Audit & Governance Committee

Dorset County Council

Date of Meeting	29 June 2018
Officer	Chief Financial Officer
Subject of Report	**Statement of Accounts and outturn 2017-18**
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 31 May. 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 31 July. These dates are significantly earlier than in previous years. 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 and approved by the Audit & Governance Committee on 12 March 2018 and recommended to Cabinet, where it was subsequently approved on 23 May 2018. The Statement of Accounts for 2017-18 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 2018 as the timing of meetings has meant that draft, unaudited, financial information has already been to Cabinet as well as being well-circulated an publicised prior to this meeting. However, a summary 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 2017-18. 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 will be kept informed of progress towards balancing the 2019-20 budget and MTFP and the forecast outturn position for 2018-19 during the year.
	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.
	Outcomes:
	Other Implications: None.
Recommendation	That members consider and approve the Statement of Accounts for the year ended 31 March 2018 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 31 July.
Appendices	Statement of Accounts
Background Papers	Accounts and Audit (England) Regulations 2015 CIPFA Code of Practice on Local Authority Accounting in the UK 2017-18 Internal Audit Reports 2017-18 Corporate Governance Framework – Annual Compliance Assessment 2017-18
Officer Contact	Name: Jim McManus Tel: 01305 221235 Email: j.mcmanus@dorsetcc.gov.uk

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 31 May, with the Auditor's opinion due in time for final approval of the accounts by Members by 31 July.

1.3 These statutory dates are significantly earlier than in previous years but the County Council has made excellent progress in bringing forward the deadlines for closing its accounts. In each of the last two years, closedown work has been completed inside these tighter deadlines as part of the improvements made by the Financial Services Team as part of its transformation programme.

1.4 I am pleased to be able to confirm that the Statement of Accounts for 2017-18 was certified by the Chief Financial Officer on 30 April 2018. Last year's accounts were certified on 15 May 2017 and the preceding year on 31 May 2016.

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 has been shared across the wider team, allowing 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 2017-18 has been prepared in line with the recommendations published in 2007 by CIPFA and SOLACE, the public sector accountancy and local authority 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.

2.4 The statement adopts a new format this year in an attempt to make information more accessible and readable and this has proved popular with Members and other stakeholders so far.

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 and operational performance. The narrative also defines and describes the content of the primary financial statements.

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 2017-18. A short presentation will also be provided on the day to ensure Members understand the key components of financial performance and position.

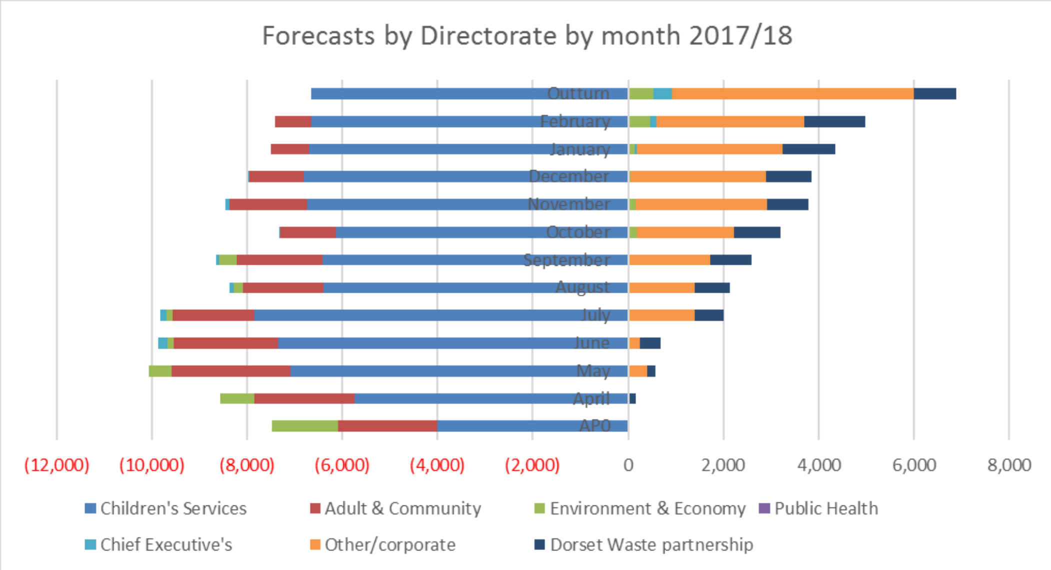
4. Financial performance for the year

4.1 The draft outturn for the year was an overall underspend of £0.2m. Within this total, there was a net overspend on service budgets of £4.9m, offset by £5.1m of underspends within corporate budgets as analysed in the table, below.

