

Audit & Governance Committee

Dorset County Council



Date of Meeting	21 January 2019
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 Working 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; (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 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 Directors have confirmed the latest forecast of outturn (AP8, November) as set out in the table, below. A verbal update on the December forecast will be provided at the meeting.

Directorate	Net Budget	Forecast Outturn	Forecast (Overspend)/ Underspend	Of which	
				Forward Together	Base budget
				£k	£k
Adult & Community Services	135,086	136,682	(1,595)	(803)	(792)
Children's Services	66,121	71,313	(5,191)	(4,222)	(969)
Environment & Economy	37,254	36,519	735	(90)	825
Partnerships	19,800	19,553	247	0	247
Chief Executive's Dept	11,886	12,005	(119)	(210)	91
Total Service Budgets	270,148	276,071	(5,923)	(5,325)	(599)
Central/Corporate Budgets	(261,607)	(263,880)	2,274	0	2,274
Whole Authority	8,541	12,190	(3,649)	(5,325)	1,675

There is a further overspend on the High Needs Block of the Dedicated Schools Grant of £3.6m.

- 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 November, the Children's Services Directorate budget is forecast to overspend by £5.2m. The main pressures are within the Care & Protection area. The number of children coming into care has stabilised, but it has not been possible to drive the cost pressures down. The biggest risk area is high cost residential placements (starting at £4k per week) for highly vulnerable/dangerous adolescents. Alternative placement options for this group of children are limited. The priority continues to be the reduction in the number of children in high cost residential and IFA placements. Recruitment and training of our own in-house foster carers is continuing.

- 2.4 Dedicated Schools Grant (DSG)

In addition to the overspends set out in the table above, the DSG is forecast to overspend by £3.6m. The main pressure centre around the High Needs Block (HNB), despite additional HNB funding of £0.825m announced in December 2018. The HNB predominantly funds Education Health & Care (EHCPs). Mirrored nationally, there has been significant growth in the number of children and young people (CYP) with an EHCP. As at the end of December 2018 the number of Dorset

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funded EHCPs was 2,465 which already exceeds the number expected at the end 2023 and is a rise of over 50% since April 2016 when the total was 1,594. Funding has not matched growth, thereby producing the overspend. Over £2m of the overspend is predicted to be in the Independent Schools budget where it is looking unlikely any savings will be achieved in this financial year from the project to review placements and bring children into county provision. 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 Directorate budget totals £135.1m for 2018-19 and is currently forecast to be overspent by £1.6m (1.2%). Built into the budget is a savings plan totalling £9.382m. High-risk areas within the plan include £4m savings from Adult Care Operations, an additional £1.3m income generation, £1.5m from the LATC contract and £900k from Early Help and Communities. The forecast overspend reflects shortfalls in savings plans for Adult Social Care of £700k and in Community Services of £103k (although these have now been covered through savings elsewhere) alongside pressures due to increased demand. Work is continuing to deliver savings.

Environment & Economy

- 2.6 The Environment and Economy Directorate is forecasting a £735k underspend. This is an improvement since the previous forecast and is due to an increase in income in the Highways Traffic Team and a saving in staff costs in Corporate Development, despite a reduction in capital recovery from IT Services. The main risk to the Directorate is in the Building & Construction Service where there is reliance on fee-earning income, mostly from the Council's capital programme.

Partnerships

- 2.7 The Dorset Waste Partnership is forecasting an overspend of £74k of which the Dorset County Council share is £48k. 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, although this looks increasingly unlikely for this year.
- 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 £119k, of which £169k 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.

Central/Corporate budgets

- 2.10 A £2.274m favourable performance is being forecast at this stage with a slightly higher underspend being predicted against the contingency budget and lower interest payments on borrowing.

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.
- 3.2 Children's Services budgets continue to be under pressure at a national level, not just locally. 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. 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 £74k. 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 Officers continue the drive for efficiency and savings. A vacancy management protocol is in force and 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 delivered 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.

