

Cabinet

19 November 2024

Medium Term Financial Plan (MTFP) and budget strategy

For Decision

Portfolio Holder: Cllr S Clifford, Finance & 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 2025/26 principles for budget setting outlined in section 13;
- (v) notes the approach to closing the budget gap set out in this paper, recognising that this is work in progress;
- (vi) continues to lobby local MPs and work with peers to press the case for additional, multi-year 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 2025/26 budget which will be presented to full Council on 11 February 2025.

Reason for Recommendation:

Councils are required by law to set an annual budget and for that budget to be 'balanced' or fully funded. 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 2025/26 and the subsequent years of the MTFP and to update on progress on action/savings to date including the 2024/25 forecast performance against budget.

1. Executive summary

The purpose of this report is to provide a framework for the budget for 2025/26 and the MTFP for 2025-2030, and to outline the work which will continue through the autumn so that the budget can be finalised for the full Council meeting in February 2025.

The MTFP shows how the Council intends to ensure that money will be prioritised and how the council will evolve and adapt to be better able to deliver services within the available funding.

This year's budget setting exercise takes place against a continued background of national and global events which put direct and indirect pressure on council budgets. On 30 October the Chancellor of the Exchequer set out the first budget from a Labour government for 14 years. The Chancellor confirmed the final spending totals for 2024–25 and set detailed departmental allocations for 2025–26. This included setting out the government's new fiscal rules, changes to the tax system, and set a new path for spending on public services and broader capital investment.

The headline for local government core spending power is to be increased by 3.2%. Core spending power increases are made up of the following four key components:

- 1) Core Settlement - Retained business rates and Revenue Support Grant
- 2) Council Tax
- 3) Social Care Grants – e.g. Discharge grant, Better Care Fund
- 4) Other grants - un-ringfenced grants e.g. Local Services Grant, New Homes Bonus etc.

Given the proportion of funding Dorset receives through council tax and business rates, much of the 3.2% uplift will be reliant upon these funding streams. Further detail of how this is realised will follow with the Local Government Finance Settlement (LGFS) expected on 19 December 2024.

The government has committed to a multi-year Spending Review in Spring 2025 (SR25). SR25 will set departmental allocations – i.e. allocate the overall envelope – for a minimum of three further years (from 2026–27 to at least 2028–). Dorset has long campaigned for multi-year settlements and so the commitment to deliver this is welcomed as this will give the council greater certainty when it comes to planning service delivery.

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

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

Current Risk: **High**

Residual Risk: **High**

5.2 The council is required to set a balanced annual budget. Dorset Council is anticipating fully using its budgeted contingency in the current year (2024/25), and will require circa £13.2m use of reserves to meet the overspend on the general fund. The Quarter 2 report which is being presented to Cabinet on 19th November 2024 alongside this report contains more detail on the pressures in 2024/25. Where service overspends cannot be recovered this will have a knock-on impact in 2025/26 and beyond.

5.3 Reserves reduced from 2023/24 to 2024/25 and a further use of reserves will be required to balance in 2024/25. Reducing reserves puts further pressure on the revenue budget as the increased reliance on external borrowing increases the amount of interest paid by the Council.

5.4 Looking ahead, further pressure on the Council's reserves comes from the cumulative deficit on the Dedicated Schools Grant (DSG), which is expected to exceed the total reserves held by the council by March 2026. If the statutory override ends without a change to funding or policy in this area this

would mean that many councils in England, including Dorset, would likely be facing a section 114 notice when the statutory override ends.

- 5.5 The headlines from the governments Autumn Budget presented on October 30th 2024 confirmed a further one-year funding settlement for 2025/26 which does not address the underlying, systemic underfunding for Local Government service delivery. As a result, it is expected that the local and national pressures the Council is facing in the current financial year can be expected to continue over the medium term.
- 5.6 Taking the local and national operating environment into consideration, the S151 Officer, the Council's Chief Finance Officer, establishes the current risk assessment as high and that readers of the report should expect that delivering a balanced budget to require a reprioritisation of service delivery to ensure ongoing financial sustainability.

