

Shadow Dorset Council

Date of Meeting	11 February 2019
Lead Member	Councillor Tony Ferrari, Lead Member for Finance
Officer	Jason Vaughan, Interim Section 151 Officer
Subject of Report	2019/20 Budget
Executive Summary	The report sets out the proposals for the 2019/20 Revenue and Capital Budgets, Capital Strategy & Treasury Management Strategy.
Impact Assessment:	<p>Equalities Impact Assessment: Equality Impact Assessments will be carried out for any changes to staffing or services such as the transitional staffing structure.</p>
	<p>Use of Evidence: The report has been built upon a variety of information from the 6 sovereign councils including the latest budget monitoring for 2018/19, internal and external audit reports, the medium term financial forecasting model, CIPFA resilience report, the Local Partnerships business case and the PWC Case for Change.</p>
	<p>Budget: It is a statutory requirement under the Local Government Finance Act 1992, as amended by the Localism Act 2011, for the Council to set a balanced revenue budget. The 2019/20 budget will be set by the Shadow Council in February 2019 and together with the Capital Investment Programme and Treasury Management Strategy it sets the resource framework and limits within which services must be delivered.</p>

	<p>Risk Assessment: Having considered the risks associated with this decision using the LGR approved risk management methodology, the level of risk has been identified as: Current Risk: MEDIUM Residual Risk MEDIUM The key risk areas are around the delivery of savings from the transitional staffing structure and managing demand led services within the budget estimates.</p>
	<p>Other Implications: None</p>
<p>Recommendation</p>	<ol style="list-style-type: none"> 1. To recommend to the Shadow Council the 2019/20 Revenue budget as set out in Appendices 2 and 3 2. To approve that a Base Budget Review of Children's Services is undertaken with the new Executive Director People - Children 3. To recommend to the Shadow Council that the fees & charges for regulatory services in Appendix 4 be approved 4. To recommend to the Shadow Council that for fees & charges that usually increase by inflation they increase by 2.4% for 2019/20 5. To recommend to the Shadow Council that £700,000 is set aside for the costs of the local elections from the council tax surplus and that the balance is added to general reserves 6. To recommend to the Shadow Council that the 2019/20 Capital Programme set out in Appendix 5 is approved 7. To recommend to the Shadow Council that the Band D council tax charge is £1,629.75 for 2019/20 and that the full resolution on council tax is set out in the budget report to the Shadow Council 8. To recommend to the Shadow Council that the 2019/20 Capital Strategy set out in Appendix 6 is approved 9. To approve that a Review of Capital is undertaken and reported to the September Executive 10. To recommend to the Shadow Council that the 2019/20 Treasury Management Strategy set out in Appendix 7 is approved 11. To recommend to the Shadow Council that £13.5m of capital receipts be used to fund the LGR implementation costs in accordance with the governments flexible use of capital criteria

	<p>12. To recommend to the Shadow Council the minimum level of general reserves be set at £14.5m and the maximum set at £29m for 2019/20</p> <p>13. To approve a review of Reserves is undertaken and reported to the September Executive</p>
Reason for Recommendation	To enable the 2019/20 revenue and capital budgets to be set.
Appendices	<ol style="list-style-type: none"> 1. High Level Summary showing how the revenue budget is balanced. 2. 2019/20 Revenue Budget broken down by classification type 3. 2019/20 Revenue Budget showing Service spend (Appendix 3 will be circulated after agenda publication) 4. Alignment of Fees & Charges 5. 2019/20 Capital Programme 6. Capital Strategy for 2019/20 7. Treasury Management Strategy for 2019/20
Background Papers	Reports to the Budget Working Group
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1. Background

- 1.1 The financial challenges facing councils are not new. The National Audit Office have carried out a study and identified that there has been a 49% real-term reduction in government funding for local authorities in the last six years. This has created significant pressures at a time when there has also been an increase in demand led services such as Children's and Adults. A number of councils have hit the national headlines as their finances have become so stretched that their future financial sustainability has come into question.
- 1.2 The Councils in Dorset have proactively responded to the challenge and taken the bold approach of creating a new unitary council from April 2019. The new Dorset Council will replace the 6 existing councils of Dorset County Council, East Dorset District Council, Purbeck District Council, North Dorset District Council, West Dorset District Council and Weymouth & Portland Borough Council. By taking this bold step the new Council will be able to protect front line services by delivering significant efficiency savings from the convergence of six council's functions into one. It also provides a basis to enable significant transformational change in the way in which services are delivered across Dorset in the future. This scale of change is essential in creating a financially sustainable council that can continue to deliver services to its residents. However the practice of creating a new unitary is challenging especially given the short timescale for its implementation.

