

# Audit & Governance Committee

**Dorset County Council**



Date of Meeting	29 June 2018
Officer	Richard Bates – Chief Financial Officer
<b>Subject of Report</b>	<b>Financial Management Report</b>
Executive Summary	<p>This report provides members of the Audit &amp; Governance Committee with an early update on budget management for 2018-19. It also includes performance information for debt management and supplier payments for 2017-18.</p> <p>There is a separate paper on the agenda dealing with the outturn and accounts for 2017-18.</p>
Impact Assessment:	<p><b>Equalities Impact Assessment:</b> 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>
	<p><b>Use of Evidence:</b> 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><b>Budget:</b> The report provides an update on the County Council's financial performance and projections for 2018-19. It also considers how this is impacting on the budget for 2018-19 and the following years of the MTFP.</p>

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	<p>Risk Assessment:</p> <p>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:</p> <p>Current Risk: HIGH</p> <p>Residual Risk HIGH</p>
	<p>Outcomes:</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' latest estimates included in the early forecast of outturn for 2018-19 and the risks inherent in the forecast;</li> <li>(ii) note the latest projections for savings from the Forward Together programme;</li> <li>(iii) note the results of the most recent iteration of the work carried out by Capita to review the council tax single person discount;</li> <li>(iv) note the continuing challenges - and progress - on the debt position since the last report; and</li> <li>(v) note the contents and key statistics in the payment performance section.</li> </ul>
<p>Reason for Recommendation</p>	<p>It is important for Members to monitor and understand the forecast position in any year and consider the action being taken to manage any issues.</p> <p>Delivery of Forward Together savings is critical to the financial performance and position of the County Council especially in the transition to the new authority.</p> <p>Members will also wish to be updated on operational performance including debt management and the performance on Capita around council tax single persons discount.</p>
<p>Appendices</p>	<p>None</p>
<p>Background Papers</p>	<p>Previous MFTP reports to Cabinet</p> <p>Previous financial management reports to Audit &amp; Governance Committee</p>

## Financial Management Report

Officer Contact	Name: Jim McManus, Chief Accountant Tel: 01305 221235 Email: <a href="mailto:j.mcmanus@dorsetcc.gov.uk">j.mcmanus@dorsetcc.gov.uk</a>
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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. This paper is coming to the Committee so that Members are made aware of the County Council's early forecast of outturn for the year and to review various other matters of operational performance.
- 1.2 The County Council approved a balanced budget at its meeting on 15<sup>th</sup> February 2018. This was based on a council tax increase of 5.99% for 2018-19; including 3% as the Social Care Precept, taking this to the 6% that can be levied in the three year period to 31 March 2020. Notwithstanding this increase in council tax and 1.26% growth in council tax base, demand and cost pressures are such that there is still a requirement for more than £18m in savings to tackle the budget gap and base budget overspends being carried into 2018-19.

## 2. Forecast of outturn for 2018-19

- 2.1 Whilst a robust process of assurance, review and authorisation surrounds the budget, it is clearly not without risk and early monitoring of the 2018-19 performance and position will continue to be critical. The Finance Team is always well advanced with early monitoring arrangements and Directors have confirmed the early predictions (AP2) for 2018-19 as set out 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	135,072	136,634	(1,562)	(765)	(797)
Children's Services	65,085	67,680	(2,595)	(2,595)	0
Environment & Economy	34,722	34,708	14	(90)	104
Partnerships	19,866	19,866	(0)	0	(0)
Chief Executive's Dept	9,290	9,570	(280)	(250)	(30)
Total Service Budgets	264,034	268,458	(4,424)	(3,700)	(724)
Central/Corporate Budgets	(256,002)	(256,673)	671	0	671
Whole Authority	8,032	11,785	(3,753)	(3,700)	(53)

- 2.2 The main reasons for projecting variation from budget at this time are...

