

Audit & Governance Committee

Dorset County Council



Date of Meeting	25 October 2018
Officer	Richard Bates – Chief Financial Officer
Subject of Report	Financial Management Report
Executive Summary	<p>This report provides members of the Audit & Governance Committee with an update on budget management and financial performance for 2018-19. It also includes performance information for debt management and supplier payments for the year to date.</p> <p>The budget and MTFP for 2019-20 is being led by the Budget Task and Finish Group and is therefore no longer reported through sovereign councils.</p>
Impact Assessment:	<p>Equalities Impact Assessment: This high-level update does not involve a change in strategy, an assessment is therefore not required.</p>
	<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 financial performance and projections for 2018-19. It also considers risks still inherent in the forecast and mitigations in place for any financial consequences arising.</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 MEDIUM</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"> (i) note the Directors' latest estimates included in the forecast of outturn for 2018-19; (ii) note the risks inherent in the forecast and the mitigations in place; (iii) note the latest projections for savings from the Forward Together programme; (iv) note the continuing challenges and progress on the debt position since the last report; and (v) note the contents and key statistics in the payment performance section.
<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 Dorset Council.</p> <p>Members will also wish to be updated on operational performance including debt management and supplier payment performance.</p>
<p>Appendices</p>	<p>None</p>
<p>Background Papers</p>	<p>Previous MFTP reports to Cabinet Previous financial management reports to Audit & Governance Committee</p>
<p>Officer Contact</p>	<p>Name: Jim McManus, Chief Accountant Tel: 01305 221235 Email: j.mcmanus@dorsetcc.gov.uk</p>

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 latest 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 15th 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 sustained monitoring and control of the current year's performance will continue to be critical. 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
Adult & Community Services	134,954	136,666	(1,712)	(678)	(1,034)
Children's Services	65,946	69,522	(3,576)	(3,075)	(501)
Environment & Economy	37,373	36,714	660	(90)	750
Partnerships	19,650	19,403	248	0	248
Chief Executive's Dept	11,575	11,776	(201)	(214)	13
Total Service Budgets	269,499	274,080	(4,581)	(4,057)	(525)
Central/Corporate Budgets	(260,955)	(262,829)	1,874	0	1,874
Whole Authority	8,544	11,251	(2,708)	(4,057)	1,349

- 2.2 The main reasons for projecting variation from budget at this time are set out in the following paragraphs.

Children's Services

- 2.3 At the end of September, the Children's Services Directorate budget is forecast to overspend by £3.6m. Pressure is within the Care & Protection area of the budget. The target number of Children in Care for the financial year is to reach 390 by March 2019. At the end of September 2018 the number currently stood at 442. This is a decrease of three from the previous month. We have managed to stabilise this budget (i.e. the number of children coming into care) but not to drive it back. The biggest risk area is high cost placements (start at £4k per week each) with highly vulnerable/dangerous adolescents. The priority is to reduce the number of children in the high cost placements and IFA placements and instead use our own in-house foster carers whose recruitment process is currently in full train. There are currently half a dozen children hovering on the edge of requiring complex expensive care, they are for now being managed, but it can only take a small trigger to tip them across the line and they could incur an additional cost of up to £250k per episode.

Dedicated Schools Grant (DSG)

The DSG is forecast to overspend by £3.6m. Pressures centre around the High Needs Block (HNB). The numbers of Education Health & Care Plans (EHCP's) have grown at a rate beyond that which had been predicted. As at the end of September

2018 the number of Dorset EHCP's was 2396 which already exceeds the number expected at the end 2023, and is a rise of 50% since April 2016 when the total was 1594. This is inevitably causing pressure on all areas of the HNB. Over £2m of the overspend is predicted to be in the Independent School budget where it is looking unlikely any savings will be achieved in this financial year from the project to review placements and bring children back "in county". Additional places that were identified in our special schools and bases have already been filled by new demand.

Adult & Community Services

- 2.5 The Adult & Community Services budget is currently forecast to be overspent by £1.7m. 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 deliver the savings.

