Audit & Governance Committee

Dorset County Council

Date of Meeting	24 July 2017
Officer	Chief Financial Officer
Subject of Report	**Statement of Accounts and outturn 2016/17**
Executive Summary	The Accounts and Audit (England) Regulations 2015 require the annual statement of accounts to be certified as representing a true and fair view by the Authority's Chief Financial Officer and then submitted to the external auditor by 30 June. The accounts must then go through the audit process and be approved by the Council (or a Committee to which it has delegated authority) by 30 September. The Regulations set out a timetable for bringing forward the deadlines both for submission of the accounts for audit (31 May) and for the formal sign-off process (31 July). The County Council is currently well within these tighter deadlines as noted in the body of the report. The Regulations also require consideration of the findings of reviews that underpin the Annual Governance Statement, as well as the statement itself. The Annual Governance Statement was reviewed at the Audit & Governance Committee on 13 March 2017 and recommended to Cabinet, where it was subsequently approved on 7 June 2017. The Statement of Accounts for 2016/17 that accompanies this report has been reviewed by the Authority's external auditor, KPMG LLP. The Auditor's report appears elsewhere on this agenda, with an unqualified opinion. Members are already aware of the Authority's financial performance for the year ended 31 March 2017 as the timing of meetings has meant that draft, unaudited, financial information

	has already been to Cabinet. However, an analysis of the year's performance and position is also included in the body of this report as well as in the accounts document itself. The accounts have been prepared in line with International Financial Reporting Standards (IFRS) as incorporated into the CIPFA Code of Practice on Local Authority Accounting 2016/17. Details of specific IFRS and Code requirements and how the Authority applies them are explained in the Accounting Policies section of the Statement of Accounts and in the relevant notes to the accounts.
Impact Assessment:	Equalities Impact Assessment: The Statement of Accounts is largely an historic record of the Council's financial affairs during the past financial year and there are no equalities issues arising directly from them.
	Use of Evidence: The accounts are based on the financial records of the County Council, as maintained in the main Enterprise Resource Planning system (known as DES) and supporting systems and records. They have been subject to review by the external auditor, who has given an unqualified opinion.
	Budget: Although there are no direct budget implications arising from this report, the outturn and financial position, as reported in the accounts influence the Council's Medium Term Financial Plan and Strategy. The Committee is already being kept informed of progress towards balancing the 2018/19 budget and MTFP and the forecast outturn position for 2017/18, separately.
	Risk Assessment: As the Statement of Accounts is largely an historic document, there are no real risk implications except when there are issues to report (such as overspends, for example) that impact on the Medium Term Financial Strategy.
	Other Implications: None.
Recommendation	That members consider and approve the Statement of Accounts for the year ended 31 March 2017 and that the Accounts and associated paperwork are signed by the Chairman.
Reason for Recommendation	Under the Accounts and Audit (England) Regulations 2015, the Statement of Accounts and Annual Governance Statement must

	be approved by the Council, or a Committee to which the Council has delegated authority by 30 September.
Appendices	Statement of Accounts
Background Papers	Accounts and Audit (England) Regulations 2015 CIPFA Code of Practice on Local Authority Accounting in the UK 2016/17 Internal Audit Reports 2016/17 Corporate Governance Framework – Annual Compliance Assessment 2016/17
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1. Background and significant achievements

1.1 The County Council is required to prepare its annual accounts in accordance with proper practice. This principally means compliance with the latest Code of Practice on Local Authority Accounting in the UK and the latest version of the Accounts and Audit Regulations. More information about adoption of and compliance with the Code and how this affects the Authority's accounting methods, disciplines and practices is explained in the statement of accounting policies and the notes to the accounts.

1.2 The Accounts and Audit (England) Regulations 2015 require the Authority's draft accounts to be certified by the Chief Financial Officer and submitted for audit by 30 June, with the Auditor's opinion due in time for final approval of the accounts by Members by 30 September.