### Children's Services

- 2.3 The target for the financial year is to reduce the number of children in care to 390 by March 2019. At the end of May 2018, there were 443, six fewer than at the end of April. The riskiest area is the number of complex children in high cost residential placements (46) and independent fostering placements (IFA) (105). These numbers are most volatile and hardest to plan for and forecast.
- 2.4 The priority is to reduce the number of children in the high cost residential and IFA placements and instead use our own, in-house foster carers whose recruitment process is currently in train. Running alongside this process we must reduce the run rate of children entering care, getting us down to 390 as soon as safely possible. The pace of change required is both challenging and ambitious and there are risks associated with delivery. There are currently six children near the cusp of requiring complex, expensive care. For now they are being managed but it can sometimes only require a small event to tip the balance and they could incur significant, additional cost.
- 2.5 Because of the risks and because it is still so early in the financial year we are taking a deliberately cautious, conservative view of likely financial performance. This means we are predicting a £2.6m overspend. It should be said that current activity levels are

not "overheating" but it is equally true to say that some of the deliverables (eg new foster carers) have to deliver as the financial year progresses.

### 2.6 Dedicated Schools Grant

2.7 The 2018-19 budget for the high needs block element of the dedicated schools grant assumed the delivery of some significant cost reductions. There are a number of variables influencing the delivery of some of these reductions, and the risk around their delivery should be recognised. In addition despite building for growth, demand appears to be ahead of predictions at this stage in the year and must be managed as the year progresses.

### Adult & Community Services

2.8 The Adult & Community Services budget is currently forecast to be overspent by £1.6m. Built into the budget is a savings plan totalling £9.382m. High-risk areas within the plan include £4m savings from Adult Care Operations where assumptions are that this will not be achieved in full. This is a risk-averse position at this stage and work continues to address the savings.

### Environment & Economy

2.9 The Environment and Economy Directorate is forecasting a £14k underspend. The main risk to the Directorate is in the Building & Construction Service where there is reliance on fee-earning income. With LGR and certain projects being stalled (Blandford Waste Station) there is a concern that the Service may overspend in the year.

### Partnerships

2.10 The Dorset Waste Partnership is forecasting an overspend of £985k. The most significant factor is the increased cost of dealing with Dry Mixed Recyclate (DMR) as a result of quality restrictions imposed by China. The expectation is that any overspend will be met from a draw-down from the budget equalisation reserve (BER). At the beginning of 2018-19, the BER stood at just over £1.2m. Any overspend in excess of this figure would need to be funded from partner authorities. Members of the Joint Committee have already challenged the DWP to develop plans for additional savings to reduce the overspend.

2.11 Public Health – the Public Health budget is managed within a ring-fenced grant contributed by the three partner authorities.

### Chief Executive's

2.12 The Chief Executive's Dept is forecasting an overspend of £280k, mainly due to the uncertainty of achieving all of the targeted savings (£504k) from the Way We Work Programme. Further work needs to be carried out in this area to ensure all savings are harvested when possible.

### Central/Corporate budgets

2.13 A favourable performance is being forecast at this stage.

## **3 Council tax single person's discount (SPD)**

3.1 During the year, Members have been kept abreast of the work being carried out by Capita - checking that people claiming SPD were entitled to receive it. This is an exercise that was first carried out two years ago and which we repeated during 2017-18.

3.2 In all, Capita identified 1,232 properties in the County Council's area where SPD was withdrawn. There were a further 583 properties in the Borough of Poole. The

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summary table below, sets out how the distribution of these properties and how much council tax (full-year basis) has been saved by this work.

COSTS	No. of successful cases	Individual council % share of cost		DCC % share of cost		Police % share of cost		Fire % share of cost	
			£		£		£		£
Poole	583	83.14%	£10,086.72	72.81%	£3,605.94	12.47%	£1,513.06	4.39%	£532.45
EDDC	238	12.74%	£630.74	77.59%	£3,422.96	10.69%	£529.69	3.76%	£186.40
NDDC	212	7.00%	£309.00	73.57%	£1,255.43	11.40%	£502.81	4.01%	£176.94
Christchurch	82	11.82%	£201.68	76.83%	£4,956.60	10.81%	£184.42	3.80%	£64.90
WDDC	310	7.91%	£510.18	70.79%	£3,815.30	11.29%	£728.10	3.97%	£256.22
WPBC	259	15.15%	£816.82	75.07%	£2,046.37	10.40%	£560.45	3.66%	£197.22
Purbeck	131	10.03%	£273.36			11.03%	£300.60	3.88%	£105.78
	<b>1,815</b>		<b>£12,828.51</b>		<b>£19,102.60</b>		<b>£4,319.13</b>		<b>£1,519.91</b>
Total cost									<b>£37,770.15</b>

