

# Audit & Governance Committee

**Dorset County Council**



Date of Meeting	24 July 2017
<u>Lead Officer</u> Richard Bates – Chief Financial Officer	
<b>Subject of Report</b>	<b>Budget monitoring report</b>
Executive Summary	<p>This report provides members of the Audit &amp; Governance Committee with the first, formal report of the year on the anticipated outturn for 2017/18.</p> <p>Between setting the budget in February and this, first report of the year to the Committee, there have already been three forecasts of the current year's performance. More detail around those forecasts is set out in the report along with information on the Forward Together programme and actions in hand to deliver savings.</p> <p>By the time the Committee meets, the first Medium-Term Financial Plan (MTFP) update report will already have been seen by the Cabinet and much of the information in this report will already have been made public. However, since that report, we have been able to work through the first, full forecasting process of the year which is a more robust examination of our performance for the first quarter and a more detailed and robust review of plans for the remainder of the year.</p>
Impact Assessment:	<p>Equalities Impact Assessment: This high level update does not involve a change in strategy, however, the information produced as a result of the forecasting process may trigger a review of policy and/or strategy for managing within the available budget. If this happens, the impact of specific proposals on equality groups will be considered.</p>

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	<p>Use of Evidence: This report draws on information from the Authority's accounting systems and other financial records. It also relies on datasets maintained within the County Council's services which are used to predict possible future demand for and costs of services.</p> <p>Budget: The report provides an update on the County Council's forecast, budget position for 2017/18. It also considers how this might impact on the budget round for 2018/19 and the following years of the MTFP currently in development.</p> <p>Risk Assessment: Having considered the risks associated with this decision using the County Council's approved risk management methodology, the level of risk has been identified as: Current Risk: HIGH Residual Risk HIGH</p> <p>Other Implications:</p>
<p>Recommendation</p>	<p>The Committee is asked to consider the contents of this report and:</p> <ul style="list-style-type: none"> <li>(i) note the Directors' early estimates included in the forecast of outturn and the operational reasons causing us to diverge from the balanced budget agreed by the Council in February;</li> <li>(ii) note the latest projections for savings from the Forward Together programme;</li> <li>(iii) note that strategies, policies and tactics indicated in this report alongside potential escalation options and timing are currently in development to address the in-year overspend;</li> <li>(iv) put forward any other plans it wishes to be taken into account in addressing the current year's performance;</li> <li>(v) understand the risks and impact of the current forecast on the County Council's general fund and on the development of the MTFP.</li> </ul>
<p>Reason for Recommendation</p>	<p>It is important for Members to understand the causes underpinning the forecast overspend and consider the adequacy of the proposed responses and escalation. Delivery of Forward Together savings is critical to the financial position of the County Council but there are pressures in the current year's forecast which mean additional measures on top of the original programme must be explored.</p> <p>Dealing with the current year's forecast overspend is critical to the understanding of the base position upon which we will be</p>

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	developing the budget strategy for 2018/19 and the MTFP for ensuing years.
Appendices	<ol style="list-style-type: none"><li>1. CPMI summary Qtr 1 2017/18</li><li>2. Forward Together programme savings 2017/18</li></ol>
Background Papers	MFTP update report to Cabinet 28 <sup>th</sup> June 2017
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### 1. Background

- 1.1 Audit & Governance Committee is the County Council's principal body for overview and scrutiny of financial arrangements, performance and position. Whilst other Overview and Scrutiny Committees might receive financial information incidentally, the Authority's overall, financial reporting is channelled through the Audit & Governance Committee.
- 1.2 The Committee considers budget monitoring reports each time it meets so it can effectively scrutinize financial affairs and ensure the organisation is making good progress with its budget and longer-term financial planning. The Committee is also concerned with ensuring that the County Council is managing the current year's budget effectively and efficiently and that there are continuing arrangements to secure value for money.
- 1.3 Work has already started on financial planning for 2018/19 and beyond and it is important to understand the impact of the current year's performance on that work. Development of the budget strategy is principally driven through Cabinet but it is also important for the work of the Audit & Scrutiny Committee for Members to be kept informed of progress and risks.
- 1.4 The report does not include anything more than passing reference to the accounts and outturn for 2016/17 as they are the subject of another, fuller paper earlier on the agenda.