1.3 Government has made changes to the Accounts and Audit Regulations which will mean bringing forward the dates for certification, audit and approval of the statement of accounts. The faster closedown process is mandatory from the closedown of the 2017/18 accounts but the County Council implemented transition arrangements during 2015/16 to quicken the closedown and audit processes and achieve early compliance.

1.4 I am pleased to be able to confirm that the Statement of Accounts for 2016/17 was certified by the Chief Financial Officer on 15 May 2017. KPMG also confirmed that Dorset County Council was the first of their public sector clients to deliver financial statements for audit and the Authority should be the first to have the accounts formally approved on 24 July. Further work is already in progress to compress the closedown timetable further, with a target date of 30 April 2018 for certification of next year's accounts by the CFO.

1.5 The statement of accounts is clearly a cornerstone of any organisation's financial governance arrangements and the reduction in time taken to produce this document should not be seen as an attempt to lessen its importance. Rather, a more structured and disciplined approach to the work of closedown being shared across the wider team allows tasks to be carried out in parallel rather than in sequence. A robust do/review/sign-off procedure and thorough approach to working papers has also enabled this reduction in time spent on the accounts and the result is that we are better able to deploy our people to secure the organisation's future.

2. The Annual Governance Statement

2.1 The Annual Governance Statement appears as Appendix A to the Statement of Accounts. Since 2011, the AGS has been a statement in its own right however, it must still accompany any Statement of Accounts published in accordance with the 2015 Regulations.

2.2 The Annual Governance Statement for 2016/17 has been prepared in line with the recommendations published in 2007 by CIPFA and SOLACE, the public sector accountancy and local authorities' chief executives organisations, and additional requirements put forward by CIPFA in March 2010.

2.3 The Annual Governance Statement is the product of a rigorous process overseen by the Governance Group, to revise and challenge the Local Code of Corporate Governance, which also identifies and assesses Corporate Risks. The draft AGS was reviewed at Corporate Leadership Team and Audit and Governance Committee, before being approved at Cabinet to be presented to Audit and Governance Committee as part of the process to approve the Statement of Accounts.

3. The statement of accounts

3.1 The County Council is required to follow the standard accounting practices prescribed in the key documents listed in paragraph 1.1. This involves a number of technical entries that can make the accounts harder for the lay-reader to understand. Nevertheless, Members are required to give formal approval to the accounts in this format and the person presiding at the meeting at which they are approved is required to sign and date them.

3.2 The narrative to the accounts summarises the major issues addressed by the County Council during the year and highlights key aspects of financial performance. The narrative also defines and describes the content of the primary financial statements, which have changed slightly this year from previous years.

3.3 Further analysis of the financial performance and position is offered in section 4 as well as in the narrative, in the accounts themselves and in previous reports to Committees covering the forecasts and final outturn for 2016/17. A short presentation will also be provided on the day to ensure Members understand the key components of financial performance and position.