Yield (approx)	No. of successful cases	Individual council % share		DCC % share		Police % share		Fire % share	
			£		£		£		£
Poole	583	83.14%	£168,080.44	72.81%	£60,279.05	12.47%	£25,212.89	4.39%	£8,872.50
EDDC	238	12.74%	£10,543.82	77.59%	£62,009.51	10.69%	£8,854.67	3.76%	£3,115.99
NDDC	212	7.00%	£5,597.86	73.57%	£21,969.60	11.40%	£9,108.86	4.01%	£3,205.44
Christchurch	82	11.82%	£3,529.32	76.83%	£89,771.42	10.81%	£3,227.22	3.80%	£1,135.67
WDDC	310	7.91%	£9,240.12	70.79%	£66,037.89	11.29%	£13,186.94	3.97%	£4,640.53
WPBC	259	15.15%	£14,138.07	75.07%	£39,059.66	10.40%	£9,700.61	3.66%	£3,413.68
Purbeck	131	10.03%	£5,217.72			11.03%	£5,737.65	3.88%	£2,019.10
	<b>1,815</b>		<b>£216,347.36</b>		<b>£339,127.12</b>		<b>£75,028.83</b>		<b>£26,402.89</b>
Total benefit									<b>£656,906.20</b>

- 3.3 The County Council's yield can therefore be summarised as £339k for a cost of £19k. We will reconsider another iteration of this work in 2019-20 but the plan for this will need to run alongside LGR so members will be kept informed of proposals in due course.

## 4 Forward Together

- 4.1 The FT programme continues to be monitored by the Organisation Transformation Board and the financial implications of the programme are also reported through CPMI. At this stage of the year, there is nothing further to update, separately from the forecast position notes in section 2.
- 4.2 Delivering the Forward Together savings is critical to the financial performance for the year and to our future viability. The 2018-19 programme includes £18.8m of savings which are critical in getting us to a starting position for the 2019-20 budget round.

Savings measure	2018/19 Assessment of Savings achievement				
	£000's	More Work			Not achievable
		Achieved	On course	Needed	
	£000's	£000's	£000's	£000's	£000's
Adults	9,382	2,379	6,238	765	-
Childrens	6,333	700	3,038	2,595	-
Env & Economy	1,749	1,399	260	-	90
Chief Exec's	854	190	414	250	-
Public Health	-	-	-	-	-
Dorset Waste Partnership	455	-	455	-	-
<b>Summary - All Savings 2018/19</b>	<b>18,773</b>	<b>4,668</b>	<b>10,405</b>	<b>3,610</b>	<b>90</b>

