



# **4 Year Efficiency Plan 2016-17 to 2019-20**

**Cabinet 28 September 2016**

## **1 Introduction**

- 1.1 As part of the November 2015 Spending Review, the Government offered an opportunity for Councils to achieve greater certainty and confidence over their finances, by accepting a four-year budget settlement. The aim is that this certainty will allow local authorities to strengthen their financial management and make more strategic, long-term decisions on reforming public services in the context of further reductions in funding.
- 1.2 The Government's commitment is to provide minimum allocations for each year of the Spending Review period, should councils choose to accept the offer and publish an efficiency plan as part of this acceptance. The only caveat is that this agreed funding could be amended if there are significant, unforeseen events.
- 1.3 To accept the deal, confirmation must be sent to DCLG by 5pm on Friday 14<sup>th</sup> October, together with a link to a four-year efficiency plan. The content of the plan has not been prescribed but it needs to demonstrate how greater certainty can bring about opportunities for further savings.
- 1.4 The four-year settlement is optional but future levels of funding are not guaranteed if it is not accepted. This would mean reverting to single-year settlements and all the uncertainty they bring. These future allocations could be subject to additional reductions dependant on the fiscal climate and the need to make further savings to reduce the deficit. Clearly, since Brexit, the risk of this has increased.

## **2 The offer**

- 2.1 The offer covers the sums set out in the final local government finance settlement on 9 February 2016, relating to:-
  - Revenue Support Grant
  - Rural Delivery Grant
  - Transitional Grant

In addition, tariffs and top-ups within the Business Rates Retention System for 2017-18, 2018-19 and 2019-20 will not be altered for reasons related to the relative needs of local authorities, although in the final year may be subject to the implementation of 100% business rates retention.

2.2 The sums involved for Dorset County Council are set out in the table below:-

	2016-17	2017-18	2018-19	2019-20
	£m	£m	£m	£m
Revenue Support Grant	19.446	6.138	(2.120)	(10.140)
Transitional Grant	2.967	2.947	2.120	0.000
Rural Delivery Grant	1.511	1.220	0.939	1.220
Business Rates Top-up	25.955	26.465	27.246	28.117
Total	49.879	36.770	28.185	19.197
Reduction in Funding		(13.109)	(8.585)	(8.988)

### 3 Medium Term Financial Strategy

3.1 The quantum of the budget gap which needs to be addressed through the Medium Term Financial Strategy is determined both by the annual changes in funding received and the additional cost pressures which the council faces.

#### Changes in Funding

3.2 In addition to the funding reductions shown in the table at 2.2 above, other changes in funding are expected.

3.3 Increases in council tax are limited to 1.99% plus an additional 2% per annum for the social care precept (SCP). The SCP was introduced in 2016-17 to recognise cost pressures on adult social care. The County Council agreed to use 3.99% as the planning assumption for the rest of this spending review period - which covers the duration of this efficiency plan. We have also assumed that there will be an increase in the taxbase of 0.75% per annum. Each 1% increase in council tax yields around £2.1m for the county council, so the combination of the taxbase growth and the 3.99% assumed increase amounts to approximately £10m in extra funding per annum.

3.4 The local share of business rates retained by Dorset County Council is 9% of the sum collected by the six billing authorities. This totals £10.7m in 2016-17. This is assumed to rise by 2% in 2017-18 and 3% in subsequent years.

3.5 New homes bonus. This funding is based upon the number of new homes built in each billing authority area and is currently around £2m. Notification was given in the settlement that the amount would be top-sliced from 2018-19 to provide additional funding for the *improved better care fund*.

3.6 Education services grant. This is provided by government to pay for the statutory services which local authorities still have to provide in relation to schools. Part of the allocation is based upon pupil numbers in our LA maintained schools and therefore reduces as academy conversions take place. The remainder is based upon the total number of pupils, including academies. This funding, and the services provided are also being reviewed as part of the Education White Paper.