6. Equalities Impact Assessment

- 6.1 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 2024/25](#)

[Period 4 financial management report to Cabinet 2024/25](#)

9. National and international contexts

- 9.1 There is ongoing and sustained instability 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 conflict in Ukraine and recent events between Israel-Gaza which is causing significant humanitarian harm and have significant economic impact.
- 9.2 2024 has been described as the year of democracy with around 4 billion people across 65 countries going to the polls. The affects of globalisation mean international events can be felt for residents of Dorset. The scale and pace of change can 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 £2 billion over the next year [Further funding cuts for councils would be disastrous; urgent funding and reform is needed | Local Government Association](#) 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 As at September 2024 general inflation is running at 1.7% - 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

2024/25 current year position

- 10.1 The Council started this planning round with a budget gap of £13.408m for 2025/26 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 2024/25 financial management report to Cabinet sets out a forecast overspend for the full, current year of £13.2m (3.5% of a net budget of £376.7m). 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 An overspend in the current year will impact not just on the current year, but also the base budget for 2025/26 if the required savings cannot be delivered in time for the beginning of the new year. We must also review the sustainability of any 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 for future years also needs to be understood.

2025/26 funding for Local Government

- 10.4 The governments Autumn Budget presented on October 30th 2024 confirmed a further one-year funding settlement for 2025/26.
- 10.5 The chancellor announced councils will receive a 3.2% real terms increase in core spending power for 2025/26. A real terms increase is

estimated to equate to around 5% increase in cash terms (assuming circa 1.8% inflation). The chancellor also announced reforms to the distribution of local government funding in following years.

- 10.6 A funding increase is welcome although the level of funding, nor changes to policy announced do not go far enough to address the underlying, systemic underfunding for Local Government service delivery. As a result, it is expected that the local and national pressures the Council is facing in the current financial year can be expected to continue over the medium term.
- 10.7 There were a number of other funding announcements which may impact the council, but further detail is required before we can model the impact on the councils finances:
- £2.3bn for schools, of which additional £1bn for SEND.
 - Extended Producer Responsibility – Expected to be £1.1bn for 2025-26 with the first year revenue for local authorities to be guaranteed by HMT.
 - Household Support Fund continues for 2025-26.
 - £650m Local Transport Funding for 2025-26, and additional £500m of potholes funding.
- 10.8 The headline announcements need to be viewed with caution as it we have yet to understand which funding streams are new and, which are replacements for existing grants.
- 10.9 Details of the funding for Dorset will be outlined in the *provisional* Local Government Finance Settlement (LGFS) expected on 19 December 2024.

Inflation

- 10.10 Inflation has reduced in recent months which doesn't mean prices are coming down, it means they are rising at a slower rate.
- 10.11 Looking at the ONS fan chart, below, of future inflation expectations, it would seem reasonable to assume 2% as the inflation rate average for 2025/26.

Chart 1.4: CPI inflation projection based on market interest rate expectations, other policy measures as announced



[Monetary Policy Report - August 2024 | Bank of England](#)

Levelling up and regeneration bill

10.12 In May 2022 the Government's Levelling Up and Regeneration Bill put forward discretionary Council Tax premium options on empty properties and on second homes. Full Council on 13 February 2024 approved this to come into effect from 1 April 2025. Current forecasts estimate for Dorset this could equate to circa £8m of additional funding. The funding in the first year is expected to be somewhat lower than in subsequent years due to there being a number of temporary exceptions. As this is a new change and temporary time-limited exceptions would have the largest impact in 2025/26. As a result, the sustained level of collection of this premium may not be known until the taxbase has stabilised in 2026/27. As at the end of October 2024 the governments list of final exceptions, and national guidance has not been published.

11. Financial modelling assumptions and the initial budget gap

11.1 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.

- 11.2 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.
- 11.3 Rolling forward the financial model and rebasing for the new year and decisions approved by Cabinet since the budget was set, is the first part of the new financial planning process and the finance team continues this work with managers across the Council.
- 11.4 In developing the draft budget proposals for 2024/25, a number of assumptions were made for 2025/26 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.
- 11.5 The current and proposed, revised assumptions for the budget for the year ahead are set out in the table below, but it should be noted that these are work in progress at this stage and will continue to be iterated ahead of Full Council in February 2025.