### 2. Forecast of outturn for 2017/18

- 2.1 The latest forecast of outturn for the Authority, (June, quarter 1), indicates an overspend of £9.2m; a breakdown is shown in the table below.

Directorate	Net Budget	Forecast Outturn	Forecast (Overspend)/ Underspend	Of which	
				Forward Together	Base budget
	£k	£k	£k	£k	£k
Adult & Community Services	126,727	128,914	(2,187)	(2,200)	13
Children's Services	57,808	65,163	(7,356)	(300)	(7,056)
Environment & Economy	33,738	33,999	(261)	(437)	175
Partnerships	19,002	18,567	435	0	435
Chief Executive's Dept	10,404	10,461	(58)	0	(58)
Total Service Budgets	247,678	257,105	(9,427)	(2,937)	(6,490)
Central/Corporate Budgets	(246,571)	(246,818)	247	0	247
Whole Authority	1,107	10,286	(9,179)	(2,937)	(6,243)

- 2.2 Quarter 1 is the fourth forecasting exercise of the year, after AP0, April and May which predicted overspends as set out in the table, below.

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	AP0	April	May	June
	£k	£k	£k	£k
Children's Services	(4,000)	(5,750)	(7,080)	(7,356)
Adult & Community	(2,100)	(2,100)	(2,500)	(2,187)
Environment & Economy	(1,570)	(720)	(486)	(261)
Dorset Waste partnership	23	170	165	435
Public Health	0	0	0	0
Chief Executive's	0	0	0	(58)
Other/corporate	0	0	400	247
	<u>(7,647)</u>	<u>(8,400)</u>	<u>(9,501)</u>	<u>(9,179)</u>

- 2.3 The principal cost pressures continue to be in relation to looked-after children, SEN transport and user-driven adult social care costs. Further information can be also found in the CPMI area of Sharepoint which is updated with refreshed forecast information in the first week of every month, following the conclusion of the forecasting process.
- 2.4 To understand the current year's forecast, we will revisit some of the assumptions that were made at the time the budget strategy was being developed. It is important for Members to understand what changes have happened since Directors and managers built plans around activity and performance levels that have caused the forecast position that we are currently predicting.
- 2.5 The Chief Financial Officer has a statutory responsibility for signing-off a balanced budget and we must therefore understand what assumptions and plans have not come to fruition and which might therefore need consideration beyond the current financial year as well as being included in current-year forecasts. The main changes since budget setting are set out in the paragraphs below.