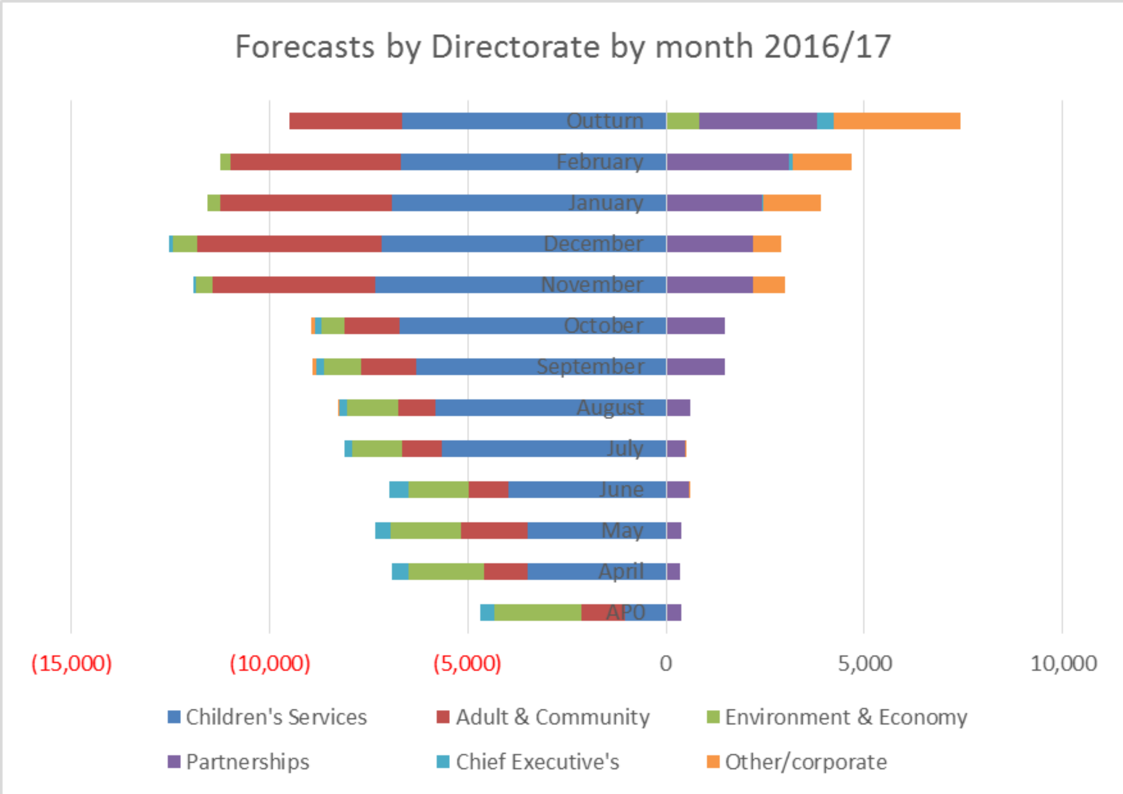
3.4 As noted elsewhere, it is not straightforward to understand and reconcile the various pieces of financial information in the published accounts so Members will be briefed on this more fully at the meeting to ensure there is clarity over the financial performance and position.

4. Financial performance for the year

4.1 The draft outturn for the year was an overall overspend of £2.1m. Within this total, there was a net overspend on service budgets of £5.3m, partially offset by £3.2m of underspends within corporate budgets as analysed in the table, below.

Directorate	Net Budget £k	Draft Outturn £k	(Overspend)/ Underspend £k	February Forecast £k
Adult & Community Services	122,598	125,440	(2,842)	(4,295)
Children's Services	66,271	72,930	(6,659)	(6,680)
Environment & Economy	33,095	32,269	826	(261)
Partnerships	20,216	17,233	2,983	3,083
Chief Executive's Dept	9,893	9,473	420	124
Total Service Budgets	252,073	257,345	(5,272)	(8,028)
Central/Corporate Budgets	(270,713)	(273,908)	3,193	1,457
Whole Authority	(18,640)	(16,564)	(2,078)	(6,571)

4.2 The graph below shows how the overall forecast moved during the course of the year and provides context for the latest forecast information for 2017/18 elsewhere on the agenda. The narrative in the paragraphs that follow is a reminder of the reasons for budget variances and also highlights any significant variations between the February forecast and the draft outturn.



<u>Adult & Community Services</u>

4.3 The Adult & Community Services budget ended the year with an overspend of £2.8m (2.3%) against a budget of £122.6m. The key reasons are summarised in the following paragraphs.

4.4 Adult Care Service User Related budget (£63.5m) was overspent by £5.5m (8.6%). The key factors in the overspend are:

- increased costs of care caused by increasing volumes of off-framework purchasing and lack of market management
- Continuing Health Care (CHC) cost pick-up totalling around £1.7m
- service users' capital falling below the threshold and the County Council paying
- inability to "review-down" the cost of care for those currently in receipt of a service to offset the increases
- increased acuity of packages.