Variable	Latest Assumption 2025/26
Council tax increase	<3%
Council tax base growth (includes second homes)	4.24%
Social Care Precept	<2%
Business rates growth	6.36%
Pay award	2.00%
General inflation	2.00%
Increase in fees & charges	2.50%
Employer pension contribution	0% +£240k

Local taxation

- 11.6 Our working assumption for council tax is that in order to receive the 3.2% real terms increase in core spending power that the referendum cap will continue to be set at 3% and the adult social care precept will be capped at 2%. At this stage the planning assumption is that the council will need to levy the full amount as part of delivering a balanced budget.
- 11.7 For Band D Council tax payers this equates to an additional (£1.92) per week on the Council element of the bill.
- 11.8 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.
- 11.9 Members will be aware from the outturn and the forecast reports, that income from business rates is 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. The Autumn statement has outlined a number of business rate reforms, further guidance is expected over the coming months.

Pay pressure

Local Government Pay award

- 11.10 The pay and terms of conditions of employment for local government services' workers is determined by the National Joint Council (NJC). The NJC is made up of representatives from Trade Unions (58) and Employers (12).
- 11.11 The 2024/25 pay award was agreed on 22 October 2024 which will come into effect from 1st April 2024. This will be an increase of £1,290 (pro-rata for part-time employees) up to SCP 43. This cash value increase results in a pay award ranging from 5.77% at SCP 2 to 2.5% at SCP 43. For pay points SCP44 and upwards, the pay award is 2.5%.
- 11.12 Looking ahead to 2025/26 the MTFP assumes a 2% increase in pay inflation.

National Living Wage

- 11.13 From April 2025, national living wage will increase 6.7% to £12.21 per hour, and the national minimum wage for 18–20-year-olds will increase 16.3% to £10 per hour. The government also confirmed its intention to move toward a single adult wage rate.

National Insurance

- 11.14 The Chancellor also confirmed that employer national insurance contributions will increase from 13.8% to 15% from 6 April 2025, with the per-employee threshold at which employers start to pay National Insurance reduced from £9,100 to £5,000 per year.

Pay inflation

- 11.15 All Council staff are paid at an hourly rate which is above the national living wage. Therefore changes to the national living wage do not add further pressure onto the direct pay bill.
- 11.16 Where the council commissions services, for example within the care sector these may be impacted by the rises in national living wage. In addition the changes to national insurance may result in requests for above inflation contract rises to meet the cost of meeting NLW or NI increases.

Contingency

11.17 In 2024/25, the contingency budget has been effectively repurposed and subsequently deployed to deal with non-pay inflation pressures that emerged after the budget was set and which could not be contained within existing service budgets. These pressures have been added into the budget for 2025/26. The recommendation is therefore to keep a contingency budget of at least £5m to meet unbudgeted pressures during 2025/26.

12. Continuing and new budget pressures in the MTFP

12.1 As part of reviewing the MTFP gap for 2025/26 the senior leadership team (SLT) and their teams have been reviewing budgets for the current year and assessing the ongoing impact of rising costs and demand for services.

12.2 There are also significant new pressures in 2025/26 as well as continuing impacts of price increases.

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.

	Adjusted base budget 24/25	Total Pressures	%	Savings	%	Draft base budget 25/26	Increase in base after adjustments	%
Adults & Housing	£152,848,565	£31,558,027	21%	(£3,113,585)	-2%	£181,293,007	£28,444,442	19%
Childrens	£85,005,383	£10,361,676	12%	(£4,500,000)	-5%	£90,867,059	£5,861,676	7%*
Corporate	£45,962,602	£3,211,157	7%	(£311,181)	-1%	£48,862,578	£2,899,976	6%
Place	£103,876,365	£9,213,550	9%	£0	0%	£113,089,915	£9,213,550	9%
Central Finance	(£11,002,667)	£25,634,788	N/A		N/A	£14,632,121	£25,634,788	N/A
Total	£376,690,248	£79,979,198	21%	(£7,924,766)	-2%	£448,744,680	£72,054,432	19%
Council Tax, Business Rates and Central Grants Funding	(£376,690,248)			(£37,002,587)		(£413,692,835)	(£37,002,587)	10%
				Budget gap			£35,051,845	9%

12.4 A summary of the key points from the table above:

- i. Total spend pressure within services totals £80m, 21%
- ii. Total savings identified within services total £8m, 2%
- iii. Total funding uplifts expected totals £37m, 10%
- iv. Remaining budget gap £35m, 9%

12.5 The following table includes only the new or changing assumptions and reconciles the increase from a net budget gap of £13.4m as reported in February 2024 to the latest gap as reported to Cabinet in November 2024.