2. Developing the Budget

- 2.1 Dorset Council is a new organisation and the starting point for development of the 2019/20 budget has required the finances of 6 existing councils to be combined into one. However the position is more complex with the disaggregation of the Dorset County Council functions for Christchurch, the separation of staff within Christchurch & East Dorset Councils Partnership and the creation of a new town council in Weymouth.
- 2.2 In financial terms the 6 sovereign councils start in very different positions in relation to resourcing pressures for 2019/20, reserves and demands for services. In practical terms this required bringing together the financial information that is currently contained within the sovereign councils through 4 different finance systems, 4 separate finance teams in 4 different locations into one.
- 2.3 To address the challenge of producing a budget for the new council a Budget Working Group comprising of councillors from each of the sovereign councils has been meeting regularly throughout the year to set the direction for the 2019/20 budget and develop proposals that would produce a balanced budget. The work has focused upon protecting frontline services by delivering the efficiencies from being one council that were set out in the Local Partnerships business case and increasing income.
- 2.4 The Shadow Executive Committee approved the Financial Strategy in August 2018. It set out some key financial principles which will be used in developing the 2019/20 budget proposals. They are:
 - To set a balanced budget for 2019/20 – This involves not using once off sources of funding to support on-going expenditure.

- Setting solid financial foundations - Although the 2019/20 budget presents some unique challenges, the new council wants to set the foundations for creating a financially sustainable council that can deliver sustainable services to its residents.
- Business Case – Delivering the estimated £13.6m savings from the Local Partnership business case.
- Transformation - Ensuring there is resources to fund transformation which is required in order to address the predicted budget gaps in future years and create a sustainable council.

3. Revenue Budget

- 3.1 The budget proposals are based upon the latest demand pressures in homelessness, adults and children's services, impact of disaggregation, cost price increases, reductions in government funding and removal of once-off items in the current year.
- 3.2 The provisional finance settlement was announced in December and will be finalised sometime in February. The main points from it were as follows:
- The Council Tax referendum limits for local authorities will remain as previously indicated at 2.99%, although for Police and Crime Commissioners the potential annual increase to their precept will be extended to £24 per annum;
 - The £153m of Negative RSG for 2019/20 will be eliminated by the government. This will be funded through its share of business rates;
 - For 2019/20 there are no changes to the New Homes Bonus deadweight (this was suggested as a possibility in September 2018). Instead up to an additional £20m of funding was added to the scheme;
 - Rural Service Delivery Grant in 2019/20 will increase to £81m; an increase of £16m on the previously planned £65m allocation;
 - Proposals for new 75% Business Rates Pilots in 2019/20 have been approved for 15 areas and these are in Berkshire, Buckinghamshire, East Sussex, Hertfordshire, Lancashire, Leicestershire, Norfolk, Northamptonshire, North and West Yorkshire, North of the Tyne, Solent, Somerset, Staffordshire and Stoke, West Sussex and Worcestershire;
 - A £180m balance on the national Levy Account will be distributed based on need in the current financial year.
- 3.3 Overall the provisional finance settlement was in line with our predictions and the most significant item being the saving of £11m from elimination of Negative RSG. This is something that we have been actively campaigning for and its elimination will have a positive significant impact on any changes to funding in future years.
- 3.4 In order to deliver the business case for creating Dorset Council a transitional staffing structure is being developed and will bring the 6 sovereign councils workforces into one. It is estimated that by doing this there will be a reduction of over 200 posts in two

tranches. The first tranche will involve a significant reduction in senior & mid-level managers and those who support them. The second tranche will see further reductions in the corporate areas in response to one council requiring less resources than six. Taking into account the timing and potential additional costs, savings of £5.22m can be built into the 2019/20 budget proposals with further savings falling in 2020/21 which are expected to mean savings of around £10m in a full year will be achieved. The actuaries have undertaken some work and agreed a standard employers pensions rate of 15.9% for Dorset Council plus a backfunding cash sum of £10.573m for the year.