## Cost pressures

- 3.7 Reverse the use of one-off funds used to balance in 2016-17. The very poor settlement which Dorset County Council received in 2016-17, due to the change of method for allocating cuts without any consultation or notice, made it necessary to use reserves on a one-off basis, to balance the budget. These therefore need to be replaced with ongoing savings from 2017-18 onward, creating an additional cost pressure.
- 3.8 Local Government Pension Scheme. Up-front payments of employers' contributions were made to the pension fund in 2016-17. These were agreed with the fund actuary and allowed a reduction in the rate paid. This will not be possible in 2017-18 due to the fund revaluation and the cash position of the pension fund. The saving taken in 2016-17 will therefore need to be replaced with an alternative saving from 2017-18 onwards.
- 3.9 Pay award. An allowance of 1% per annum has been built into the budget for the cost of the pay award, in line with government policy of a 1% public sector pay cap.
- 3.10 Increments. Some allowance for the cost of incremental progression through the pay scales has traditionally been built into the budget, although only a partial allocation has often been given, to reflect anticipated staff turnover which normally results in employees leaving part way through their pay scales and new recruits starting at the lowest spinal column point. In 2016-17, no allowance was given and services were asked to find the cost themselves. This policy has now been continued for 2017-18 and 2018-19.
- 3.11 National living wage. Provision has been made to pay for the additional cost of the National Living Wage which rose from £6.70 per hour in 2015-16 to £7.20 in 2016-17 and will increase to over £9 per hour by 2020. Costs are not just for our own employees but also contribute to the additional costs borne by our contractors.
- 3.12 Apprenticeship levy. From April 2017, all employers with a pay bill in excess of £3m face a new levy to pay for apprenticeships. The levy can be used to pay for the training of apprentices but will effectively be a new tax on employers, including local government.
- 3.13 Inflation. Allowance is made in the budget for non-pay related inflation. This is expected to increase gradually over the next three years, back to around the government's target level.
- 3.14 Capital financing. The capital programme has been cut back in recent years to reduce the additional impact which was being borne by the revenue budget to pay for the cost of borrowing. New expenditure is now capped at the sum of capital grants, capital receipts, and the sum paid off the borrowing each year – the minimum revenue provision. In 2015-16 part of the expenditure which would have been funded through borrowing was instead funded using an advance

payment from the Dorset LEP. The effect of this was to delay borrowing, giving a short-term, revenue benefit but which will lead to an increase in borrowing in a later year.

- 3.15 Demographics/demand pressures. This allocation is set aside each year to meet the additional costs arising from increases in the number of clients to whom the council provides services - for example, from the growth in the older population or through increases in the number of children taken into care.
- 3.16 Agreed commitments. Each year, there are a number of high priority, new initiatives which the Cabinet agrees to provide additional funding for. For 2017-18, one such commitment is the Dorset Care Record, a multi-agency project for which Dorset County Council will provide up to £200k of additional funding per annum.
- 3.17 Adult social care. The income generated from the additional 2% social care precept must be used on adult social care. It is likely that the cost of demographics, pay, inflation and living wage as outlined above will be in excess of this for adult social care, but if not then any balance of funding would need to be allocated in this area.
- 3.18 Taken together, these formulate the budget gap facing the council each year. In total, a further £31.8m of savings are required by 2019-20. This is summarised in the table below:-

#### **Medium Term Financial Plan - 4 Year Summary**

	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	
	<b>Budget</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	
<b><u>Council Tax and Government Grants</u></b>					
Council Tax Requirement	200.976	210.558	220.607	231.132	Includes previous years' Social care levy, 1.99% increase and 0.75% taxbase increase
Social Care Levy	3.941	4.129	4.326	4.532	2% additional levy on Council Tax per annum
Revenue Support Grant	19.446	6.138	(2.120)	(10.140)	As Per Settlement
Local Business Rates	10.742	10.953	11.277	11.637	As Per Settlement
Business Rates Top-up	25.955	26.465	27.246	28.117	As Per Settlement
Collection Fund Surplus	3.800	0.000	0.000	0.000	
<b>Budget Requirement</b>	<b>264.860</b>	<b>258.244</b>	<b>261.336</b>	<b>265.278</b>	