Environment & Economy

- 2.6 The Environment and Economy Directorate is forecasting a £660k underspend. The improvement since the previous forecast of £130k underspend is due to a reduction in costs for the Dorset Travel Service, a reduction in staffing costs due to the management restructure and an increase in income from the Highways Traffic Team. The main risk to the Directorate is in the Building & Construction Service where there is reliance on fee-earning income.

Partnerships

- 2.7 The Dorset Waste Partnership is forecasting an overspend of £180k of which the Dorset County Council share is £116k. 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.
- 2.8 The Public Health Dorset budget is managed within a ring-fenced grant contributed by the three partner authorities. The budget is currently projected to underspend by £450k. The three partner authorities have requested that their share of the anticipated £450k underspend is returned in year to redistribute by the usual formula for their investment in early years' services and health protection services. The DCC share is £248k.

Chief Executive's

- 2.9 The Chief Executive's Dept is forecasting an overspend of £201k, of which £173k relates to the Way We Work Programme. There is slippage in the programme which will mean some savings will be achieved in 2019/20 rather than 2018/19. The remaining overspend mainly relates to a projected overspend in Legal Services due to external locum costs.

Central/Corporate budgets

- 2.10 A favourable performance is being forecast at this stage with a slightly higher underspend being predicted against the contingency budget.

3 Risks inherent in the budget/current year

- 3.1 As already noted, £18.8m of savings in the programme means the budget for 2018-19 still has risks. Key threats to our ability to deliver within our budget include a range of variables, each with a level of volatility and unpredictability.

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- 3.2 Children's Services budgets continue to be under pressure; key measures of success/risk include successful recruitment of the additional foster carers to enable us to reduce our reliance on independent placement or other out-of-county provision, causing increased costs. One-off resources have been applied in 2018-19 to invest in fostering and attract additional foster carers and the situation is monitored monthly by the cabinet member for resources.
- 3.3 The number of children in care is also a key determinant of financial performance. Not only the absolute numbers, however, critically also the mix of packages of care and the costs associated with these. Numbers of looked-after children have reduced steadily and remain around the 440 level. However, there is ambition to reduce the numbers in care as well as the per-child cost.
- 3.4 Further work is also still in progress in Children's Services into transport costs. (Impower work results due from David McDonald). We also aim to migrate as many transport journeys onto more cost-effective, family-friendly personalised budgets, away from more traditional approaches to sourcing SEND transport provision.
- 3.5 Throughout the year, the DWP overspend has gradually reduced from more than £1m to its current level of £180k (DCC share, £116k). At a headline level, any overspend will be funded from the budget equalisation reserve, but it is positive to see the projections moving favourably as the year develops. There is still risk for the remainder of the year - and beyond – however, due to the unpredictability in the recycle market in particular, but also due to fuel prices, waste tonnages generated and contract increases.
- 3.6 In Adult Services, cost pressures continue in the form of transitions from Children's Services, self-funders reaching the limit of their own capital and qualifying for County Council funding and demand for additional packages as our demographics continue to drive increasing demands for care services.
- 3.7 In mitigation, officers continue the drive for efficiency and savings. A vacancy management protocol is in force with posts only being filled once a process to test the need for additional staffing has been satisfied. We also take every opportunity to drive savings out of supplies and services through more challenging procurement and contract management procedures (a contract management training programme is also currently being rolled out to support managers to deliver savings) and we continue our programme of divestment of assets which no longer serve long-term, strategic delivery purposes in order to release capital receipts and reduce running costs.
- 3.8 Managers are also required to work within a doctrine of continuous review and challenge, seeking ongoing opportunities for improved outcomes/results at reduced cost. Budget Holders are expected to deliver savings agreed at budget setting time and to generate and evaluate additional savings wherever possible.
- 3.9 The finance team leads the monthly forecasting process and updates are provided on SharePoint five working days after month-end, so any changes of the monthly analysis and predictions are quickly available. The finance team is also currently leading the biannual review of reserves to ensure an adequate level of scrutiny over risks and financial provision that has been made for them so that this can be released wherever it is no longer required.