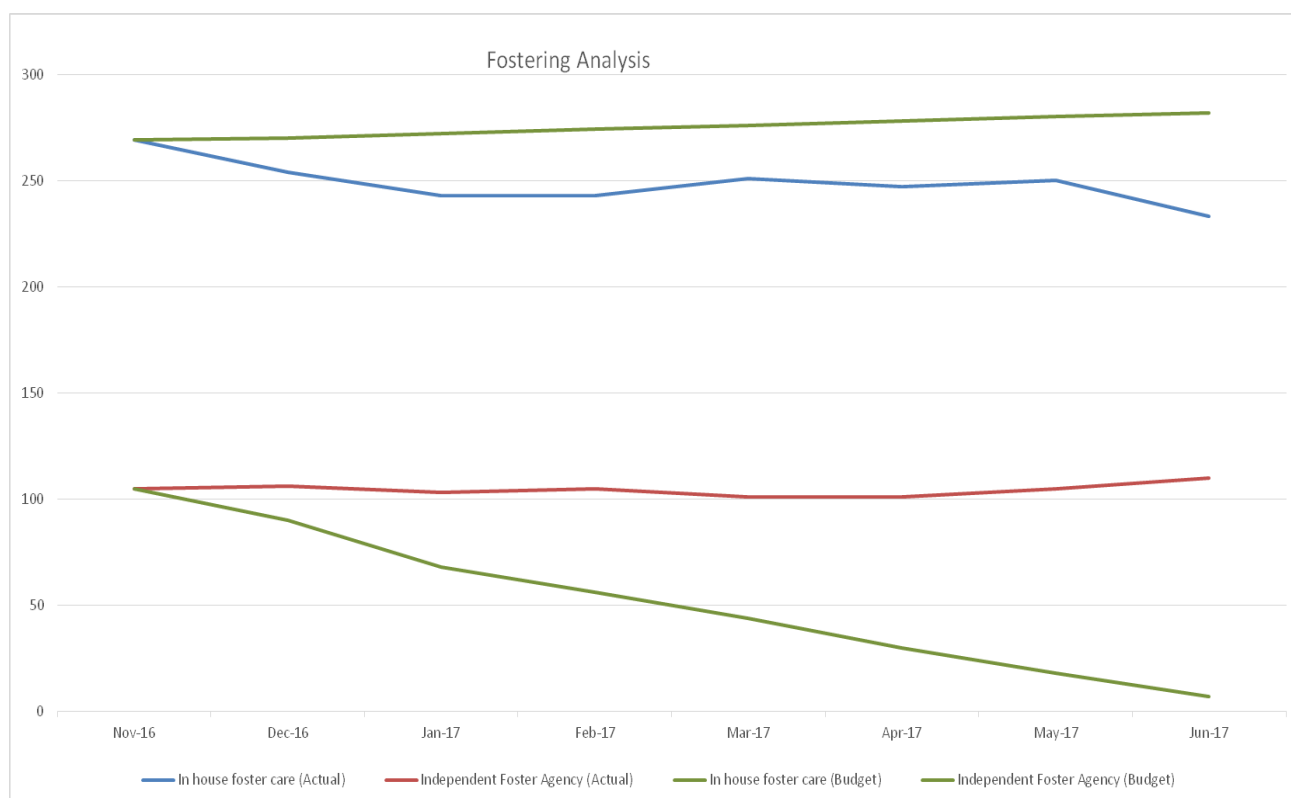
### Children in Care

- 2.6 A £6.3m overspend is currently being forecast. Whilst the number of looked after children reduced to 464 at the end of June, the cost profile of those children has remained high, with relatively less costly arrangements having been managed out of the system. The budget was set based on well documented and stated assumptions and aspirations that numbers of LAC would reduce to around 400 by the end of 2017. Underlying those broad numbers were assumptions about the mix of the type of care that children would be receiving.
- 2.7 Traditionally, about 75% of children have been placed with foster carers who are directly engaged and managed by the County Council. The financial planning for the budget was based on that trend continuing, with around 300 children expected to be placed with in-house foster carers. However, the numbers of foster carers engaged by the County Council has actually decreased. This has resulted in children having to be placed with much more expensive, agency foster carers, who are currently accommodating around 100 children. In addition, there have been significant increases in the costs of children placed in independent sector, specialist accommodation with the current average cost for the 40 children placed there being £4,300 per week (£223k per annum). The combination of this change in the type of care as well as slightly higher numbers than anticipated has, at this stage, resulted in a £6.3m forecast overspend. It is likely that this forecast will be reduced if continued progress can be demonstrated and the numbers in external, residential placements start to reduce. Despite the aspirations for it to do so, this has not yet happened and

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as such the forecast has been projected prudently to provide a, hopefully, worst-case scenario with the existing numbers of LAC and mix of care.

- 2.8 The chart below show the difference in the type of foster care actually being used against the predicted numbers used to set the budget. The number of more cost-effective, in-house foster carers used has reduced by 29 since the budget was formulated in December 2016, when the predictions were that in house foster carers would slowly increase as a result of recruitment campaigns. Linked to this and projected falling numbers of children in care it was anticipated that the use of Independent Foster Agency carers would reduce quickly. The decrease in the in-house foster care placements has meant that the foster agency workers have taken up the slack and stayed at December 2016 levels rather than reduce. This has added a pressure of £2.7m against the fostering budget.



