency budget of at least £5m, if feasible.

12. Continuing and new budget pressures in the MTFP

12.1 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.

12.2 There are also significant new pressures in 2024/25 as well as continuing impacts of price increases. A summary of all of these, building from the opening 2024/25 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. Please note, this table includes only the new or changing assumptions.

Opening budget gap as at 14/02/23	£13,815,097
Council tax increase/growth	(£4,726,897)
Business rates increase/growth	(£3,212,735)
Change in grant	(£1,861,610)
Change in inflation	£5,637,949
DSG recovery plan (now funded from reserves)	(£4,400,000)
Adult's pressures	£3,432,234
Corporate pressures	£2,951,119
Place pressures	£24,463,907
Children's pressures	£5,968,772
Change in central finance pressures	(£840,000)
Adult's savings	(£8,000,000)
Corporate savings	(£1,819,864)
Place savings	(£4,831,000)
Central savings	(£3,600,000)
Draft Budget gap as at 20/10/23	£22,976,973

12.3 The table below shows a full breakdown of the pressures, savings and movement in the base budget for each directorate based on these assumptions.

Directorate	Adjusted base budget 23/24 £'000	Total Pressures £'000	%	Savings £'000	%	Draft base budget 24/25 £'000	Increase in base after adjustments £'000	%
Adults	147,127	15,173	10%	(8,000)	-5%	154,300	7,173	5%
Childrens	77,761	10,651	14%	(4,250)	-5%	84,162	6,401	8%
Corporate	35,670	4,695	13%	(1,320)	-4%	39,045	3,376	9%
Place	86,667	28,241	33%	(5,431)	-6%	109,476	22,810	26%
Central Finance	329	4,900	N/A	(4,100)	N/A	1,129	800	N/A
Total Service spend	347,553	63,660	18%	(23,101)	-7%	388,113	40,560	12%

Funding	Adjusted base budget 23/24 £'000		Increased funding £'000	Draft base budget 24/25 £'000	Increase in base after adjustments £'000	%
Council Tax, Business Rates and Central Grants Funding	(347,553)		(17,583)	(365,136)	(17,583)	5%

Budget gap	£22,977	7%
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12.4 A summary of the key points from the table above:

- i. Total spend pressure within services totals £64m, 18%
- ii. Total savings identified within services total £23m, 7%
- iii. Total funding uplifts expected totals £17m, 5%
- iv. Remaining budget gap £23m, 7%

12.5 Portfolio Holders and Lead Members will continue working with Executive Directors and their teams in the weeks ahead to identify actions to manage these pressures and prioritise mitigation as part of meeting the Councils legal requirement to set a balanced budget for 2024/25.

13. Draft budget principles

- 13.1 In order to set a robust, balanced budget it is best practice to follow a clear process and method, and these must be structured around principles to be used to develop a budget. The principles are intended to be constructed as helpful language that can be used to describe how each party will contribute to balancing the budget and, where required, take difficult decisions about how to deliver the priorities and outcomes in the Council Plan within limited resources.
- 13.2 Dorset's principles are set out below, for Cabinet's continued endorsement and to shape the remaining budget strategy work:
- 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 continue to take an increasingly commercial approach;
 - vi. we will use best practice around business cases for our decision making and we will be open to invest to save opportunities;
 - vii. 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;
 - viii. we will develop short-term and long-term transformational savings plans;
 - ix. resource allocation must take place within the overall framework of the financial strategy agreed by Cabinet;
 - x. where possible, new funding from Government should be applied to existing spend priorities and pressures.
- 13.3 The current expectation is that if the council delivers all options identified so far, then a drawn down of £23m will be funded from reserves. As a result, that the budget strategy will need to be amended as the first principle does not allow this. The CFO's section 25 statement on the robustness of the budget will also need to give due consideration to this approach.

14. Transformation savings

- 14.1 Given the required savings outlined in MTFP, the organisation needs a short-term focus on deliverable 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.
- 14.2 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.

15. Further work to close the gap

- 15.1 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. Ensure that tight cost controls are maintained through the remainder of 2023/24 to minimise the spend pressures being brought into 2024/25.
 - c. continue to identify and implement savings whilst protecting front line services, taking advantage of the financial efficiencies that becoming a unitary council has presented;
 - d. continue to engage with consultation processes around funding formulas for the future and particularly the CSR settlement for 2024/25;
 - e. Start to develop the second phase of the 'Our Future Council' transformation programme to ensure the long term financial sustainability of the Council.

16. Timetable

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

7 November	Cabinet (Q2 and MTFP)
12 January	Scrutiny Committee 1
23 January	Scrutiny Committee 2
30 January	Budget to Cabinet
13 February	Budget to full Council

17. Risk

- 17.1 There is significant risk in our planning assumptions at this stage. Officers' initial work has led to the crystallisation of a £23m budget gap in 2024/25. If all current action is taken £23m will need to be funded from reserves. The remaining budget gap equates to £60.53 per head of Dorset population (based on 379,578 population figure) which will have a significant impact on the adequacy of the Councils reserves.
- 17.2 It remains unclear how the upcoming spending review will translate into a settlement for local government, especially given the ongoing Political and economic turbulence.
- 17.3 Adult Social Care reforms, SEND Transport costs, 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.

18. SEND Transport

- 18.1 Local authorities hold the statutory responsibility to provide home to school transport for eligible children of statutory school age, including children with special educational needs and disabilities (SEND). In 2019 the Local Government and County Councils Network reported that between 2014/15 and 2017/18, the total national spend on home to school transport increased by 6.5% from £1.02 billion to £1.08 billion. The percentage of local authorities (LAs) that were overspending their home to school transport budgets rose from 71% to 83%, and the total national deficit on home to school travel stood at £111 million. The total national spend has not been calculated since, but CCN reported in 2022 that the costs of delivering home to school travel for children with SEND for the 28 county authorities who responded to their survey, had risen by 33% from 2016/17 to 2020/21, and accounted for 11% of the total spend on children's service (CCN, 2022). Local authorities continue to provide this service as efficiently as possible, yet with both need and funding pressures increasing, councils report that forecasts for home to school travel costs have significantly increased for 2024/25.
- 18.2 At the same time as demand for home to school travel is increasing, inflation and market pressures are also driving costs up further. Inflation, wage increases and high fuel costs have also made the operating context for providers extremely challenging with some choosing to cease providing such services.

18.3 The council is reviewing SEND Transport as part of the Transformation programme.

19. Dedicated Schools Grant (DSG)

19.1 Another key area to address is the Dedicated Schools Grant (DSG). Across the country local authorities are facing significant deficits within the DSG which are mainly due to pressures within the High Needs Block. A technical accounting override has been adopted, but this is due to expire at the end of the 2025/26 financial year. At the time of writing this report and currently it is uncertain whether the override will be extended beyond March 2026. There is a significant risk that without the statutory override being in place, that the deficit could impact on the general fund. Dorset Council is currently forecasting an in-year deficit of £24.6m for 2023/24 with a cumulative deficit of £45.8m by 31st March 2024.

20. Capital programme

20.1 The capital programme for 2023/24 was approved by Cabinet in March 2023 and is updated quarterly. As noted in the quarter 2 report, the total programme now runs to some £357m of gross expenditure.

20.2 Officer subgroups are also developing capital programme proposals for 2024/25 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 2024.

21 Steer from Cabinet and next steps

21.1 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 our challenges and we must focus on reducing costs and growing income at the same time.

- 21.2 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.
- 21.3 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.
- 21.4 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.

20 Summary and conclusions

- 20.1 The circumstances surrounding the 2024/25 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.
- 20.2 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 discipline 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.