4.5 There was a positive swing of £550k in the Service User related budget between the February forecast and the final outturn due to a reduced provision for bad debts compared to the previous financial year. A separate paper covering significant changes to the debt management policy and approach in 2016/17 will be going to Audit & Governance Committee on 24th July.

4.6 The Adult Care General budget (£12.6m) was underspent by £1.1m (8.7%) at the end of the year. This was predominantly due to staff turnover and vacancies. The position did improve in the last month due to unforeseen income to the value of £230k.

4.7 The Commissioning & Performance Budget (£36.4m) was underspent by £842k (2.3%). The underspend is due primarily to staff vacancies across several teams and unbudgeted income of £230k, due to the Integrated Community Equipment Store, that only accrued late in the year.

4.8 The Early Help & Communities budget (£8.5m) was underspent by £298k (3.5%). This can be attributed to a reduction in use of Library buildings by Skills & Learning resulting in lower income from room hire, lower than anticipated expenditure on Blue Badge scheme within Early Help, an increase in the predicted costs of public internet access project (PIAP) and additional income and vacancy savings arising in Trading Standards.

4.9 Director's Office budget (£1.5m) was underspent by £410k (26.4%). This largely reflects budgets actively held back to offset the overall overspend.

Children's Services

4.10 Children's Services had been projecting an overspend of around £6.6m (10%), against a net budget of £66.3m since the summer of 2016. Whilst this is clearly very far from a favourable position, the reasons have been well documented:

- The number of looked after children (LAC) has broadly stabilised after starting the year at 493 (including 4 unaccompanied asylum seeking children (UASC)) and ending the year at 496 (15 UASC). Peak numbers were 506 in September. The number currently stands at 479 (with 12 UASC) and the trend is now downwards. At budget setting time it was assumed that the downward trend would be established sooner than has proved to be possible. Overall the LAC budget overspent by £6m, which has been offset by a £4m planned release from contingency, resulting in a £2m overspend overall. The legal budget was also overspent by £0.4m as a result of the costs of seeking court orders for higher LAC numbers.
- A well-reported, national shortage of social workers, a favourable tax regime and increased regional competition resulted in an increase in the number of agency social workers engaged. The agency costs overspend, net of vacancies, was £2.4m. Agency staff numbers peaked at 58 in January but successes in the recruitment strategy, coupled with less favourable tax arrangements from April 2017 saw agency numbers reduce to 40 at the end of May. With newly-appointed staff yet to start, the expectation is to take this figure below 10 by the end of the summer.
- SEN transport spend has increased slightly on previous levels of around £8.8m, which resulted in an overspend of £2.25m during the year. Part of the overspend was due to over-optimistic expectations of savings that were deliverable when the budget was set in January 2016. Numbers of children with SEN eligible for home to school transport have increased from around 750 children in 2015/16 to over 900 currently (18%). Average costs have also increased by around 3.5%.

4.11 There were a number of underspends specifically through better commissioning and from holding back office vacancies that resulted in a £1.2m underspend in the Design and Development service.

4.12 In addition to County Council funded services, the Children's Services Directorate is responsible for administering the £258m schools budget, which is funded from the ringfenced dedicated schools grant (DSG). The majority of this funding is delegated to County Council schools and academies (£218m), with the County Council responsible for the administration of the remaining £40m to fund nursery settings, specialist education services and distribute funding for children with special educational needs to mainstream and independent schools. This budget overspent by £5.2m, mainly driven by the increase in demand from schools for children assessed as having special educational needs. The number of children with an Education, Health and Care Plan (EHCP) or statement of educational need has increased from 1,400 in 2014 to over 1,900 at the end of March. For the first time the DSG has an overall deficit of £4m, which will need to be recovered in future years.

Environment & Economy

4.13 Environment and Economy overall ended the year with an underspend of £826k, following a stop on non-essential spend and a deferral of some essential spend in to 2017/18.