- 2.9 In addition, the number of children placed in high-cost, external residential placements (including high-cost, supported accommodation) is now 41, up slightly from the December 2016 level. In December a review of all high-cost placements was carried out and 13 children were identified as able to move to lower-cost arrangements by the end of spring. The budget was based on there being 33 children in these placements by May 2017. This has not materialised adding a £3.6m pressure to these budgets. The slow progress in moving these children into new placements means that the forecast now assumes that these placements will remain at the current level for the remainder of the financial year. If progress is made, then the overall forecast overspend will reduce from this level.

### SEN transport

- 2.10 £1m overspend being forecast. There has been a lot of work in this area to try to reduce costs and make savings. However, after some initial successes in moving some very high-cost children onto personal travel budgets, the overall increase in

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demand has prevented total costs from decreasing. The current re-tendering of key route contracts means that it is not yet possible to predict the costs of the service going forward. The prediction is based on continuing to maintain costs at their current level, rather than at the lower, budgeted level. Once the tender results are known this overspend may reduce. Proposals are being developed to reduce these costs and improve service but these require legal consideration and consultation.

### Agency Social Work

2.11 Agency costs are expected to be in excess of budget for the first quarter whilst new, permanent staff are due to start employment during the spring and early summer. The overspend being incurred in these early months is not forecast to be recovered. Options could be considered as to what measures could be taken to reduce agency staff numbers sooner, alongside a risk assessment of the impact on the social work service. Unless this happens and quick decisions are taken it is likely that an overspend of £0.5m will be incurred.

### 2.12 Dedicated Schools Grant

2.13 £2.7m overspend currently being forecast. There were extensive and challenging consultations with the Schools' Forum over options to manage the demand and reduce costs to within available funding when setting the DSG budget for 2017/18. Whilst significant progress was made, there is still demand in the system that will be difficult to contain within the current funding. Early indications are that significant improvement has been made in relation to demand management with much more robust gateways into the system. However, at this time there is insufficient evidence that demand will be contained and it is expected that these budgets will overspend by around £2.7m. Plans will need to be developed, with schools, to find new ways of operating within available funding in addition to clawing back the deficit incurred.

### Adult Care Service User related spend

2.14 £2.2m forecast overspend. There are £5.6m of savings attributable to the Adult Care Service User budgets. £4.2m relates to reviews of packages of care, the letting of the Dorset Care contract and improving the brokerage function, £1m from additional income and £400k relating to improved use of technology.

2.15 There is some slippage in the programme of reviews due to logistics and complexity of the cases being reviewed. There is also further risk around the Care contract, that does not come into force until December 2017 and how much impact that can have on the cost of care in such a short space of time. There is also delay in achieving the income target of £1m. It is for these reasons that it is felt prudent to assume a high level of risk associated with these savings.

### Environment & Economy overspend

2.16 £0.261m forecast overspend. This is due mainly to risks still remaining around a number of proposed Forward Together savings, offset to some degree by forecast underspends on business as usual in most service areas.

2.17 Although the recent Dorset Travel tender process has had a successful outcome in securing planned savings, there is still a risk (£0.15m) around Dynamic purchasing related travel savings.

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- 2.18 The Economy service restructure carries a 'part year' risk of savings not being achieved of £0.13m including an element of business as usual activity.
- 2.19 There is some risk (£36k) of vacancy management savings not being achieved in the Coast and Countryside service.
- 2.20 The 'Way we Work' property savings programme is progressing well but the risk of not achieving the full savings required is around £0.15m. However, there is a £0.4m risk relating to the recalculation of the overall level of savings achievable from the property portfolio relating in particular to 2018/19.
- 2.21 There is some risk (£38k) of the full savings on the Wide Area Network not being achieved.
- 2.22 As part of business as usual there is a risk (around £0.2m) of Repairs and Maintenance fee income reducing due to a shrinking capital programme.

### Partnerships

- 2.23 Dorset Waste Partnership – (The County Council share of the forecast under spend is £0.435m). The principle items being higher than anticipated inflation being more than balanced out by a continuing favourable recycles market.
- 2.24 Public Health – the Public Health grant was reduced by 2.5% for 2017/18 and currently stands at £34.288m across Dorset. The service is predicted to spend to budget in 2017/18.