Budget gap as at 13/02/2024	£13,408,590
Adults and Housing pressures	£20,849,555
Our Future Council, Capital and LG Pension Scheme pressures	£14,813,492
Childrens pressures	£4,100,376
Place pressures	£4,085,220
Increase in Children's growth	£2,756,097
Corporate pressures	£2,489,660
Public Health pressures	£2,000,000
Reduction in grant funding	£1,570,039
Reduction in Children's savings	£1,000,000
Increase in Adults growth	£771,919
Reduction of rental income	£100,000
Increase in Corporate savings	(£311,181)
Reduction in inflation	(£344,110)
Reduce Public Health Pressure	(£1,500,000)
Reduction in Travel growth	(£2,590,000)
Increase in Adults & Housing savings	(£3,113,585)
Business rates increase/growth	(£7,584,355)
Council increase/growth (includes Second Homes)	(£17,449,872)
Budget gap as at 28/10/2024	£35,051,845

12.6 Cabinet continues to work with SLT and their teams to identify actions to manage these pressures and prioritise mitigation as part of meeting the Councils legal requirement to set a balanced budget for 2025/26.

12.7 More detail of the material pressures is contained in appendix 01.

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 Based on options identified so far if the council delivers all options identified so far, then £35m will be required from reserves in 25/26. This would be unsustainable given the value of reserves available and so is not a viable option. The CFO's section 25 statement on the robustness of the budget will also need to give due consideration to the budget and adequacy of reserves.

14. Council Plan

- 14.1 The Council Plan will set out the key priorities to be delivered over the next five years.
- 14.2 Residents, families, businesses and colleagues have been asked to take part in a “Big Conversation” about the four proposed priorities:
 - 1. Communities for all
 - 2. Respond to the climate crisis
 - 3. Provide high quality housing
 - 4. Grow our economy
- 14.3 Feedback from the Big Conversation will help refine the new plan which will be reviewed and presented to Full Council for approval in December 2024. At this stage the cost to deliver is estimated to be £2.5m. More detail of the draft costs to deliver are contained within Appendix 02.

15. Cost of Living Fund

- 15.1 This initiative started in 2023/24 and has enabled Dorset Council has provided extensive support to residents over the last 12-18 months. A proactive, targeted, and flexible approach has been taken to support Dorset’s communities with the cost-of-living challenge, using evidence and data sets has enabled the Council to identify gaps in local and national support initiatives and target support to our most vulnerable residents.
- 15.2 Although the funding allocated to date has achieved its purpose and has significantly supported our vulnerable residents to weather the cost-of-living challenge, the challenge has not ended. Emerging trends throughout this financial year have shown that housing issues have become more prevalent. There is a risk that our residents who may have been relying on some of the funded programmes, may not be able to bridge the financial gap now the funding support ended. To this end, a request has been made to make this funding a permanent fixture in the base budget going forwards.
- 15.3 The draft budget continues this support at £1.5m.

16. Transformation savings

- 16.1 When setting the 2024/25 budget the Council approved a savings requirement from the Our Future Council programme of £8.6m as part of the £34m savings programme, this figure is made up of an undelivered £0.5m from 2023/24 and a new £8.1m for 2024/25. The full value of these savings is forecast to be met from reserves in 2024/25.
- 16.2 In addition, the Q2 report shows a further £1.925m of savings are shown as being undelivered in 2024/25.
- 16.3 Over the last few years significant cross organisational work, supported by external consultants Local Partnerships in 2023-2024 and now PwC since June 2024. The outline business case for our future council is on the same 19 November 2024 Cabinet agenda. Additionally the transformation plan is on the same agenda. More information is available within these reports.
- 16.4 Given the scale of required savings to deliver a balanced budget for 2025/26, officers will need to have a relentless focus on delivering both short-term savings to reduce costs as well as pave the way for a longer-term transformation to ensure the financial sustainability of the Council.
- 16.5 Without delivery of transformation to reduce costs, the scope of services which remain affordable will centre around only those of statutory nature.