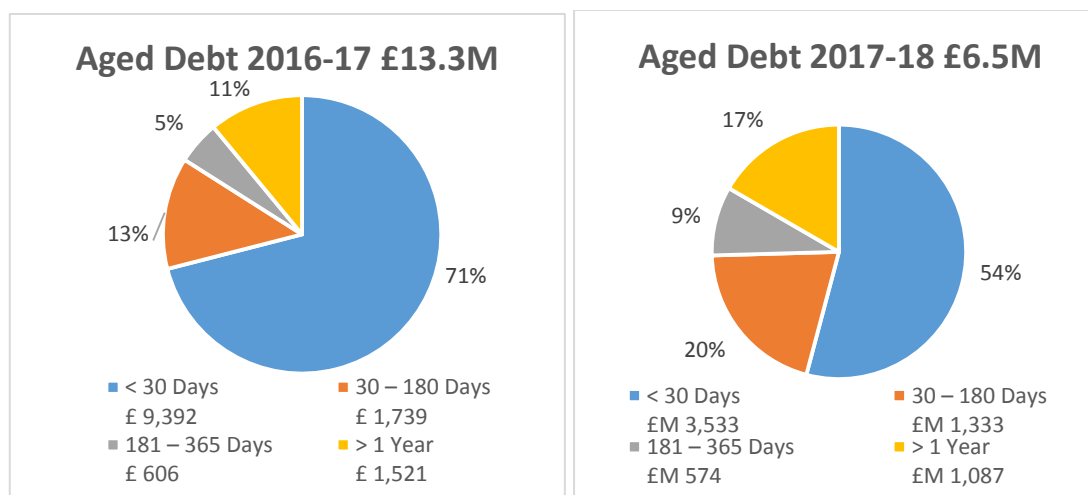
## 5 Debt information

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- 5.1 The County Council's "trade" debt at 31 March 2018 was just over £6.5m; a reduction of around £1.4m since the last report and £6.7m (49%) lower than 31 March 2017. The table, below, shows the age profile of the debt, with comparator figures.
- 5.2 Debt less than 30 days old makes up 54% of the total. However, the actual value of this debt is down from £9.4m in 2016-17 to £3.5m at year end year. The debt over a year old is also down by £0.5m from the previous year.

Financial year	< 30 Days £ 000	30 – 180 Days £000	181 – 365 Days £000	> 1 Year £000	Total £000
2016-17 (as at 31/03/17)	9,393	1,739	606	1,521	<b>13,258</b>
	71%	13%	5%	11%	
2017-18 (as at 31/01/18)	4,324	2,011	606	971	<b>7,912</b>
	55%	25%	8%	12%	
<b>2017-18</b> (as at 31/03/18)	3,534	1,333	575	1,087	<b>6,529</b>
	54%	20%	9%	17%	

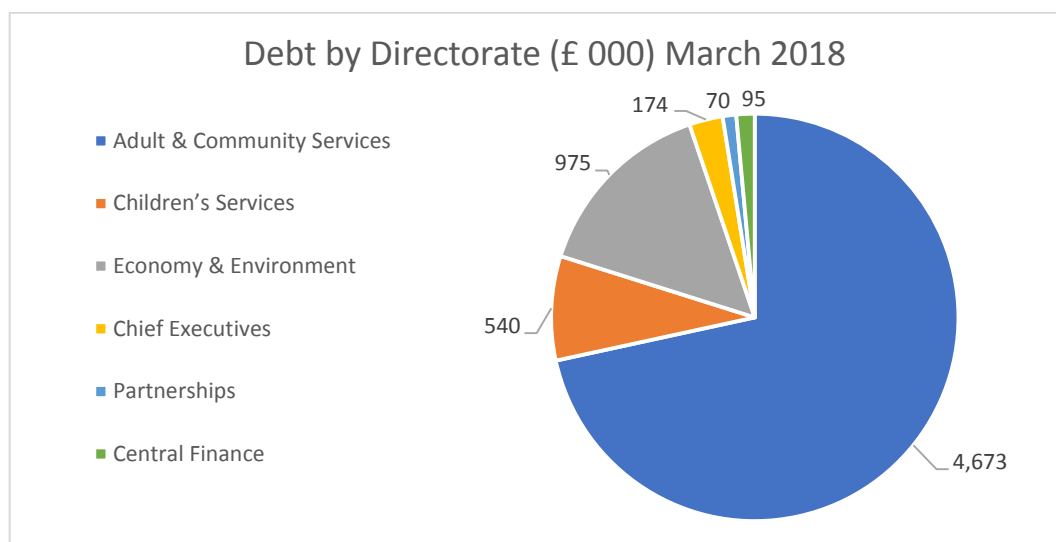
- 5.3 The value of debt has reduced across all aged debt classification compared to the same time last year due to the implementation of our debt policy and the hard work and diligence of the staff managing these processes. We continue to encourage more customers to sign-up to direct debit payments and other payment-in-advance methods. However, it is critical that we keep on top of these processes through the regular, corporate performance review sessions and effective credit control methods.