#### **Specific Grants - Treated as General Funding**

New Homes Bonus	2.013	2.114	1.328	1.274	As Per Settlement
Extended Rights to Free Travel	0.300	0.250	0.200	0.200	Estimate
Police & Crime Panel	0.069	0.069	0.069	0.069	Estimate
Education Services Grant	3.707	2.400	1.800	1.300	Subject to Education White Paper Review
NHS Funding for Social Care					Assumed static at 2016-17 level
Rural Services Grant	1.511	1.220	0.939	1.220	As Per Settlement
Transitional Funding	2.967	2.947	2.120	0.000	As Per Settlement
<b>Total - Specific Grants</b>	<b>10.567</b>	<b>9.000</b>	<b>6.456</b>	<b>4.063</b>	

<b>Total Funding</b>	<b>275.427</b>	<b>267.244</b>	<b>267.792</b>	<b>269.341</b>
<b>Change in Funding</b>	<b>(8.183)</b>	<b>0.548</b>	<b>1.549</b>	

<b>Projected Expenditure</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	
	<b>£m</b>	<b>£m</b>	<b>£m</b>	
<u>Cost Pressures</u>				
Reverse Use of One-offs to balance	(1.620)	0.000	0.000	
LGPS	0.500	0.000	0.000	
Pay Award	0.952	0.961	0.970	
Increments	0.000	0.000	0.907	Not funded in 2017-18 and 2018-19
National Living Wage	1.500	2.500	4.000	
Apprenticeship Levy	0.476	0.000	0.000	
Inflation	1.050	1.868	2.577	1%, 1.5%, 2.25%
Capital Financing	0.600	0.000	0.000	
Demographics / Demand Pressures	2.687	2.756	2.756	
Care Record / Agreed Commitments	0.285	0.000	0.000	
<b>Total - Cost Pressures</b>	<b>6.430</b>	<b>8.085</b>	<b>11.210</b>	

<b>Additional Budget Gap</b>	<b>14.613</b>	<b>7.537</b>	<b>9.661</b>
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#### 4 Plans to deal with the budget gap

4.1 The *Forward Together* programme was initiated in 2012, covering the 3 year period from 2013-14 to 2015-16. This followed the previous savings programmes, *Fit for the Future* and *Meeting Future Challenges* which were established to deal with the implications of the Government's austerity programme.

4.2 The *Forward Together* programme has now been extended into the *FT2020* transformation programme which will deal with savings required up to the end of the current CSR period.

4.3 The focus now is principally on transformation rather than tactical/'salami slicing'-type savings which have prevailed in the past. The availability of the four-year settlement will significantly aid our ability to plan/deliver transformational service improvements with the greater certainty offered by the longer time horizon.

#### Key strands of FT2020

4.4 Some of the key strands of the current programme are set out below:

- **Way We Work Property Programme** – aiming to maintain service delivery but done from a rationalised property base:-
  - Rationalisation of property portfolio
  - Hubbing principle
  - Development of living and learning centres
- **Forward Together for Children's Services** – aiming to lead a whole system change in the way that children are supported from cradle to career, including:
  - Reducing the need for care – looking at how early action can reduce the demand for children's social care, and how outcomes for children in the care system can be improved
  - Integrated SEN strategy – a whole system review of SEN services to reduce demand for special school places and transport through early action and the better planning of local services
  - A programme of service redesign to support a digital by default approach, supported by workforce development and cultural change

Some examples of projects already in train include:-

- SEN transport – route optimisation, different options for service delivery e.g. transportation by parents
- Youth Service – different delivery model with youth centres run by communities

- **Forward Together for Adult and Community Services** – the planned programme has been reviewed and updated by the new Interim Director of Adult and Community Services.