- 3.5 The business case also identified that savings could be achieved from the reduction in the number of elected members and audit fees. These have been estimated to be £500,000 and £189,300 respectively. Further savings that were not included within the business case will also be made including £5.948m of base budget savings following extensive reviews of the current base budgets in each council and a further £1.166m of additional income from this process. By bringing the 6 councils together, savings of £500,000 will be made from insurance arrangements, £3.6m of additional income from business rates and £2m of treasury management income. Reduction of £500,000 in Adults, £1.1m in Children's and £228,000 in Environment have been identified to address stranded costs following disaggregation with a further £1.188m following recent management restructures in the Environment Directorate. All of these changes are shown in Appendix 1 which provides a useful summary of the changes between the current 2018/19 budgets in each of the 6 councils and the 2019/20 Dorset Council budget.
- 3.6 The analysis of the 2019/20 budget by standard classification type is set out in Appendix 2 and by Service in Appendix 3.

4. Fees & Charges

- 4.1 The approach that has been taken for locally determined fees and charges is to split them into locality based charges and common charges. There are no proposals to align any of the locality based charges such as car parking or leisure centres. The common charges which includes such things as planning advice, local search fees, building control, licensing etc currently provided by the 5 District/Borough Councils need to be aligned from the 1 April. Dorset Council needs to have one standard charge for these standard services.
- 4.2 The Place Theme Board have been reviewing all of these across each of the current councils and have proposed charges for Dorset Council for 2019/20 which are set out in Appendix 4. There are some locality based fees & charges that usually increase by inflation each year and the September CPI increase of 2.4% will be applied to these for 2019/20.

5. Council Tax

- 5.1 The Shadow Executive has previously approved the principle of there being a standard charge for council tax across the new council area from April. This harmonisation process required approval from MHCLG and needed to take account of the financial impact of the new town council in Weymouth. As part of the provisional finance settlement the Alternative Notional Amounts (ANA) for Dorset Council has been confirmed at £1,582.44. Applying the 2.99% increase assumed in the finance settlement

from government will result in a Band D Charge of £1,629.75 in 2019/20 for Dorset Council.

- 5.2 LG Futures have carried out some national research into council tax collection rates. They have identified that shire districts have the highest collection rates at 97.9% and the other unitary councils have an average rate of 96.3%. They have also reviewed the position for Dorset. Based upon previous trends both locally and nationally it is appropriate to assume an in year council tax collection rate of 98% for 2019/20. Analysis of increases in the number of properties since last year show that it would be appropriate to build in a further 0.75% to allow for growth and collection from previous years to the taxbase. Based upon these two elements the taxbase has been calculated as being 148,087.2 Band D equivalent properties for 2019/20. Taking into account the taxbase calculation and the proposed council tax charge for 2019/20 generates income of £241.3m for Dorset Council which is an increase of £10.7m on 2018/19.
- 5.3 In January each year every authority has to review its collection fund and calculate any surplus on the account. For Dorset Council this is £7.122m of once off funding and £0.7m will be set aside for the costs of the May elections with the balance being added to general reserves.
- 5.4 The 2019/20 Budget report to the Shadow Council will include the full resolution for council tax that is a requirement for a precepting body.

6. Dedicated Schools Grant (DSG)

- 6.1 The pressure on the DSG budget continues to grow with the High Needs Block showing a consistent picture of overspending in the last few years. The two main drivers of this are the continued increase in the number of Education Health & Care Plans (EHCPs) and the changes to Special Educational Needs (SEN) code of practice which extended the age range from 19 to 25. The table below summarises the position:

	HNB Overspend in year £m	DSG Balance £m
2015/16	(1.886)	1.549
2016/17	(5.885)	(4.067)
2017/18	(5.515)	(8.716)
2018/19 - estimated	(4.660)	(13.346)

- 6.2 The Education Secretary has recognised the position that many local authorities are in and announced a £350m funding package for Special Educational Needs & Disabilities (SEND) in December. The funding was split with £100m for provision of capital funds and £250m for High Needs funding with Dorset receiving £825,000 in the current year and £729,000 in 2019/20. Although this additional funding is welcomed it is once off and not enough to address the overall position. The Schools Forum have considered the DSG budget for 2019/20 but rejected proposals to transfer funding from the Schools Block to

the High Needs Block. A disapplication has been made to the Secretary of State to allow a transfer of £3.1m that if approved will support the High Needs Block.