- 5.4 The table below shows the debt position by directorate. In the past 12 months, overall debt has fallen significantly. Adult and Community Services debt has decreased by over £2m as older debt has been cleared, now 70% of the debt is less than 6 months old. Environment and Economy debt is down by £0.5m and Chief Exec's down more than £3.6m.

Total Debt by Directorate 31/03/18 (£ 000)							
Directorate	< 30 Days	30 – 180 Days	181 – 365 Days	> 1 Year	Total (31/03/18)	Previous Total £ (31/03/17)	Variance (-ve is adverse)
Adult & Community Services	2,333	922	460	958	<b>4,673</b>	6,784	2,111
Children's Services	391	107	25	17	<b>540</b>	857	317
Economy & Environment	618	246	69	41	<b>975</b>	1,496	521
Chief Executives	101	51	20	3	<b>174</b>	3,816	3,642
Partnerships	60	7	1	3	<b>70</b>	134	64
Central Finance	31	0	0	65	<b>95</b>	171	76
<b>Total</b>	<b>3,534</b>	<b>1,333</b>	<b>575</b>	<b>1,087</b>	<b>6,529</b>	<b>13,258</b>	6,729

5.5 The chart below reminds us that nearly ¾ of 'trade' debt relates to Adult and Community Services, with the majority of this being generated from over 8,000 invoices raised for individuals accessing social care. Environment and Economy account for over half of the remaining debt with over 1,000 outstanding invoices, again the majority of this debt is less than 6 months old and is being actively pursued.



5.6 A detailed debt report is generated each month and published on SharePoint for inclusion in the CPMI report. Group Finance Managers and their teams are routinely supporting Budget Holders to manage debt and to encourage and support pre-payment whenever possible.