Directorate	**Net Budget**	**Outturn**	**(Overspend)/ Underspend**
	£k	**£k**	**£k**
Adult & Community Services	133,634	133,626	8
Children's Services	61,776	68,427	(6,651)
Environment & Economy	32,779	32,251	528
Partnerships	18,547	17,665	882
Chief Executive's Dept	12,778	12,402	377
Total Service Budgets	259,515	264,371	(4,856)
Central/Corporate Budgets	(301,805)	(306,899)	5,094
Performance for the year	(42,290)	(42,528)	238
Movements in the general fund			
Performance for the year			238
Minimum Revenue Provision adjustment			6,600
Transfer to LGR reserve			(2,500)
Increase in the general fund			4,338
Review of reserves in-year			1,776
Opening balance			12,352
Closing balance			18,466

4.2 Further changes to the minimum revenue provision (MRP) calculation, made in-year in line with the national policy changes, improved our position further with a cumulative, net adjustment of £6.6m. A transfer of £2.5m to the LGR reserve, to be approved by Cabinet on 27th June, was the final adjustment for the year. These results, combined with the release of £1.8m from the in-year review of reserves, means an overall increase of £6.1m in our balances.

4.3 The graph below shows how the overall forecast moved during the course of the year. From its peak, projected overspend of £9.5m in May, the overall overspend was reduced during the year, though clearly some areas continue to prove challenging and there is continuing risk around savings plans for 2018-19 and beyond.



4.4 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.

Adult & Community Services

4.5 The Adult & Community Services directorate ended the year with an underspend of £8k.

4.6 The Directorate had a savings target of £7.1m. £5.6m of these savings were due from the adult care service-user budgets, with £4.2m of it relating 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. The final performance meant that £1.9m of savings were not met. Service-user-related spend continues to increase annually and the underspend for the Directorate was only achieved through short-term savings in staffing, commissioning budgets and the application of specific reserves and repurposing improved Better Care Fund (iBCF) monies.

Children's Services

4.7 The Children's Services directorate ended the year with an overspend of £6.7m. Pressures were primarily around the number of children in care and the mix of placements, agency spend and SEN Travel.

4.8 The overall number of Looked after children (LAC) is fluctuating around 450. Whilst this is a welcome reduction from the peak of 506, it did not reach the best case scenario of 400 by the end of the year. Analysis of the make-up of children in care also showed that lower-cost placements were replaced by higher-cost placements with Independent Sector Fostering Agencies and Independent Sector Residential Care Providers. This cohort of children caused the budget to be overspent by £7.9m in 2017-18.

4.9 The agency staff budget was overspent by £0.4m. Whilst still significant this has reduced during the year and spending appears to have stabilised.

4.10 The SEN Transport budget ended the year with a £0.5m overspend. There was a major retendering exercise during the year which did see some cost reductions however with demand still growing this budget continues to remain under pressure.

Prudence and vacancy management across other areas of the service offset other pressures and a proportion of the overspends described above.

4.11 The Dedicated Schools Grant ended the year with a £4.6m overspend, when added to the £4.1m carried from 2016-17 this has resulted in a total deficit carried forward of £8.7m. The overspend is a result of additional pressures against the High Needs Block of the budget and the Council is now working jointly with the Schools Forum to identify methods to recover this deficit.

Environment & Economy

4.12 The Environment & Economy directorate ended the year with an underspend of £528k.The Directorate had a savings plan of £3.8m for 2017-18.

4.13 The main movements since the last report were a reduction in transport costs in Dorset Travel and extra income being received in the Coast & Countryside Service. The Highways Service was forecasting an underspend in February but two snow events in February and March caused an overspend, which the Directorate was able to contain in-year rather than draw on the specific reserve.

Partnerships

4.14 Dorset Waste Partnership; the County Council's share of the distributed underspend (£1.372m) was £882k.

DWP's overall underspend was £1.985m of which £613k was added to the budget equalisation reserve. The majority of the overall underspend at £1.1m related to volumes of waste arisings, associated haulage costs and improvements to gate fees as waste continues to be diverted away from landfill. Other significant favourable variances include income from recyclate for part of the year (£340k) and favourable contributions from trade waste and garden waste services.

4.15 Public Health; Public Health is managed within a ring-fenced grant contributed by all three Dorset Council partners.