Projects already in train include:-

- Pathways to independence
- Focus on proper/consistent/fairer charging for services
- External provision – e.g. Arts CIC

New areas being examined now include:-

- Increased Income (Fees and Charges)
- Support at Home recommissioning
- Price Management Residential and Nursing
- Increase income target (other sources)
- Improved Efficiency in Operational Management and Contract Management
- Communities / Early Help Commissioning

- **Forward Together for Environment / Economy** – The planned programme for Environment / Economy was accelerated in 2016-17, with 3 years of planned savings brought forward into 2 years. This was a significant benefit to the rest of the council as other Forward Together programmes were not in a position to respond to the poor 2016-17 financial settlement which Dorset County Council received.

Projects already in train include:-

- Accelerate implementation of low maintenance regimes for highway verges
- Increase rates of cost recovery from income-generating countryside assets (e.g. Country Parks) where possible
- Externalisation of services (e.g. Jurassic Coast management) to maintain service delivery at reduced cost to the public purse
- Achieve Band 3 status within the Department For Transport`s Incentive Fund to maximise capital funding to ensure we reduce expensive, non-effective reactive maintenance activities.

- Develop community involvement in delivering lower level routine highway maintenance activities through the use of the voluntary sector working in conjunction with our in house teams.
- Maximising income generation where surplus capacity exists within highways and fleet services MOT testing functions
- **Forward together for Support Services (FT4SS) programme** - aiming to reduce the cost of support services as a percentage of the council's total expenditure; result in customers saying that Support Services deliver a good service and that they help the whole Council transform.
  - Projects already in train include the smarter computing programme which has enabled a much more mobile workforce through a range of different computing solutions
  - The new programme is aiming to deliver £1.5m and incorporates 5 main themes:-
    - A focus on outcomes
    - Invisible services that just work
    - Professional services by your side
    - Preventing wasted effort by getting it right first time
    - The right behaviours
  - Digital by design
  - Smarter procurement processes and contract management
  - Better use of the latest technology/cloud storage and software access
- **Partnerships – Dorset Waste Partnership (DWP), Public Health and Tricuro**

**DWP** - The DWP commissioning group has been tasked with identifying potential savings and with considering what might be achievable for presentation to the partner councils. For DCC, the position is that we bear 64% of the cost of DWP which currently equates to £22.0m. DWP are looking at a package of measures which would reduce the cost to around £21.3m by 2017-18.

**Public Health** - The Public Health service is pan-Dorset, also covering Bournemouth and Poole councils. Since being transferred to local authority control, significant cost savings and efficiencies have been generated by the service as contracts have been renegotiated and services changed and re-



commissioned. The service is funded by a ring-fenced grant but some of the benefits generated also extend to local authority core services.

**Tricuro** - Tricuro was established in 2015 as a Local Authority Trading Company (LATC) for adult provider services. It is anticipated that new markets will be reached in the future, which were not accessible to local authorities and this could generate a return to the authorities in future years.

It is anticipated that around £1.4m can be generated in total from the partnerships for 2017-18.

- 4.5 The savings anticipated from the current FT2020 programme, including those detailed above are summarised in the table below:

	2017-18 £m	2018-19 £m	2019-20 £m
<b>Additional Budget Gap</b>	<b>14.613</b>	<b>7.537</b>	<b>9.661</b>
Adult & Community Services	(4.592)	(4.140)	0.000
Children's Services	(1.775)	(0.600)	0.000
Environment & Economy	(1.906)	(0.100)	0.000
Chief Executives	(1.656)	0.000	0.000
Partnerships	(1.400)	(0.300)	
Whole Authority / Cross Cutting	(0.921)	(0.905)	0.000
	(12.250)	(6.045)	0.000
<b>Remaining Budget Gap</b>	<b>2.363</b>	<b>1.492</b>	<b>9.661</b>

- 4.6 With this £18.3m savings programme, the remaining budget gap is therefore around £13.5m over the next 3 years, with the majority of it in 2019-20.