- 6.3 Work has been undertaken to develop longer term solutions through a variety of means including a new free school in Bovington but further work on obtaining a financially sustainable solution is required. Dorset County Council currently holds reserves of £12.5m against this liability prior to disaggregation of the position with BCP. At this stage it is prudent not to commit the £2.9m Adults & Children's Social Care Grant for 2019/20 which was announced as part of the £410m national funding package and to consider how this can be best used to help address the situation.

7. Public Health Grant

- 7.1 The Public Health Grant for Dorset Council 2019/20 is £13.172m and £19.353m for BCP giving a total of £32.525m compared to £33.4m in the current year.

8. LGR Implementation Costs

- 8.1 The most significant element of the LGR implementation costs relate to staff redundancies that will deliver the £10m annual savings. It is difficult to precisely predict these costs because they vary significantly depending upon the individual's age and length of service, the number of vacant posts and the number of staff that will leave via natural turnover. However at this stage it is reasonable to estimate that these could be in the region of £9m which means that the overall LGR implementation costs are estimated to be £13.5m for 2019/20.
- 8.2 The government has allowed councils to fund transformation costs from capital receipts and this is known as applying the flexible use of capital receipts. The costs of LGR implementation will be funded through this mechanism and it is estimated that there is currently £6.5m of uncommitted capital receipts available for this purpose. This means that the first £7m of capital receipts received during the year will be used for this purpose.
- 8.3 The option of obtaining a capitalisation directive for the transitional costs from government will be explored during 2019/20.

9. Capital Budget

- 9.1 The Capital Programme for 2019/20 takes account of all the approved schemes within the existing 6 sovereign councils and brings them together into one programme for the new council.
- 9.2 The proposed Capital Programme is set out in Appendix 6. Part 1 details projects that are fully funded from external sources, Part 2 details project with partial external funding and Part 3 details projects with no external funding. Part 4 sets out the financing of the programme and shows that the revenue impact of the programme for 2019/20 is £512,000 which has been built into the Revenue Budget proposals.
- 9.3 Any current schemes that are in one of the sovereign councils 2018/19 capital programme that are not completed by year end will be carried forward and added to the 2019/20 capital programme.
- 9.4 The Capital Strategy for 2019/20 is set out in Appendix 6. During 2019/20 there will be a full review of the capital programme and how it operates going forward in order to ensure

that it is financially sustainable. This will involve reviewing which items are funded from capital, future potential disposals and future years projects. This review should be completed by September and reported back to the new Executive.

10. Treasury Management

10.1 The treasury management function brings together all of the investment and debts of each of the councils portfolios and following a tender process Arlingclose have been appointed as treasury advisors. Reviewing our investment strategy and taking a medium term approach focusing on income means that we can build £2m of additional income into the 2019/20 budget. The Council is required to produce a Treasury Management Strategy for 2019/20 and this is set out in Appendix 7.

11. Contingency

11.1 As part of developing the budget proposals it would be prudent to allow for a contingency within the base revenue budget. This approach is designed to enable the risks associated with the uncertainty and process to be effectively managed. Across the sovereign councils there is just over £2.5m of funds held for this purpose and the 2019/20 budget proposals increase this by £2.293m to £4.793m.

11.2 At the time of writing this report there is an emerging picture of further costs in the Children's Services budget over and above the increased amount already built into the 2019/20 budget proposals. It is therefore recommended that a Base Budget Review exercise is carried out on this area as a priority in order to establish the on-going position with the new Executive Director of People - Children. This approach also fits in with the recommended approach from CIPFA.

11.3 The 2019/20 budget has been arrived at using the information within the current 6 councils and adjusting for known changes. In order to ensure that the base budget for each service is fully aligned there will a Base Budget Review process across all budgets during the year once the management structures and budget holders are in place.

12. Reserves

12.1 Every council has reserves and these fall into two categories. The first being 'earmarked' reserves where funding is set aside for a particular project or purpose and the second being 'general' reserves to cover unexpected expenditure.