17. Further work to close the gap

- 17.1 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 2024/25 to minimise the spend pressures being brought into 2025/26.
 - 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 2025/26;

18. Timetable

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

19 November	Cabinet (Q2 and MTFP)
16 January	People and Health Scrutiny Committee
17 January	Place and Resources Scrutiny Committee
28 January	Budget presented to Cabinet
11 February	Budget recommended to full Council

19. Risk

- 19.1 There is significant risk in our planning assumptions at this stage. Officers' initial work has identified a £35m budget gap in 2025/26. If all current action is taken £35m will need to be funded from reserves which will have a significant impact on the adequacy of the Councils reserves. The remaining budget gap equates to £92.34 per head of Dorset population (based on 379,578 population figure)
- 19.2 It remains unclear how the upcoming spending review SR25 due in March 2025 will translate into a settlement for local government.
- 19.3 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.

20. Dedicated Schools Grant (DSG)

- 20.1 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 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 £31.99m for 2024/25 with a cumulative deficit of £64.9m by 31st March 2025 after DfE and Dorset Council Contributions.

21. Maintaining the Council's estate

- 21.1 As reported in the Quarter 2 financial management paper on the same Cabinet 19 November 2024 agenda, within Assets and Property, “compliance spend” is taking place to make properties compliant with current building safety legislation, as Dorset Council inherited a stock of buildings that were in variable conditions and states of compliance from its predecessor councils in 2019 and work continues to bring them up to an acceptable minimum standard. At the end of September 2024, spend is forecast to be circa £7.8m in 2024/25. This is not part of the Assets and Property normal revenue spend, being exceptional by nature, and the funding for this work is to be met from a combination of funds with a contribution from existing Property repairs and maintenance budgets where applicable. Where this work cannot be capitalised, this will fall to reserves to fund the revenue elements of the spend.
- 21.2 The revenue and reserve impact of the continuation of this work into 2025/26 is being quantified.

22. Capital programme

- 22.1 The capital programme for 2024/25 was approved by Full Council in February 2024 and is updated quarterly. As noted in the quarter 2 report, the total programme now runs to some £364.574m of gross expenditure.
- 22.2 Officer subgroups are also developing capital programme proposals for 2025/26 and beyond. Given the interest and MRP implications each project is considered as part of a bidding process. Cabinet will be presented with a proposed capital plan prior to full Council consideration in February 2025.

23. Reserves

- 23.1 One of the many benefits of forming Dorset Council as a unitary authority was the consolidation of reserves from the predecessor Councils. This gave the Council a healthy level of reserves when it was established in 2019.

- 23.2 However, these reserves are now being used to support the activities of the Council and based on the revenue forecast as at the end of 2024/25 there will be a requirement for the following use of £27.3M reserves: £13.2m overspend from the general fund and earmarked reserves, £8.6m of which is required to cover Our Future Council £2m Cost of Living support in 2024/25 Estimated up to £7m on health and safety compliance spend in 2024/25 with a similar level of spend expected in 2025/26 £5.1m contribution to the Dedicated Schools Grant.
- 23.3 In addition, the Council anticipates drawing down a further £34.7M of earmarked reserves during this financial year (ie using the reserve for the specific purpose for which it has been intended.) This is particularly concerning as it risks reducing the balance of the General Fund reserves from 10% to 6.18%.
- 23.4 This underlines the importance that any use of reserves in 2025/26 should be on an invest to save basis, as part of the Our future Council transformation programme, rather than to simply fill a budget shortfall.
- 23.5 Further concern comes from the rising cumulative DSG deficit which based on the Q2 report is an unmitigated £90.3m before safety valve partner contributions. Without a national solution to this, the cumulative deficit is on track to exceed all available reserves (all available reserves are forecast to total £97m by March 2025) and so poses a significant risk to the financial viability of the Council.
- 23.6 Any deficit associated with the DSG is kept off councils' balance sheets as a result of the statutory override set out in The Local Authorities Capital Finance and Accounting (England) Regulations. It was announced in December 2022 that this would apply for a one-off period of three years up to 31 March 2026.
- 23.7 Until March 2026 the deficit is therefore held separately from the general fund, however there remains an underlying cashflow pressure from carrying a £90.3m deficit meaning that the Council has access to £90.3m less cash than it would otherwise. As a result, interest foregone during 2024/25 on the deficit equates to £4.6m of pressure met by the General Fund. This is £4.6m which could otherwise be spent on local service delivery.