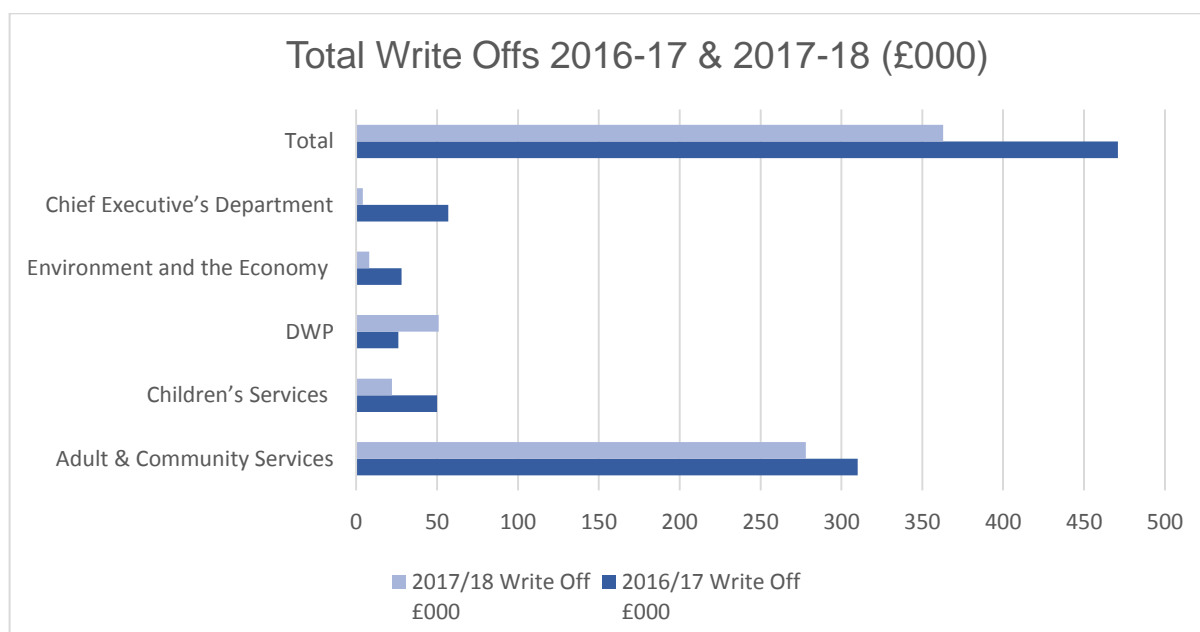


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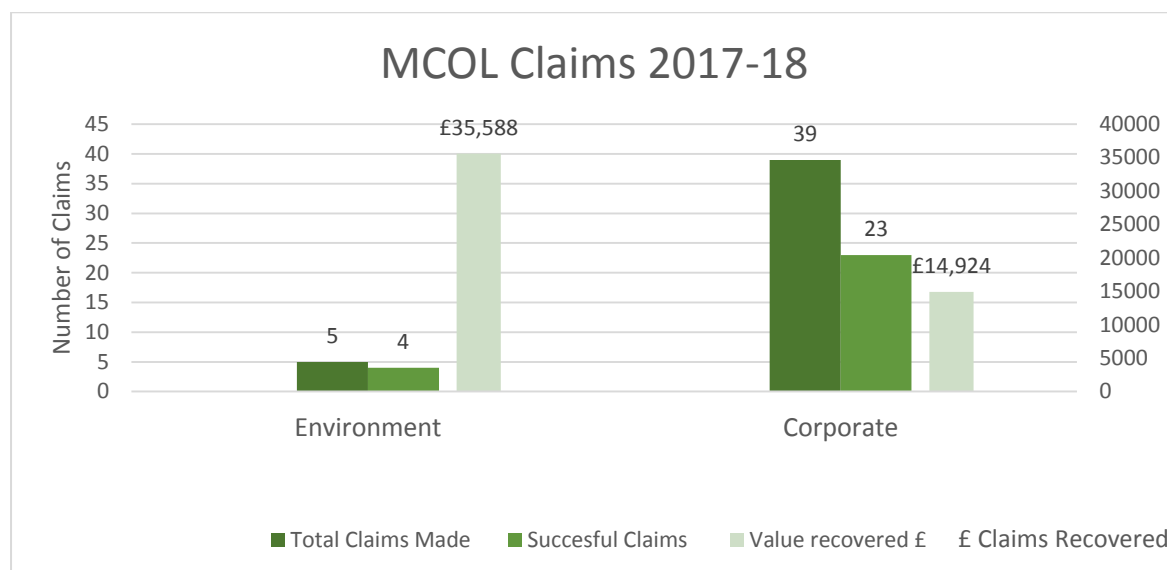
- 5.7 The bad debt provision at the end of year was £1.4m. This was calculated fully in line with our policy, meaning that as a default position, service budgets are charged with a 100% provision for all debts that are over six months old.
- 5.8 Individual Debtors; The list of the top ten debtors by value (£) is shown in the table below. The majority of this debt is owed by other public-sector bodies and over 80% currently less than 30 days old. All of the outstanding debt is being chased.

Top Ten Debtors by Value £						
Individual Debtors	<30 days	<60 days	<90 days	<365 days	>365 days	Total
NHS Dorset	552,845	0	0	0	0	552,845
Budmouth Technology College	99,860	97,054	95,133	194,716	0	486,763
Royal Bournemouth Hospital	400,135	1,685	33,584	31,933	0	467,337
Poole Borough Council	305,479	0	3,851	0	0	309,330
Poole Hospital NHS Trust	307,955	485	0	200	0	308,640
Dorset H/Care Uni Foundation Trus	297,887	2,660	191	191	0	300,929
Skills and Learning	217,064	7,517	0	35	0	224,616
Dorset County Hospital NHS	148,144	0	0	0	0	148,144
Bournemouth Borough Council	62,399	15,945	10,000	38,898	0	127,242
West Dorset District Council	49,382	51,520	0	0	0	100,902
<b>Total</b>	<b>2,441,150</b>	<b>176,866</b>	<b>142,759</b>	<b>265,973</b>	<b>0</b>	<b>3,026,748</b>

- 5.9 The total debt written-off in 2017-18 was £363k compared with £471k the year before; a reduction of 23%. As in 2016-17, Adult and Community Services accounted for the majority of the write-offs (77%). Work continues to improve the process and the speed at which these debts are recovered which should reduce the volume and value of the debts written-off again in 2018-19.