Chief Executive's Dept

4.16 The Chief Executive's Department ended the year with a £377k underspend.

4.17 The main areas of movement since the February forecast were additional income in Legal Services, Financial Services increasing their cost-recovery from the Asbestos Service and Human Resources holding vacant posts and reducing training costs.

Central/corporate budgets

4.18 Central Budgets finished the year with an underspend of £5.1m.

4.19 The Regulations around flexible use of capital receipts allowed us to use £1.5m of capital receipts to fund transformation costs which otherwise would have been charged to the contingency budget.

4.20 Savings include £0.3m on interest costs due to renegotiation of a number of loans during the year, £0.2m lower financing charges for Dorset Waste Partnership assets, and £0.9m less Minimum Revenue Provision for financing capital expenditure.

4.21 A further £0.5m was released from central cost pool, flowing from continued improvements to the year-end accruals process and tighter management of purchase orders. Government grant receipts were higher by £0.5m in respect of under-indexing of the business rates multiplier, which will be included by central government as part of the core spending power allocation in future Local Government Finance Settlements and is now built into the Council's budget for future years.

5. Financial position as at 31 March 2018

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 £30m over the year. Net cash flow from operating activities remained strong at +£23.3m, there was a £3.9m net outflow from investing activities and £10.9m net cash inflow from financing 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 short-term borrowing mentioned above. Although total borrowings have increased, the average interest rate payable on the County Council's portfolio has reduced. Note 20 shows how interest payable on all loans amounted to £7.414m compared to £7.482 in 2016-17.

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 Fixed asset carrying values were relatively stable with just a £5m increase overall. 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 increased due to the draw-down of cash and cash equivalents as part of the treasury management strategy of borrowing at best rates rather than immediately prior to requirement. There has been a very welcome reduction in debtors which is also summarised in note 34. Short-term liabilities have increased, mainly due to the increase in short-term borrowing referred to already and also from receipts paid to us in advance, meaning we cannot recognise them in the comprehensive income and expenditure statement. Overall these changes result in a £1.9m (9.2%) improvement in working capital.

5.6 Longer-term liabilities of the County Council have reduced, mainly due to the £53m improvement in the pension asset (note 23). Long-term borrowing has reduced marginally and PFI liabilities continuing to decrease in line with their life-cycle financial models.

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, clearly-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 apply to support service delivery. At the end of the year, the usable reserves total was £100.5m. Of this total, a significant amount has already been earmarked for specific purposes (notes 47, 48 and 51 describe these in more detail). Of the remaining reserves, note 52 describes the situation around general balances and sets out the County Council's share of this – being £18.466m at 31 March 2018. 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 level, Members are reminded of the risk in the £18.8m savings target for 2018-19, the size of the budget challenge ahead in 2019-20 and the risks around LGR.

6. Auditors

6.1 The audit of the 2017-18 accounts will mark the end of KPMG's appointment period as auditor. KPMG will continue their involvement with the County Council until the final documentation and process requirements of their term are fulfilled. Members will be kept informed of the finalisation of their work and of the transition arrangements to the new Auditor, Deloitte LLP.

6.2 The Chief Executive, Chief Financial Officer and Chief Accountant have already met with the lead partner and Manager from Deloitte and once the June Committee meeting is complete, Council officers will start the formal planning work for the 2018-19 audit with Deloitte.

6.3 The County Council's Finance Team reflects very positively on the relationship with KPMG. Officers have always found the KPMG Team to be positive, proactive and supportive. KPMG have worked extremely effectively with us to achieve our ambition to produce the accounts within the faster closedown (30-day) period that we are now delivering. Our challenge will be to sustain this outcome, whilst retaining quality, during transition to LGR and the new, unitary authority.

7. Conclusion

7.1 The County Council closed the year with a small underspend of £0.2m. The forecast overspend during the year had been significantly higher – peaking at £9.5m in May 2017 - so this is a pleasing result in the challenging circumstances of increasing demand and reducing funding.

7.2 Elsewhere on this agenda is a paper that deals with the current year's forecast, financial performance. It is imperative that the plans and strategies underpinning the forward together transformation programme are successful and deliver the savings targets built into the budget. We are targeting £18.8m savings in the current year and there is currently a budget gap of £16.5m (County Council share £14.5m) in 2019-20, so there is significant risk in the planning period and we know we will not be able to rely on full-year savings from LGR to balance the budget in 2019-20.

Richard Bates
Chief Financial Officer
May 2018