23.8 If the statutory override ceases and the Council has to recognise the cumulative DSG deficit without a significant increase in funding, or change to policy, issuing a section 114 notice may be unavoidable as the cumulative deficit is on track to exceed all available reserves and so poses a significant risk to the financial viability of the Council. It is of little comfort that many upper tier councils across the Country are in the same position

24. Steer from Cabinet and next steps

24.1 The council continues to highlight the case for additional investment in Local Government 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.

24.2 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 the 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.

24.3 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.

24.4 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.

25. Summary and conclusions

- 25.1 The circumstances surrounding the 2025/26 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.
- 25.2 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. During November and December officers and Cabinet Members will be working together to:
- 1) Review and challenge the identified growth pressures to ensure they are set at a realistic yet minimum level
 - 2) Undertake a systematic review of all service areas to identify options for cost reduction
 - 3) Finalise the Our Future Council transformation programme to improve the customer's experience of the Council whilst reducing the cost of service provision.
- 25.3 It will be a through a combination of these measures that the Council will meet its legal requirement to set a balanced budget for 2025/26

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.

Appendix 01 - Directorate pressures

- 1.1 The following paragraphs outline the material pressures over £1m within each directorate and the status of mitigating action.
- 1.2 Figures contained are the current working totals and subject to further scrutiny and mitigation as officers progress through the budget setting process therefore inclusion in this report at this stage does not mean that the pressure or value is confirmed as part of the budget gap.

Adults and Housing

- 1.3 General (non-pay) inflation is calculated based on an uplift of 2% which equates to £4.117m for Adults and Housing. This covers contract and care package inflationary increases.
- 1.4 Growth in adult care packages for 2024/25 is calculated at £13.703m. Modelling considers the increase in the number of people being supported since October 2023 when the 2024/25 budget was set along with an assumed growth for the remainder of the 2024/25 financial year. Areas of growth include Homecare, Supported Living and care homes.
- 1.5 Growth in adults care packages for 2025/26 is calculated at £6.948m. This has been modelled on the same basis as 2024/25 looking at trends over the last 18 months.
- 1.6 The Council uses external advisors, LG Futures, to help forecast how the government funding will be allocated across different grant streams. LG Futures modelling expects that the Discharge Fund will no longer be available in 2025/26. This equates to a reduction of £2.909m in grant funding. This grant has been used for the Recovery and Community Resilience contract which delivers short term, enhanced support to an individual following discharge from hospital or to avoid hospital admission.
- 1.7 Temporary capital receipts funding were identified in 2024/25 to support transformation and prevent/ reduce temporary accommodation spend. To continue the good work that has taken place in year £1.5m is required on a permanent basis.
- 1.8 Following a decision taken by BCP council to withdraw from the shared Public Health service from April 2025 this will no longer be operating as a shared service. It is anticipated that there will be additional cost pressures associated with disaggregation. Public Health are also impacted by the agenda for change pay award which is currently pending. NHS providers typically seek for the additional pay inflation costs to be funded by the commissioner i.e. public health. The estimated cost of both pressures is £1.5m. Further work is being undertaken at the present time, so it has been decided to manage down this pressure, with any one off costs coming from reserves.
- 1.9 Care Dorset Contract £1m to take into account contractual increases in the budget relating to Local Government Pay awards.

Children's Services

- 1.10 The overall budget proposed for Children's Services is an increase of £6.5 million, to £90.9 million, an increase of 7%.
- 1.11 The Directorate's ambitious, five-year transformation plan is a key component of the 2025/26 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.
- 1.12 2025/26 will be the final year of the Children's Services transformation programme, with original projected in-year savings of £5.5 million.
- 1.13 Budget increases centre on two main themes for 2025/26; pressures that impact all council services, such as pay inflation, general inflation and cost of increments and pay awards; and specific budget increases for Children's services.
- 18.16 Specific budget increases cover the following areas designed to support Children's priorities, including the best start to life for all children and young people. A summary of the material changes 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.	1.79
Children in Care (CiC) 2025/26	Please see the section 'Children in Care 2025/26' for the full analysis. This excludes unaccompanied young children. In summary, our CiC population has reduced since September 2020 by 16%, however costs have increased by 7%.	4.18
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.	0.96
Transformation deliverability	Children's Services transformation programme is entering the final year of the five-year journey that was planned to deliver £5.5m of in-year savings. Three of the five transformation projects are on track to deliver, two are high risk and unlikely to deliver the entire original savings target. The two that are high risk are Early Support and Digital Family Offer (formerly ODFO) and Birth to Settled Adulthood.	2.15