### Chief Executive's

- 2.25 There are minor variances across a number of services which total a forecast risk of overspend of £58k for the department.

## **3 Forward Together**

- 3.1 The FT programme continues to be monitored by the FT Board and the financial implications of the programme are also reported through CPMI. CPMI includes overspends (and underspends) against the agreed base budget as well as the impact of Forward Together shortfalls and this is analysed in the graphs, below, and in the CPMI summary at Appendix 1.
- 3.2 Of the current overspend being forecast, £2.9m of this is due to shortfall against Forward Together savings while the remainder is attributable to other, core budget pressures which Directors are currently formulating plans to deal with. The total savings target from the Forward Together programme for 2017/18 is £18.3m. The charts in Appendix 2 set out the latest forecasts around these savings.
- 3.3 Delivering the Forward Together savings is critical to the financial performance for the year and to our future viability. The 2016/17 overspend left the balance on the general fund at £12.3m – above the lower end of our operating range (£10m) but without capacity to absorb an overspend of the magnitude currently being forecast.
- 3.4 As well as additional plans for savings, it is becoming clear, even at this early stage of the year, that the Children's Services Directorate will simply not be able to meet the budget or savings targets this year. The budget for children in care, for example, is already so heavily over-committed that it will not be possible to pull this back in the



current financial year. We must therefore start to make plans to accommodate a level of overspend in the current year and think critically about more achievable, realistic targets for the Children's Services budget this year, which can serve as a more stable, reliable platform upon which we can build the 2018/19 budget.

#### **4 Dealing with the overspend**

- 4.1 At the time of writing, officers across the organisation are working on recovery plans and turnaround strategies to deal with the current year overspend and ensure a sustainable base on which to build the 2018/19 budget strategy and MTFP.
- 4.2 Plans will be coming forward for member review through Once Council group and the Forward Together Board, imminently. A structured, corporate approach is being adopted to set out proposals to deal with overspends including risks, sustainability, dependencies/impact on other work and any investment required to yield savings. We will also be reflecting the additional core budget risks in the Forward together reporting in the next round of monitoring reports in the same way as the monthly CPMI currently does.
- 4.3 As well as these specific measures, officers are drafting an escalation timetable and reviewing other financial policies, principles and procedures. Specific measures will have their own lead times for delivery and must be managed effectively if savings are to be sustainable. In the meantime, while longer-term measures take time to implement, it might be necessary to invoke the use of "blunter tools", such as a recruitment freeze for non-critical posts or a pause on non-essential expenditure.

#### **5 Summary**

- 5.1 As the paper sets out, there are considerable challenges in the current year as well as the years ahead. Even at this early stage of the year, it appears that Children's Services will overspend significantly by not achieving the budgeted reduction in the operating numbers set out in this report. We need to revisit those targets and agree what progress can realistically be made this year so we understand and plan for the impact on our reserves and balances and any possible impact on the planning position for 2018/19.
- 5.2 Although this report focuses on the current year predictions, three years are at risk; 17/18 where we are simultaneously overspending on base budget and falling behind with FT savings; 18/19 for which we have not yet confirmed the FT plan and 19/20 which has a significant savings target caused mainly by our negative RSG and the potential for this not to be resolved satisfactorily due to uncertainty around the election and work around 100% retention of business rates.
- 5.3 There is a significant amount of work currently in progress to develop sustainable turnaround strategies for the organisation and Members will be given earliest possible sight of these and the proposed governance arrangements to be put in place around them.