4 Forward Together

- 4.1 The Forward Together programme continues to be monitored by the Organisation Transformation Board and the financial implications of the programme are also reported through CPMI.

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- 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 sustainable starting position for the 2019-20 budget round for Dorset Council.

Summary - All FT Savings and 2018/19 BAU pressures

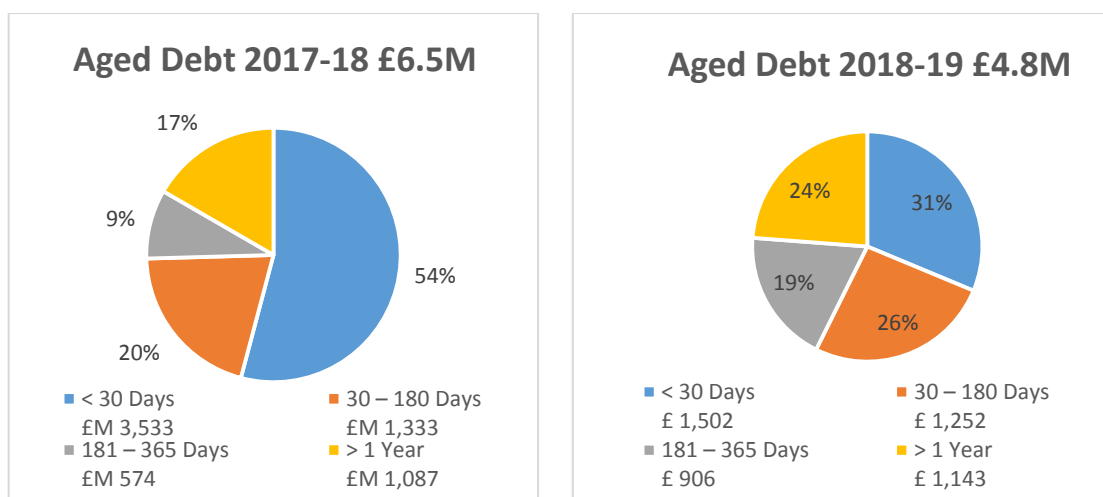
Savings measure	2018/19 £000's	Assessment of Savings achievement			
		Achieved £000's	On course £000's	More Work Needed £000's	Not achievable £000's
Adults	9,382	4,726	3,978	678	-
Childrens	6,813	700	3,038	3,075	-
Env & Economy	1,749	1,399	260	-	90
Chief Exec's	854	440	200	214	-
Public Health	-	-	-	-	-
Dorset Waste Partnership	455	-	455	-	-
Summary - All Savings 2018/19	19,253	7,265	7,931	3,967	90

5 Debt information

- 5.1 As at 30th September, the County Council's "trade" debt was just over £4.8m; a reduction of around £1.7m since the last report for March 2018. The table, below, shows the age profile of the debt, with comparator figures.
- 5.2 The debt is relatively evenly spread across each time period, with less than 30 days old making up just over 30% of the total outstanding. This reduction in debt from the previous report is due, in part, to the timing of the report with fewer invoices outstanding at this mid-year point rather than at the end of the financial year. That said we are continuously improving our processes to speed debt recovery and adopting electronic invoicing and encouraging payments via Direct Debit to save both time and money.

Financial year	< 30 Days £	30 – 180 Days £	181 – 365 Days £	> 1 Year £	Total £000
31 st March 2016-17	9,392	1,739	606	1,521	13,258
	71%	13%	5%	11%	
31 st March 2017-18	3,534	1,333	575	1,087	6,529
	54%	20%	9%	17%	
30 th September 2018	1,502	1,252	906	1,143	4,803
	31%	26%	19%	24%	