Area	Description	£m
	<p>The Early Support and Digital Family Offer has many overlaps and dependencies with the central Our Future Council programme. Additionally, the full original savings target for 2025/26, set in 2019, is too high. The more realistic plan is to deliver £0.4m of the original £1m 2025/26 saving.</p> <p>The Birth to Settled Adulthood (B2SA) saving risk is related to timing and the amount. The B2SA service started in April 2024. The 2024/25 saving (£1.55m across) is unlikely to be realised as the service is still in its infancy. The £1m 2025/26 savings target is still planned to be achieved.</p>	
Impact of the National Transfer Scheme for Unaccompanied Minors	Dorset are required to help around 67 unaccompanied minors through the National Transfer Scheme. There is central government funding to support our unaccompanied children and frequently it is not enough to cover all costs. Additionally, funding drops when the child turns 18, leaving Dorset having to fund the gap until young person's Leave to Remain status is established.	0.5

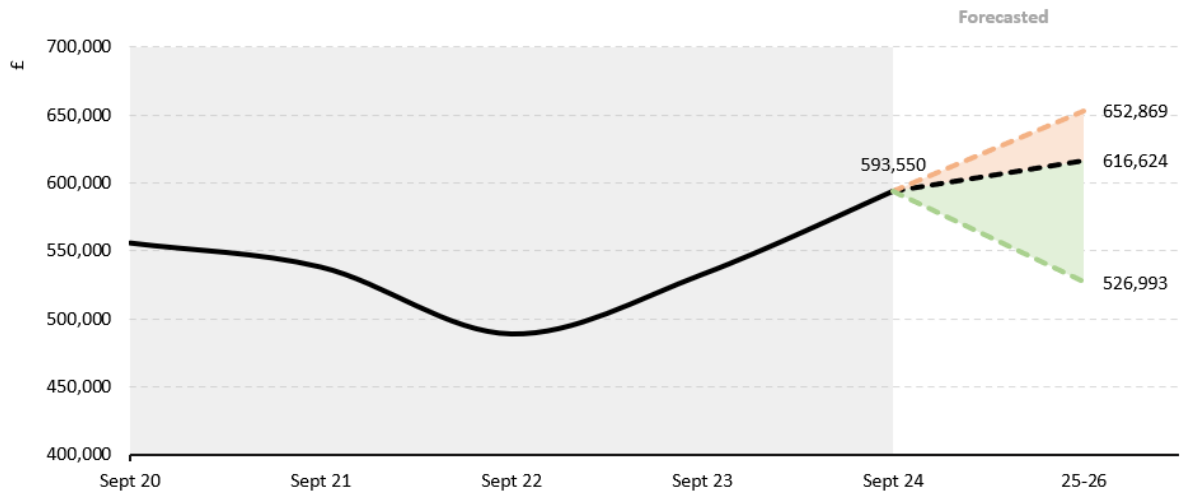
Children in Care 2025-26

18.17 The estimated additional budget requirement is £4.17 million. This is based on the September 2024 CiC population rolled forward, trends, inflation, estimated impact of the transformation programme and a rebalanced system.

18.18 The overall budget requirement would be £32.15 million, or £0.616 million net weekly cost per week.

18.19 Graph 1 is a fan chart detailing three budgetary scenarios (best case, worse case and proposed budget) for 2025/26. Table 1 details the full year impact (assumes from 1 April to reach this target) and net estimated movement in the CiC population.

Historical and forecasted Dorset Council CiC Net Weekly Cost



Graph 1: CiC Nest, proposed and worse case 2025-26

Scenario	Net Weekly Cost (£)	Annual Cost (£m)	Budget available	Additional budget needed	Est. No of CiC
Best Case	526,993	27.477	27.97	- 0.494	380
Proposed budget	616,624	32.151	27.97	4.180	394
Worse Case	652,869	34.041	27.97	6.070	419
Scenario summary (assumed from 1 April)					
Best case: Net reduction to 380 CiC, fostering placements increase to 200.					
Proposed budget: Net reduction to 394 CiC, same split as Sept 24.					
Worse case: Net increase to 419 CiC, same split as Sept 24.					