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.
- 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

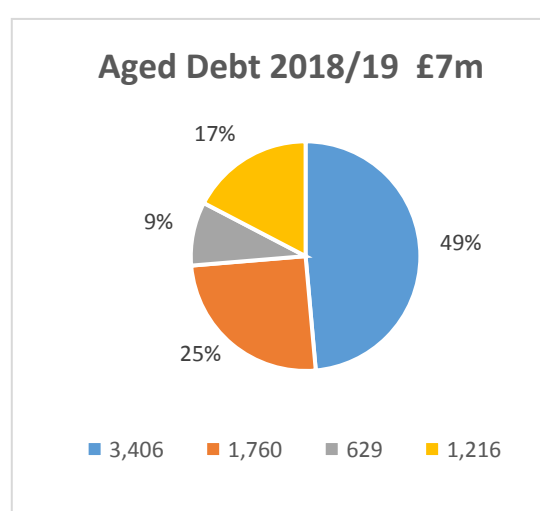
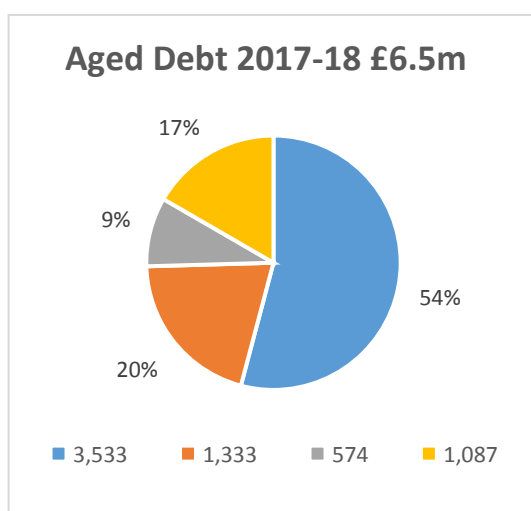
Savings measure	Assessment of Savings achievement				
	2018/19	Achieved	On course	More Work Needed	Not achievable
	£000's	£000's	£000's	£000's	£000's
Adults	9,382	6,806	1,773	803	-
Childrens	6,383	1,058	1,103	3,980	242
Env & Economy	1,749	1,399	260	-	90
Chief Exec's	854	440	204	210	-
Public Health	-	-	-	-	-
Dorset Waste Partnership	455	-	455	-	-
Summary - All Savings 2018/19	18,823	9,703	3,795	4,993	332

5 Debt information

5.1 As at 31st December, the County Council's "trade" debt was £7m; this is an increase of around £0.5m since March 2018. The increase in debt is due, in part, to the timing of the report with the overall figure being inflated by 5 invoices totalling £2.2m that have been raised within the past 30 days. The amount of debt over 6 months (180 days) has increased by £180k since March 2018 to £1.8m, most of this debt arises from the Adults and Community Services Directorate.

5.2 The table, below, shows the age profile of the debt, with comparator figures.

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%	
31 st December 2018	3,406	1,760	629	1,216	7,011
	49%	25%	9%	17%	