- 4.7 The spread of the savings requirements in 2018-19 across the directorates does appear significantly skewed to Adult and Community Services. It is therefore suggested that further savings targets are allocated to the other directorates as follows:

	2017-18 £m	2018-19 £m
Children's Services	0.000	(0.600)
Environment & Economy	0.000	(1.000)
Chief Executives	0.000	(0.500)
Total	0.000	(2.100)

- 4.8 Further work will therefore be required to expand the existing FT transformation programmes to encompass these additional savings.

## 5 Use of one-off funds

5.1 The severe grant cuts in 2017-18 result in what is already an extremely challenging task ahead. It is therefore proposed that the remaining gap for 2017-18 is closed using one-off funds. This will have the effect of smoothing part of the savings required over the following two years.

### Capital receipt flexibility

5.2 In the November 2015 Spending Review, the Government stated that it would introduce flexibility for the period of the Spending Review for local authorities to use capital receipts from the sale of non-housing assets to fund the revenue costs of service reform and transformation.

5.3 The draft guidance issued by the Secretary of State under section 15(1)(a) of the Local Government Act specified that:

- Local authorities will only be able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. They may not use their existing stock of capital receipts to finance the revenue costs of reform.
- The key determining criteria to use when deciding whether expenditure can be funded by the new capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's net service expenditure. The guidance states that "it is possible to fund the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation".

5.4 The council can therefore use this opportunity to fund some of the redundancy costs associated with the *FT2020* programme. The projected level of capital receipts is not huge but a sum of £1m could be used in each of the next two financial years. Use of capital receipts of this purpose will have a knock-on effect of reducing the sum available to fund the capital programme and hence a reduction in capital spend. It will, however, reduce the required size of the contingency budget which picks up redundancy costs when they arise from corporate savings programmes.

5.5 The statutory guidance on the flexible use of capital receipts (updated) issued in March 2016 requires a capital receipts strategy to be approved by Council and notified to the DCLG. This can be done through the budget and MTFP process, so as we develop our financial modelling and FT2020 programme we will include the capital receipt strategy in future MTFP reports to Cabinet and Council for approval.

### Council Tax Surplus

Each year there has historically been a surplus of council tax collected when compared to the levels projected by the collection authorities (the district and

borough councils). Whilst the sum varies each year, the Budget Task and Finish Group considered that budgeting for £0.5m per annum would not be a risk. Anything in excess of this would be a one-off source of additional funds for the council.

### Reserves and balances

- 5.6 Whilst the council's reserves and balances have been significantly reduced over recent years, a small sum could be used to balance the 2017-18 budget rather than looking for additional savings on top of the existing programme.
- 5.7 The three areas described above could therefore balance the budget for 2017-18. This would mean further base budget savings to find in later years.

#### Use of Temporary Funding / One-offs

Collection Fund Surplus	(0.500)	(0.500)	(0.500)
Use of Capital Receipts for Transformation	(1.000)	(1.000)	
Use of reserves & balances	(0.863)	(0.255)	
	<u>(2.363)</u>	<u>(1.755)</u>	<u>(0.500)</u>

### Summary of plan to deal with budget gap

- 5.8 The following table summarises the revised Forward Together savings target and shows how the use of one-off funds can help to smooth the savings required and balance the budget for 2017-18 and 2018-19.

	2017-18 £m	2018-19 £m	2019-20 £m
<b>Additional Budget Gap</b>	<b>14.613</b>	<b>7.537</b>	<b>9.661</b>
<i>Use of one-off funds in previous year</i>		2.363	1.755
<b>Adjusted Budget Gap</b>	<b>14.613</b>	<b>9.900</b>	<b>11.416</b>

#### Revised Forward Together Transformation Programme

Adult & Community Services	(4.592)	(4.140)	0.000
Children's Services	(1.775)	(1.200)	0.000
Environment & Economy	(1.906)	(1.100)	0.000
Chief Executives	(1.656)	(0.500)	0.000
Partnerships	(1.400)	(0.300)	
Whole Authority / Cross Cutting	(0.921)	(0.905)	0.000
	<u>(12.250)</u>	<u>(8.145)</u>	<u>0.000</u>