4.14 Economy Planning and Transport (£213k underspent) - Fee income work at year end was more buoyant than expected. Unmet Forward Together savings and lower than anticipated planning fee income have been met by other savings from within the service.

4.15 Dorset Travel (£76k underspent) - Fleet driver staff costs were reduced and a significant reduction in the costs of concessionary fares was only visible at year end.

4.16 Business Support Unit (£13k overspent) - significant savings that were required were achieved but a minor overspend was incurred as a result of a late recharge of other internal services.

4.17 Coast and Countryside (£235k underspent) - cessation of non-essential spend and deferral of spend where possible in the later part of the year across all teams, together with the ability to generate extra income have contributed to the higher than previously forecast underspend. Another favourable factor has been the benign weather in the last three months of the year resulting in a low number of emergency call outs for tree work.

4.18 Estates and Assets (£472k overspent) - Late additional depot repairs and maintenance costs caused a deterioration from the February forecast. The main areas of overspend were on the County Buildings budget and the corporate 'Way We Work' property rationalisation programme, caused by savings being counted elsewhere. It is also worth noting that capital receipts are being generated, but the benefits are not reflected in the revenue account.

4.19 Building and Construction (£409k underspent) – Rigorous vacancy management was exacerbated by a number of other staff losses which have proved difficult or, to date, impossible to replace with a risk to significant capital project work required in the near future.

4.20 Network Management (£162k underspent) – An improved position from the February forecast due to buoyant end of year income.

4.21 Network Development (£290k underspent) – The underspend, which is similar to that predicted in February, also benefited from examples of stopping non-essential spend and deferring expenditure into 2017/18, in line with the corporate requirement.

4.22 Fleet Services (£86k underspent) – The under spend increased from that previously forecast due to reduced insurance charges.

4.23 Emergency Planning (£6k underspent) – Small amounts of additional income have been generated.

4.24 Director's Office (£307k overspent) – The overspend reflects, what had been recognised for some time, an unrealistic expectation of vacancies across the whole of the Directorate due to lower turnover following restructuring. Compensating savings have been found within the Directorate.

4.25 ICT and Customer Services Unit (£141k underspent) – The underspend was due to some items of expected spend previously forecast not being incurred and additional income not included in previous forecasts.

Partnerships

4.26 Dorset Waste Partnership – (The County Council share of the overall under spend was £1.608m). Significant savings against budget were achieved through reduced costs after renewal of a major contract, volatile recyclate costs reducing significantly, reduced costs incurred in relation to tonnages of waste disposed of (due to favourable rates), cheaper fuel prices for part of the year, tight management of operational costs and higher than expected income on garden and commercial waste services.

4.27 Public Health – In year, the Joint Public Health Board (JPHB) released £2.3m of accumulated reserve plus a further £200k of in-year savings back to the three constituent local authorities. Dorset County Council received 55% - nearly £1.4m. At the year end, £1m was returned to reserves to cover commitments not yet fulfilled.

Chief Executive's Dept

4.28 The Chief Executives' Department achieved a year-end underspend of £420k from a budget of £9.4m. This is compared to a forecast underspend of £124k in February. The main causes of underspend are:

- HR (£244k underspent) – savings were achieved through vacancy management and a hold on non-essential spend in the final months of the year. The service also received some additional, unpredicted income.
- Legal and Democratic Services – although this service had been predicting an overspend for the majority of the year the final position was an underspend of £118k. This was due to the receipt of some additional one off income and a stop on non-essential spend.
- Further savings were achieved in the Assistant Director's office (£40k), Programme office (£30k), Chief Executives Office (£42k) and Governance and Assurance budget (£25k).
- The above offset overspends in the Cabinet area and Policy and Research budget.
- The Cabinet area as a whole overspent by £49k, this was mainly due to overspends in the Surplus land budget. This budget has been under pressure due to the high number of surplus properties being dealt with as a result of the Way We Work programme.
- The Policy and Research budget overspent by £76k. This was as a result of the service being unable to achieve its vacancy factor together with a loss in budgeted income.