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## Appendix 1 – CPMI Qtr 1 2017/18

Cost Centre Management Budget Monitoring Summary	Year	2017-18	April	May	June	Forward Together	Other	
								Responsible Officer
<b>Children's Services Directorate</b>								
<b>Childrens Service Budget</b>								
Care & Protection	Vanessa Glenn	33,101	40,153	(5,500)	(7,050)	(7,052)	0	(7,052)
Design & Development	Patrick Myers	10,494	10,467	0	0	27	0	27
Director's Services	Sara Tough	1,362	1,511	0	0	(150)	(150)	0
Prevention & Partnerships (DCC)	Jay Mercer	12,865	14,046	(1,250)	(1,030)	(1,181)	(150)	(1,031)
Application of Contingency/Control Node	Richard Bates	(14)	(1,014)	1,000	1,000	1,000	0	1,000
<b>Total Children's Services Budgets (DCC)</b>		<b>57,808</b>	<b>65,163</b>	<b>(5,750)</b>	<b>(7,080)</b>	<b>(7,356)</b>	<b>(300)</b>	<b>(7,056)</b>
Prevention & Partnerships (DSG)	Jay Mercer	44,979	47,641	(1,000)	(1,000)	(2,662)	0	(2,662)
P&P DSG Funding	Jay Mercer	(44,980)	(44,980)	0	0	0	0	0
Directors Services (DSG)	Sara Tough	400	410	0	0	(10)	0	(10)
Directors Services DSG Services	Sara Tough	(400)	(400)	0	0	0	0	0
DSG Services	Jay Mercer	(1,106)	(1,106)	0	0	0	0	0
<b>Total Children's Services Budgets (DSG)</b>		<b>(1,107)</b>	<b>1,565</b>	<b>(1,000)</b>	<b>(1,000)</b>	<b>(2,672)</b>	<b>0</b>	<b>(2,672)</b>
DSG Adjustment		0	0	0	0	0	0	0
<b>Children's Services (DCC + DSG) Total</b>		<b>56,700</b>	<b>66,728</b>	<b>(6,750)</b>	<b>(8,080)</b>	<b>(10,028)</b>	<b>(300)</b>	<b>(9,728)</b>
<b>Adult &amp; Community Services Directorate</b>								
Adult Care Service User Related	Harry Capron	66,964	69,354	(2,000)	(2,500)	(2,390)	(2,200)	(190)
Adult Care	Harry Capron	14,672	15,045	0	0	(373)	0	(373)
Commissioning and Performance	Helen Coombes	36,057	35,970	0	0	87	0	87
Early Help & Communities	Paul Leivers	7,729	8,112	(100)	0	(383)	0	(383)
Director's Office	Helen Coombes	1,305	432	0	0	873	0	873
<b>Adult &amp; Community Services total</b>		<b>126,727</b>	<b>128,914</b>	<b>(2,100)</b>	<b>(2,500)</b>	<b>(2,187)</b>	<b>(2,200)</b>	<b>13</b>
<b>Environment and the Economy Directorate</b>								
Economy, Planning & Transport	Maxine Bodell	1,722	1,664	0	0	58	0	58
Dorset Travel	Andy Shaw	14,502	14,502	(300)	(150)	0	(150)	150
Business support Unit	Jan Hill	460	592	(220)	(100)	(132)	(61)	(71)
Coast & Countryside	Phil Sterling	2,616	2,727	0	(36)	(110)	(36)	(74)
Estates & Assets	Peter Scarlett	(1,530)	(1,342)	(100)	(100)	(189)	(152)	(37)
Buildings & Construction	David Roe	138	364	(100)	(100)	(226)	0	(226)
Pooled R&M	David Roe	137	137	0	0	0	0	0
Network Management	Simon Gledhill	1,224	1,047	0	0	177	0	177
Network Development	Tim Norman	1,009	970	0	0	39	0	39
Network Operations	Martin Hill	3,675	3,686	0	0	(11)	0	(11)
Fleet Services	Sean Adams	(143)	(137)	0	0	(5)	0	(5)
Emergency Planning	Simon Parker	214	208	0	0	6	0	6
Director's Office	Mike Harries	878	819	0	0	59	0	59
Streetlighting PFI	Tim Norman	3,862	3,862	0	0	0	0	0
ICT	Richard Pascoe	4,973	4,901	0	0	72	(38)	110
<b>Environment and the Economy Directorate Total</b>		<b>33,738</b>	<b>33,999</b>	<b>(720)</b>	<b>(486)</b>	<b>(261)</b>	<b>(437)</b>	<b>175</b>