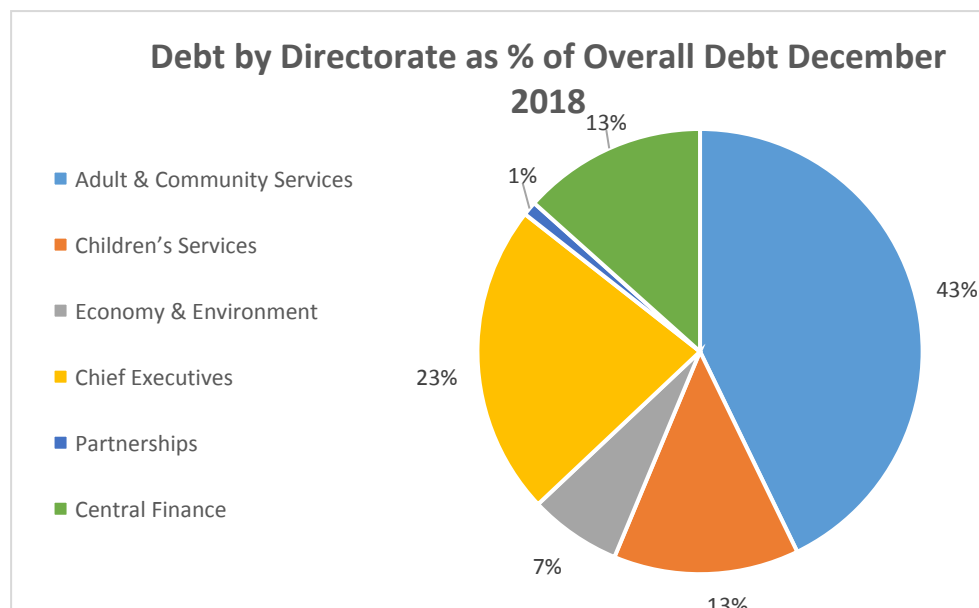


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- 5.3 The table below shows the debt position by directorate. Adult and Community Services debt is over £1.5m lower than as of the end of last financial year. Around £1.4m is less than 6 months old, the remaining £1.6m is older. This debt is made up from monies owed by around 190 individual Service Users who have been invoiced for their contribution for their social care provision or transport to day-care facilities but have not paid despite several requests for payment. These debts are actively pursued either by our credit control team or by legal Services. If the monies cannot be recovered, then the debt will be written off in agreement with the A&C directorate.
- 5.4 The Environment and Economy debt is down by £500k. Almost all the debt now being less than 6 months old. The £80k debt over 1 year relates to several outstanding insurance claim settlements for damage caused to the highway network by individual drivers.

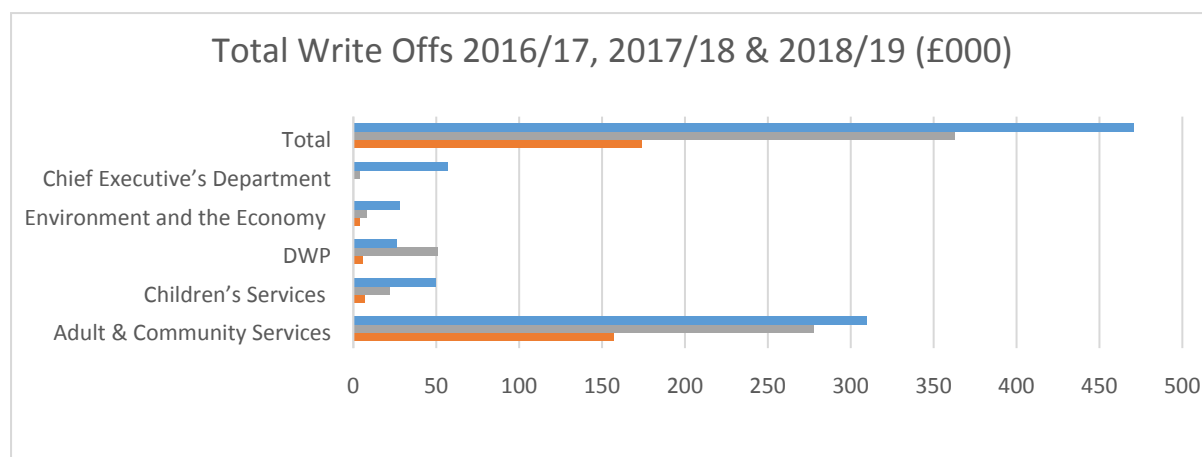
Total Debt by Directorate 31/12/18 (£ 000)							
Directorate	< 30 Days	30 – 180 Days	181 – 365 Days	> 1 Year	Total (31/12/18)	Previous Total £ (31/03/17)	Variance (-ve is adverse)
Adult & Community Services	374	977	523	1,127	3,001	4,673	1,672
Children's Services	309	586	42	8	945	540	-405
Economy & Environment	198	145	46	80	469	975	506
Chief Executives	1,553	31	1	1	1,586	174	-1,412
Partnerships	62	8	2	0	72	70	-2
Central Finance	910	13	15	0	938	95	-843
Total	3,406	1,760	629	1,216	7,011	6,529	-482

- 5.5 Central Finance debt is impacted by an outstanding invoice for £880k to Bloor Homes for S106 monies owed which was only raised in mid-December. Chief Executives debt shows a £1.4m increase but this again is a result of the timing of the report. An £840k invoice was raised to Tricuro for annual support costs in mid-December and three invoices totalling £460k were raised to North Dorset, West Dorset and Christchurch and East District Councils for Shaping Dorset Council programme costs again still outstanding but less than 30 days old.
- 5.6 The chart below shows that around 45% of 'trade' debt relates to Adult and Community Services raised for individuals accessing social care. Once the £2.2m for recently raised invoices in Chief Exec's and Central Finance is removed, it rises to around 65% of all debt. Environment and Economy and Children's Services account for almost all the remaining debt.