Table 1: CiC Best, proposed and worse case 2025/26

Place Directorate

- 18.20 Pay inflation is included at £1.263m. This is based on an assumption of a 2% increase.
- 18.21 General (non-pay) inflation is included at £1.457m. This is calculated on a 2% uplift.
- 18.22 Growth in Dorset Travel is included at £2.7m. Cabinet will be aware of significant uplifts in expenditure that this sector has seen nationally in recent years. An increase of £2.7m is an increase of 6.75% on the existing budget of £40m, and is our best estimate based on what we are seeing happening to prices and volume levels in the current year. This represents a slowing down of the inflation seen in this sector, which has been reported as circa 20% in recent years on a national level.
- 18.23 Budget realignment within Assets and Property, at £1.5m. It can be seen in the 2024/25 budget monitoring that there are a number of areas where the current assumptions for income targets and savings from property disposals are more ambitious than the reality. For example, rent reviews which take place every 3 years, and therefore an annual uplift to the income target will not be achieved. This also includes a realignment to the Facilities team and the extent of charging for capital work.
- 18.24 In waste management there is a budget pressure of £749k relating to current contract extension, assumed growth in waste tonnages, and payments to other councils for use of cross-border arrangements.
- 18.25 Highways and street cleaning budgets require a realignment of £734k to maintain the current level of service.
- 18.26 Leisure Centres are facing a potential loss of grant funding from the DFE of £489k with regard to running costs of leisure centres where there is joint use with schools.

Central Finance

- 18.34 As the current quarter 2 forecast assumes that reserves will be required to offset the savings for Our Future Council for 2024/25 and the budget gap assumes that these savings will be removed from the budget for 2025/26.
- 18.35 Additional interest costs and Minimum Revenue Provision (MRP) costs have been built into the Medium-Term Financial Plan. These are the revenue costs incurred as part of funding the existing capital programme as well as an estimate of new capital projects in 2025/26 to 2029/30.

APPENDIX 02 – Council Plan costs

Figures contained are the current working totals and subject to further scrutiny and prioritisation as the council progresses through the budget setting process therefore inclusion in this report at this stage does not mean that the initiative or value is confirmed as part of the budget gap. The cost of these developments will have to be considered alongside the other commitments and pressures for the council.

Resources will be needed to deliver these priorities:

Communities for all	Network of Community Officers across Dorset Council area.	£314,700
	Support to establish VCS Assembly for 3 years (2025-27)	£100,000
	Social value calculator: staffing and software for one year.	£63,300
Climate Change	Rights of Way (RoW) network improvements	£590,000
	Investment in our land and county farmland to be managed for nature. Initial investment of £76k to develop the business case and governance model - £36k from biodiversity compensation funds and £40k required from council revenue funds.	£40,000
	Implementation of the Local nature recovery strategy and development of the large landscape recovery work.	£117,000
	Maintain necessary match funding for the hosted partnerships that help deliver nature recovery - Dorset and Cranborne Chase National Landscape Partnerships to enable them to lever their full Defra funding allocation	£80,000
	Climate: project development to support the delivery of an accelerated capital programme in 2025/26 and 2026/27.	£150,000
	Additional cost of HVO fuel to decarbonise large fleet vehicles	£250,000
Housing	Increase to housing supply, £10m capital costs and additional revenue costs:	£250,000
Grow our economy	Investment in an entrepreneurship programme to provide a business start-up package for school and college leavers and young people looking to start in business – subsidised accommodation, mentorship programme, specific business development training.	£75,000
	Investment in specific staff to deliver the market towns strategy implementation working with local stakeholders to develop and deliver the market towns strategies and the skills liaison staff	£200,000

	resource to broker relationships between businesses with specific skills needs and providers, ensuring the critical mass of courses.	
	Investment in delivery team for the Dorset Innovation Park working to an arms-length company delivering the Innovation Park business plan bringing forward additional business rates and land sales.	£270,000
Total costs		£2,500,000