- 5.10 The Financial Assessments and Credit Control Teams have recently moved into Financial Services as part of the reorganisation within Adult & Community Services. We are working together to streamline and align their processes with the Corporate Credit Control Team. Monthly, formal reviews of debt continue with the ambition of full recovery. These meetings include representatives from each Service area and the Legal Team.
- 5.11 Since April 2017, 44 debtors have been pursued through money claims online (MCOL) and have 27 of these debts have now been paid recovering over £51k. Most of these claims relate to the recovery of staff salary overpayments and charges against utility companies for overrunning works resulting in delays and road closures. The remaining 17 cases are still in progress.



## 6 Supplier payments

- 6.1 The principle aim of the Accounts Payable (AP) Team is to ensure that all invoices are paid accurately, within 30 days, in line with Public Contracts Regulations (PCR2015). PCR2015 also require payment data to be published.
- 6.2 The AP Team manages payments for more than 12,000 live suppliers. A review of payment terms is currently underway with an aim to bring all vendors in line with the council's 30-day payment terms.
- 6.3 Many process improvements have been implemented over the last three years which have saved time and money, allowing a more efficient service. For example, all vendors are now paid via BACS with very few exceptions, making savings on processing and mailing cheques and the vast majority of our remittance advices are sent via email.

Cheque Payments	Count	£
Cheque payments this month	1	£32
Last month	1	£400
March 2017	13	£14,279

- 6.4 The latest payment performance figures show an annual improvement in the financial year just ended. The AP Team works to a target of 85%. The decrease in September 2017 (see table below) was due to the school summer holidays, there was an increase in late payments when the schools returned and processed the August backlog. This year AP are working more closely with the school teams to predict and prevent this backlog.

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Month	2016-2017		2017-2018	
	Number of invoices paid within 30 days in accordance with regulation 113 (%)	Number of invoices paid within 30 days in accordance with regulation 113	Number of invoices paid within 30 days in accordance with regulation 113 (%)	Number of invoices paid within 30 days in accordance with regulation 113
April	89	15,534	89	16,753
May	88	16,131	85	18,854
June	86	19,370	88	17,077
July	88	16,968	89	18,165
August	89	19,354	90	18,676
September	79	15,222	82	14,379
October	84	17,051	90	18,354
November	84	18,307	91	22,299
December	84	15,887	87	15,551
January	77	16,048	88	19,159
February	87	18,293	90	16,671
March	87	24,329	89	19,095

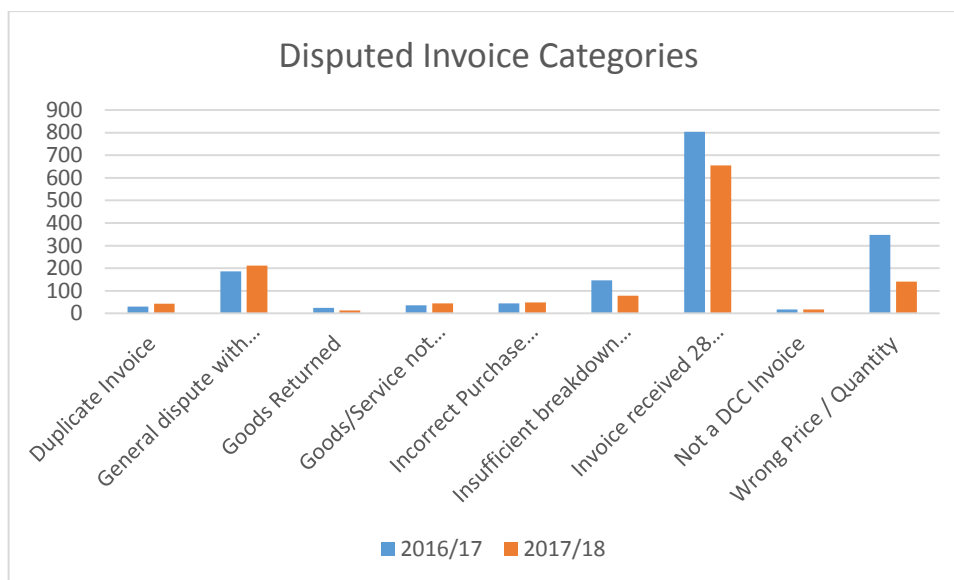
6.5 From April 2018, PCR2015 also require DCC to publish the amount of interest paid to suppliers due to a breach of regulation 113. The table below documents the actual amount paid and the potential amount that could have been due.