Central/corporate budgets

4.29 Central Budgets finished the year with an underspend of £3.2m, versus a forecast underspend of £1.4m. The main change between February and the final position was due to the flexible use of capital receipts, which allowed us to use £1.4m of capital receipts to fund transformation costs which otherwise would have been charged to contingency.

4.30 Continued close management of the contingency budget resulted in an underspend of £0.7m and the County Council borrowed less than the budget planned for and therefore there was a saving on the cost of borrowing of £0.5m. Tighter processes around our year-end, accruals process meant we were able to release £0.5m of our central accrual provision back into the revenue account.

5. Financial position as at 31 March 2017

Liquidity, cash flow, borrowing and investments

5.1 Liquidity was maintained at adequate levels during the year with no concerns over the ability to discharge creditors and other payments as they fell due. The cash flow statement shows a net cash increase of more than £12m over the year. This was mainly due to the net draw-down of £29m of short-term borrowing to help fund net cash outflows from operating activities and investing activities.

5.2 Note 38 to the accounts sets out the profile of the Authority's total external borrowing. The note reflects the net increase of around £29m mentioned above. Although our total borrowings have increased, the average interest rate payable on the County Council's borrowing has reduced from 3.99% in 2015/16 to 3.5% in 2016/17. Interest payable on all loans amounted to £7.482m compared to £7.564m in 2015/16.

5.3 The County Council maintains no long-term or short-term investments other than its interests in other undertakings covered within the group boundary. The decision is a direct result of the Authority's treasury management strategy, driven by the continuing gap between borrowing costs and investment returns.

Balance sheet

5.4 Total fixed asset carrying values increased by around £30m in the year with increases across all categories of operational assets. Capital spend in total is set out in note 25 to the accounts and the movements in individual classes of asset are set out in note 21.

5.5 Current asset totals have remained fairly stable across all asset classes compared to 2016. However, current liabilities have increased fairly significantly in the year – principally due to the increase in short-term borrowing noted elsewhere in this report. This has resulted in the Authority having negative net current assets at the balance sheet date.

5.6 Longer-term liabilities of the County Council have increased overall. Despite long-term borrowing reducing slightly, and PFI liabilities continuing to decrease in line with the operating model over their lifetime, the increase in the value of the pension liability is the movement which has the most significant (negative) impact on the liabilities figure.

5.7 The Authority's unusable reserves are those which exist for accounting or other regulatory purposes and are not available for the Council to use other than for very specific, clear-defined purposes. A separate briefing paper is available on reserves should Members wish to see it, which provides greater clarity of the role and purpose of unusable reserves.

5.8 Usable reserves are those which the Authority can use to support service delivery. At the end of the year, the usable reserves total was £91.6m. Of this total, a significant amount has already been earmarked for specific purposes (notes 47 and 51 describe these in more detail. Of the remaining reserves, note 52 describes the situation around general balances and sets out the County Councils share of this – being £12.352m at 31 march 2017. The bottom end of the County Council's operating range (the level at which this balance should be maintained) is £10m, so whilst we are comfortably above that lower limit, Members are reminded of the overspend currently being forecast for 2017/18 and the impact an overspend of this size would have on our balances.

6. Conclusion

6.1 The County Council closed the year with a net overspend of £2.1m. The forecast overspend during the year had been significantly higher so although this is far from a sustainable position the work done to reduce spend during the year was at least partially effective and absolutely necessary.

6.2 Elsewhere on this agenda is a paper which sets out concerns around the current year's forecast, financial performance. It is imperative that the strategies currently being developed through the one council group and Forward Together Board have a rapid and significant impact on this position in order to ensure that the Authority's balances are adequate for the basis of building the budget and MTFP.

Richard Bates
Chief Financial Officer
July 2017