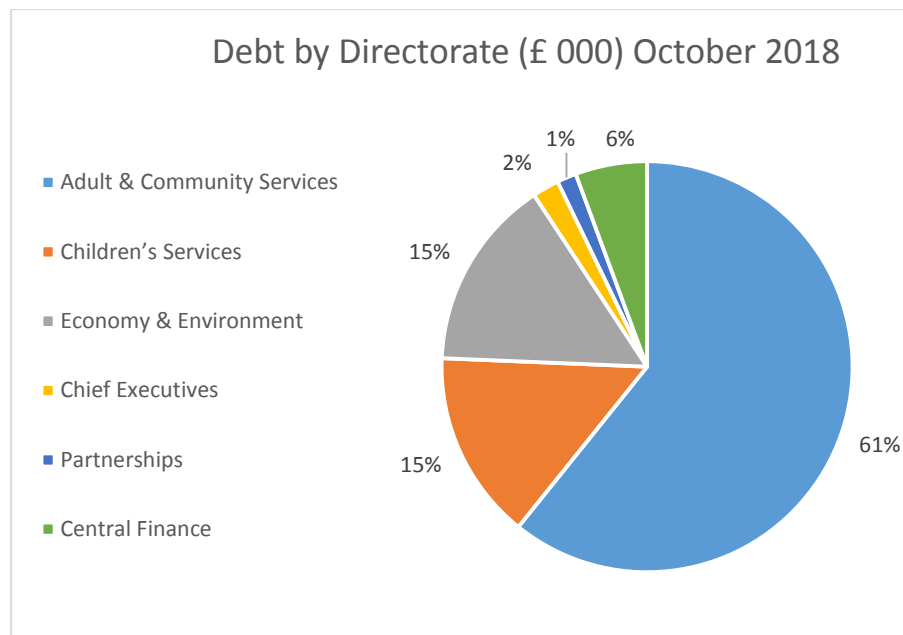
- 5.3 The County Council continues to implement debt policy and procedures consistently, fairly and firmly and we are continuously improving our processes to speed debt recovery, adopt electronic invoicing and encourage customers to pay via direct debit, saving the authority time and money.



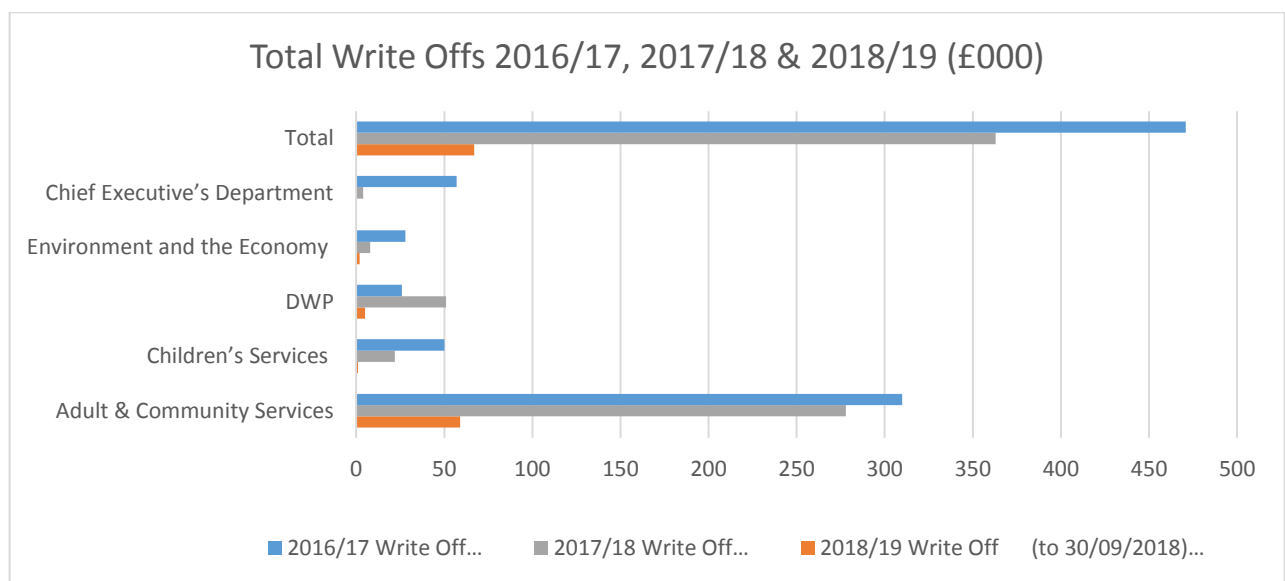
5.4 The table below shows the debt position by directorate. Adult and Community Services debt has decreased by over £1.7m as some of the older debt has been cleared. Environment and Economy debt is down by £200k with most of the debt now being less than 6 months old. Central Finance debt is impacted by an outstanding invoice for £253k from WDDC for Dorchester Sports Centre which was cleared on the 4/10/18.