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Cost Centre Management Budget Monitoring Summary	Responsible Officer	Year	2017-18			April	May	June	Forward Together	Other
		'Above Line' Net Budget Only £000's	Forecast £000's	Projected Under/(Over) Spend £000's	Projected Under/(Over) Spend £000's	Projected Under/(Over) Spend £000's	Projected Under/(Over) Spend £000's	Projected Under/(Over) Spend £000's	Projected Under/(Over) Spend £000's	
<b>Chief Executives</b>										
Chief Executives Office	Debbie Ward	275	279	0	0	(4)	0	(4)		
Partnerships	Karen Andrews	189	189	0	0	(0)	0	(0)		
Communications	Karen Andrews	223	223	0	0	0	0	0		
Policy and Research	Karen Andrews	440	453	0	0	(13)	0	(13)		
Commercial Services	Karen Andrews	388	388	0	0	0	0	0		
Governance and Assurance	Mark Taylor	657	660	0	0	(3)	0	(3)		
Legal & Democratic Services	Jonathan Mair	2,748	2,751	0	0	(3)	0	(3)		
Financial Services	Richard Bates	1,643	1,611	0	0	32	0	32		
Human Resources	Sheralyn Huntingford	1,209	1,209	0	0	0	0	0		
Cabinet	Richard Bates	2,631	2,697	0	0	(66)	0	(66)		
<b>Chief Executives Total</b>		<b>10,404</b>	<b>10,461</b>	<b>0</b>	<b>0</b>	<b>(58)</b>	<b>0</b>	<b>(58)</b>		
<b>Partnerships</b>										
Dorset Waste Partnership	Karyn Punched	19,702	19,267	170	165	435	0	435		
Public Health	David Phillips	(700)	(700)	0	0	0	0	0		
<b>Partnerships Total</b>		<b>19,002</b>	<b>18,567</b>	<b>170</b>	<b>165</b>	<b>435</b>	<b>0</b>	<b>435</b>		
<b>Central Finance</b>										
General Funding	Richard Bates	(18,201)	(18,201)	0	0	0	0	0		
Capital Financing	Richard Bates	24,633	24,383	0	400	250	0	250		
R&M	Richard Bates	1,287	1,287	0	0	0	0	0		
Contingency	Richard Bates	3,132	3,135	0	0	(3)	0	(3)		
Precepts/Levy	Richard Bates	677	677	0	0	0	0	0		
Central Finance	Richard Bates	(264,132)	(264,132)	0	0	0	0	0		
Control Node	Richard Bates	6,033	6,033							
<b>Central Finance Total</b>		<b>(246,571)</b>	<b>(246,818)</b>	<b>0</b>	<b>400</b>	<b>247</b>	<b>0</b>	<b>247</b>		
<b>Total Above Line Budgets</b>		<b>(0)</b>	<b>11,851</b>	<b>(9,400)</b>	<b>(10,501)</b>	<b>(11,851)</b>	<b>(2,937)</b>	<b>(8,915)</b>		
<b>Excluding DSG Budgets</b>		<b>1,107</b>	<b>10,286</b>	<b>(8,400)</b>	<b>(9,501)</b>	<b>(9,179)</b>	<b>(2,937)</b>	<b>(6,243)</b>		

**Appendix 2 – Forward Together Programme savings 2017/18**

Summary - All FT Savings

Savings measure	2017/18 £000's	Assessment of Savings achievement			
		Achieved	On course	More Work Needed	Not achievable
		£000's	£000's	£000's	£000's
Adults	7,110	1,190	3,720	2,200	-
Childrens	4,179	2,990	889	300	-
Env & Economy	4,473	1,156	2,880	285	152
Chief Exec's	1,132	897	235	-	-
Public Health	700	700	-	-	-
Dorset Waste Partnership	700	700	-	-	-
<b>Summary - All Savings 2017/18</b>	<b>18,294</b>	<b>7,633</b>	<b>7,724</b>	<b>2,785</b>	<b>152</b>