12.2 The new council is financially bigger than any of the existing councils with a gross spend of over £700m and budget requirement of over £290m. The budget for the coming year brings greater risks given it's a combination of the 6 councils coming together and against the background of austerity, reductions in funding and increases in demand led services. Nationally there is increasing concern about the financial sustainability of a number of councils and a key sign of financial stress is around the reduction in reserves that are held. In order to gain some independent assurance CIPFA were engaged to carry out some benchmarking on the level of reserves held by unitary councils. This identified that most unitary authorities tend to maintain general reserves of between 5 per cent and 10 per cent of net revenue expenditure. For Dorset Council this would mean maintaining reserves of between £14.5 million (5 per cent of net revenue expenditure) and £29 million (10 per cent of net revenue expenditure). Given the risks facing the new Council, CIPFA recommended that the level of reserves should be maintained at the higher end of the range.

- 12.4 I recommend that the minimum level of reserves should be set at £14.5m and the maximum at £29m for 2019/20. Taking into account the latest financial position of the 6 councils, the council tax collection fund surplus and the disaggregation of the Dorset CC balance sheet, I estimate that general reserves will be in the region of £25.5m. The estimated level of general reserves together with the contingency total just under £29m and are therefore in line with the CIPFA recommendation.
- 12.5 Each of the 6 councils will produce a statement of accounts for 2018/19 that will be subject to external audit. Once this process has been completed there will be a full review of all reserves, both general and earmarked, for Dorset Council which will be reported in September in order to fit in with the 2020/21 financial strategy.

13. Future Years

- 13.1 Producing a robust picture of the financial position in future years is always challenging. It is particularly difficult with the opening position of Dorset Council not being known until the end of July when the 2018/19 accounts of the 6 councils will be finalised and audited. There are major changes in 2020/21 through the Comprehensive Spending Review (CSR) which sets out how much funding the sector will receive and we have no detail on this yet including if it will be for a single or multi years. The current Fair Funding consultation launched with the provisional finance settlement will determine how much funding each council will receive in the future and the consultation on the new 75% business rates retention scheme sets out how this funding mechanism may work from 2020/21. In addition to the uncertainties around the funding and mechanisms from 2020/21 onwards the council is in the unique circumstance of its 2019/20 budget being a product of bringing the 6 councils together. Any forecast at this stage is therefore likely to be of limited value.
- 13.2 It is therefore proposed that a 5 year financial forecast is produced during the year in order that it can take account of the new councils agreed Corporate Plan, Transformation Plan and Asset Management Strategy. It is clear that although there is a balanced budget for 2019/20 and there are significant financial efficiencies from being a single council there will need to be significant changes to how services are provided in order to create a financially sustainable council.

14. Engagement

- 14.1 The Budget Working Group and its predecessor the Budget Task & Finish Group has been the main vehicle for getting member engagement on the budget and it has met 13 times during 2018 with 4 further meetings planned in 2019. The Shadow Executive committee have received several finance reports during the year including the Financial Strategy and update on the Medium Term Financial Forecast.
- 14.2 There has been a breakfast meeting with representatives of the business sector on 12 December and the Shadow Scrutiny Committee will consider the budget proposals at a special meeting of the Committee on 21 January 2019.
- 14.3 In terms of wider membership there is a series of 3 Budget Briefings which are open to all members of the Shadow Council and the first of these was held on 19 September and further sessions are planned for 29 January and 12 February (x2 sessions).

15. Assurance Statement

- 15.1 As the appointed interim Section 151 Officer, I have a legal duty to the Shadow Council to ensure that the 2019/20 budget proposals are robust and that the Council has an adequate level of reserves.
- 15.2 The 2019/20 budget for Dorset Council is complex given the financial information is contained within 6 sovereign councils and the disaggregation of Dorset County Council and the new Weymouth Town Council. The budget proposals have been developed using the latest information from each of the councils with common assumptions which have been discussed and developed through the officer budget worksteam. The approach taken with the contingency and the base budget review of Childrens Services enables me to provide a positive assurance statement concerning the robustness of the current proposed budget for 2019/20.
- 15.3 I am also able to confirm that the level of reserves are adequate based upon the current proposals.