Total Debt by Directorate 30/09/18 (£ 000)							
Directorate	< 30 Days	30 – 180 Days	181 – 365 Days	> 1 Year	Total (30/09/18)	Previous Total £ (31/03/17)	Variance (-ve is adverse)
Adult & Community Services	434	636	807	1,042	2,919	4,673	1,754
Children's Services	258	382	51	24	715	540	-175
Economy & Environment	406	202	46	70	724	975	251
Chief Executives	88	6	0	7	101	174	73
Partnerships	61	10	2	0	73	70	-3
Central Finance	255	16	0	0	271	95	-176
Total	1,502	1,252	906	1,143	4,803	6,529	1,726

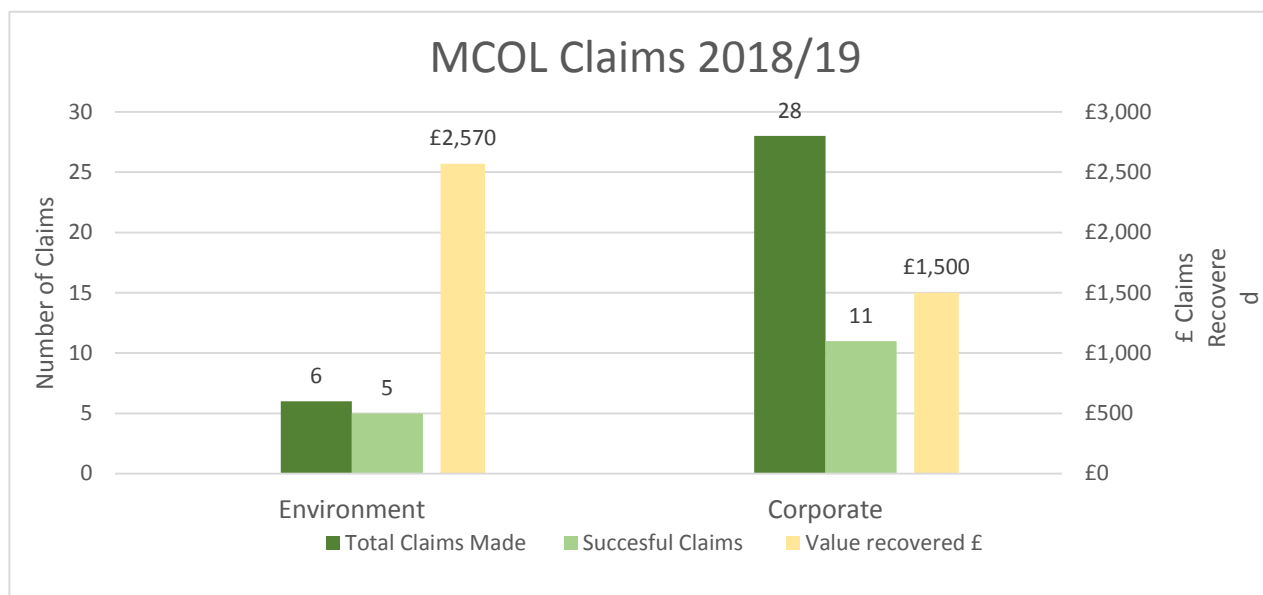
5.5 The chart below shows that nearly two thirds of 'trade' debt relates to Adult and Community Services raised for individuals accessing social care. Environment and Economy and Children's Services account for the majority of the remaining debt, the majority of which is less than 6 months old and is being actively pursued.