6.6 Both figures have reduced and interest on late payments was avoided completely in 2017-18. These figures are also published at:

<https://www.dorsetforyou.gov.uk/article/422597/Public-Contract-Regulations-2015>.

Month	2016-2017		2017-2018	
	The amount of interest paid to suppliers (£)	The amount of interest liable to pay to suppliers (Paid or unpaid) (£)	The amount of interest paid to suppliers (£)	The amount of interest liable to pay to suppliers (Paid or unpaid)(£)
April	0.00	-70,699	0.00	-76,675
May	0.00	-51,772	0.00	-77,560
June	0.00	-50,182	0.00	-55,965
July	0.00	-53,287	0.00	-58,535
August	0.00	-63,295	0.00	-50,789
September	290.42	-129,389	0.00	-67,347
October	27.00	-75,021	0.00	-71,140
November	0.00	-67,806	0.00	-83,497
December	0.00	-584,633	0.00	-50,090
January	0.00	-95,506	0.00	-72,220
February	334.70	-121,052	0.00	-65,995
March	0.00	-111,983	0.00	-76,555
<b>Totals</b>	<b>652.12</b>	<b>-1,474,624</b>	<b>0</b>	<b>-806,369</b>

- 6.7 These figures exclude disputed invoices, which are marked and categorised individually. This allows us to analyse patterns and identify areas for improvement. The biggest area is invoices received 28 days after the invoice date leaving no chance of making payment within 30 days. Over the last year the number of invoices received via email has increased and the AP Team is currently reviewing supplier relationships in an effort to avoid all paper/posted invoices.
- 6.8 Another area that has seen significant decrease is invoices disputed due to incorrect price and quantity. The introduction of the Source-to-Pay Hub and a closer working relationship between the AP Team and the hub has had a significant impact on the number of invoice payment delayed for these reasons.



- 6.9 The AP Team plans to improve these figures further still, by expanding the scope of auto-goods-receipting functionality to a wider section of suppliers. This functionality has been trialled for over a year and is very successful. The chart below shows the activity levels around the process and the hours and money saved over the entire time it has been running.

Auto Goods Receipting	Vendors	Transactions	Orders	Hours	Cost
<£100	8	2655	1263	47.90	£ 545.71
£101 to £1,000	37	3085	1631	102.83	£1171.55
>£1,000	15	17719	6287	359.47	£4095.30

- 6.10 This year, we are considering further rollout and we are currently evaluating the risks and benefits of extending the functionality to all suppliers for payments up to the value of £1,000. This would deliver further, significant savings.

## 7 Summary

- 7.1 At this early stage of the year, it is important for Directors to highlight concerns where there are areas of variance from budget so the organisation can understand the risks in the remainder of the year, plan for these during budget-setting and develop and implement plans to tackle the overspends. It is also important for Members of this Committee to be comfortable that all the right things are being done to manage within the budget available.

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- 7.2 Children's Services continues to be a key area of risk, volatility and spend for the County Council with sudden changes in the looked-after-children cohort often causing significant and sustained cost pressures.
- 7.3 The Medium Term Financial Plan for 2019-20 shows a potential budget gap of £16.5m, the new Dorset Council's will need to deliver its proportionate share of this. Plans are being formulated to help address this. We are also still waiting for the Government to consult on negative RSG; this area alone causes £10.1m of cost pressure for the authority.
- 7.4 The Organisation Transformation Board will be considering proposals for savings for the 2019/20 budget when it meets on 27<sup>th</sup> June. After that information will be shared more widely as well as with the budget task & finish group.

**Richard Bates**  
**Chief Financial Officer**  
June 2018