<b>Remaining Budget Gap</b>	<b>2.363</b>	<b>1.755</b>	<b>11.416</b>
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#### Use of Temporary Funding / One-offs

Collection Fund Surplus	(0.500)	(0.500)	(0.500)
Use of Capital Receipts for Transformation	(1.000)	(1.000)	

Use of reserves & balances	(0.863)	(0.255)	
	(2.363)	(1.755)	(0.500)
Remaining shortfall	<b>0.000</b>	<b>(0.000)</b>	<b>10.916</b>

5.9 There is currently great uncertainty around financial year 2019-20. It is anticipated that this will be the year when 100% retention of business rates will be introduced for local authorities. This could mean that the negative RSG (minus £10.14m) notified does not happen. However, if the same rationale is used for the new needs assessment, which will determine how much top-up DCC receives from the new system, as was used in the 2016-17 settlement, it is likely that the funding position will not improve.

5.10 The other uncertainty at this stage is whether there will be a change of local government structures in Dorset. If local government reorganisation proceeds, then 2019 is the most likely implementation date. This could provide significant savings and help to close the budget gap. However, any transitional costs will also need to be paid for, so any benefit will not accrue until at least 2020-21.

5.11 The initial focus of this plan is to produce a balanced budget for the next 2 years. Further work will be need to deal with the significant gap in 2019-20 once the position is clearer early next year.

5.12 If there was a scenario whereby funding improved, either through BRRS or unitary government and if the budget gap had already been addressed, then the savings could be used towards the key priorities of Dorset CC or the successor authority. After a prolonged period of austerity, this could provide a substantial boost to local residents, local services and the local economy.

## 6 Dorset County Council's key priorities

6.1 The revised corporate plan has set the key priorities for Dorset County Council as early intervention and the economy. Therefore, consideration also needs to be given to how these priorities can be addressed when there is such a significant savings requirement.

6.2 Rather than simply budgeting incrementally each year, the council will need to decide if it wishes to re-allocate resources to help meet these priorities. This could clearly mean that some services will have to be scaled back considerably more than currently planned or potentially cease all together.

6.3 Deciding on which services are the lowest priority has traditionally been a very difficult process but consideration will need to be given or else the priorities set will not be sufficiently resourced.

6.4 Consideration will also be needed in all areas of how to make the best use of all funding that is available. Despite the cuts, the council still has a net budget in excess of £250m per annum which needs to be spent in the most effective way. The council has been piloting some work around "Outcome Based Budgeting".

This may develop into a methodology which could help in the prioritisation process.

- 6.5 By initially setting out a balanced two year plan now, this will give some time in the next 12 months for the authority to consider this further.
- 6.6 Smarter procurement processes and contract management will also need to be part of this.

## **7 Resource Requirements to Deliver the FT2020 Programme .**

### Transformation fund

- 7.1 Following the budget setting process for 2016-17, the transformation fund has had an additional sum of £1.6m added to it.
- 7.2 This fund is used to fund both the additional staffing resources required within the directorates to deliver the FT2020 programme and central provision of project and programme management support.
- 7.3 We can also consider whether there are sufficient capital receipts, in excess of the £1m per annum being used to balance the budget, to apply any additional funding towards this or additional transformation work to drive further efficiencies.

## **8 Risks to delivery**

- 8.1 Clearly circumstances and policies can be subject to change and therefore present a risk to the delivery of this plan. Some key risks are:-
  - Overspend in Children's Services in the current financial year
  - Local elections and potential change of policies
  - Focus diverted to local government reform
  - Change in national policies without recognition as New Burdens
  - Changes to underlying assumptions e.g. pay / price inflation
  - Unforeseen cost pressures / demand
- 8.2 Sufficient reserves and contingencies are therefore required to manage any risks which may materialise.

## **9 Monitoring this strategy**

- 9.1 This strategy will be monitored throughout the financial year and may be updated and replaced as proposals are developed and expenditure is incurred. Also as the guidance is still in draft form, changes may require the revision of this strategy.