- 5.6 A detailed debt report is generated each month and published on SharePoint for inclusion in the CPPI report. Group Finance Managers and their teams are routinely supporting Budget Holders to manage debt and to encourage and support pre-payment whenever possible.
- 5.7 The bad debt provision at the end of September was £2m. 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 The total debt written-off in the first 6 months of 2018-19 was £67k, the majority which (£57k) is accounted for by Adult and Community Services. Work is ongoing to clear out historic debts and 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 in the rest of this year.



- 5.9 MCOL - Since April 2018, 32 debtors have been pursued through money claims online (MCOL) with debts of £11k, 16 of these debts have now been recovered worth £4k. Two of these debts have been passed to Legal Services to pursue and a further two have been written off. 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 cases are being pursued.



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 has recently been carried out with the aim of harmonising vendors to the council's 30-day payment terms. This has been largely successful, meaning process savings in terms of vendor management.
- 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, virtually all vendors are now paid via BACS, generating savings on processing and mailing cheques. The vast majority of our remittance advices are also sent via email.

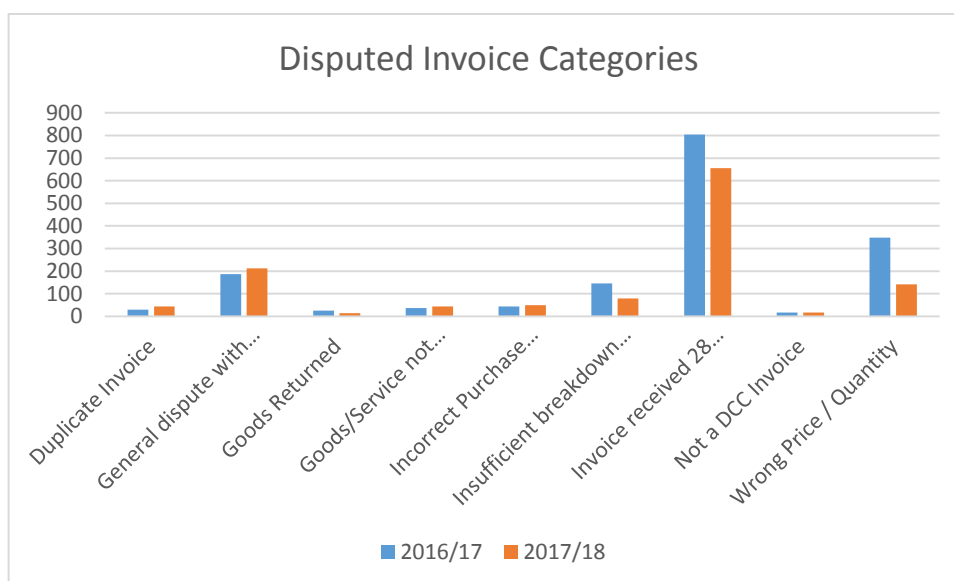
Cheque Payments Sept 2018	Count	£
Cheque payments this month	6	5,514
Last month	6	2,783
March 2017	10	£664

- 6.4 The latest payment performance figures show an annual improvement over the preceding year. The AP Team works to a target of 85% within 30 days. The drop in payment performance over the summer months is due to school summer holidays, meaning payment requests reached the AP Team out of time.

2018-2019		
Month	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	93	17800
May	90	16932
June	90	15021
July	89	18870
August	88	17050
September	87	18536

6.5 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 continues to review supplier relationships in an effort to avoid paper/posted invoices.

6.6 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.



6.7 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 table below shows the activity levels around the process and the hours and money saved from the AGR process up to and inclusive of September 2018.

Auto Goods Receipting	Vendors	Transactions	Orders	Hours	Cost
<£100	8	3208	1,596	58	£663
£101 to £1,000	37	4125	2,235	138	£1567
>£1,000	15	21505	7,664	433	£4933
Total	60	28838	11495	629	£7163

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- 6.8 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, mid-point of the year, it is important for Directors to highlight concerns where there are continuing 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 and to ensure solid foundations are being established for Dorset Council.
- 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. However, this paper also sets out other risks and mitigations currently in place.

Richard Bates
Chief Financial Officer
October 2018