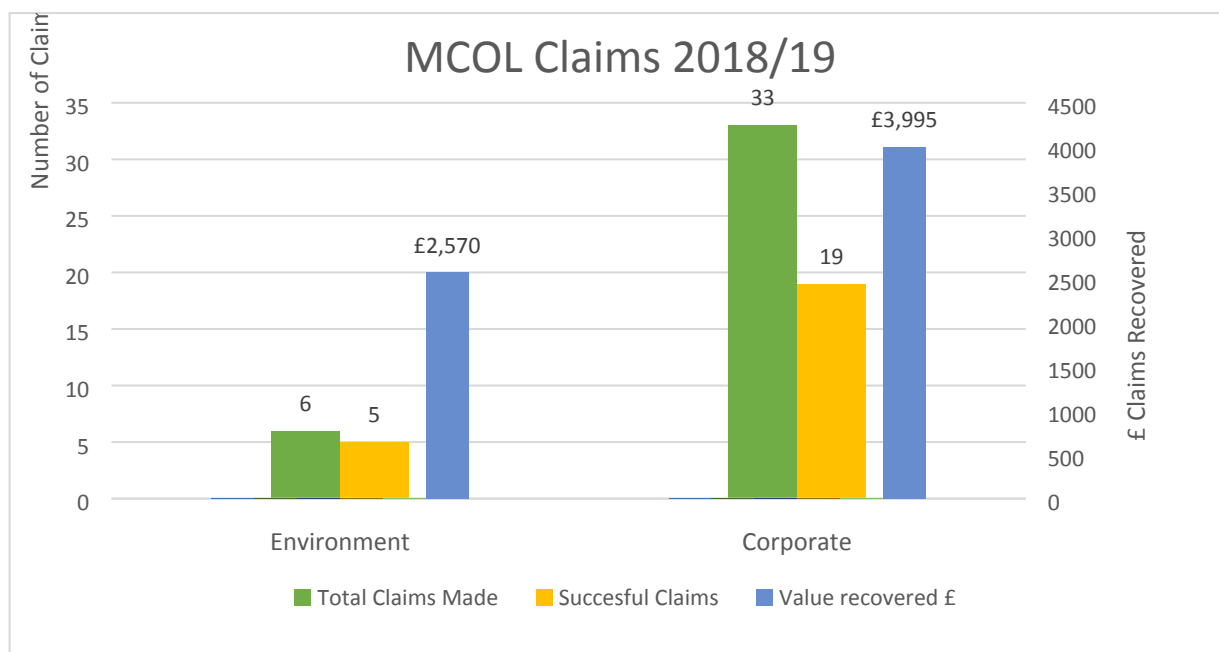


5.7 A detailed debt report is generated each month and published on SharePoint for inclusion in the CPMI report. Group Finance Managers and their teams are routinely supporting Budget Holders to manage debt and to encourage and support pre-payment whenever possible.

5.8 The total debt written-off in the 9 months to Dec 2018 was £174k, almost all of which (£157k) is accounted for by Adult and Community Services. Work is ongoing to clear out the most historic debts and to improve the process and the speed at which all debts are recovered, however debts are accruing almost as fast as they can be cleared and so the overall level of debt for this service area is stabilising.



5.9 MCOL - Since April 2018, 39 debtors have been pursued through money claims online (MCOL) owing debts of £11k. 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 and outstanding training fees. 24 of these debts have now been recovered which is worth over £6.5k. Three of these debts have now been referred to Legal Services to pursue. A further 10, worth just over £4k have been written off as it will not be economical to pursue further. These companies or individuals have been blocked on our financial system and therefore will not be able to access any other services in future unless these debts are paid.



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 remittance advices are also sent via email.

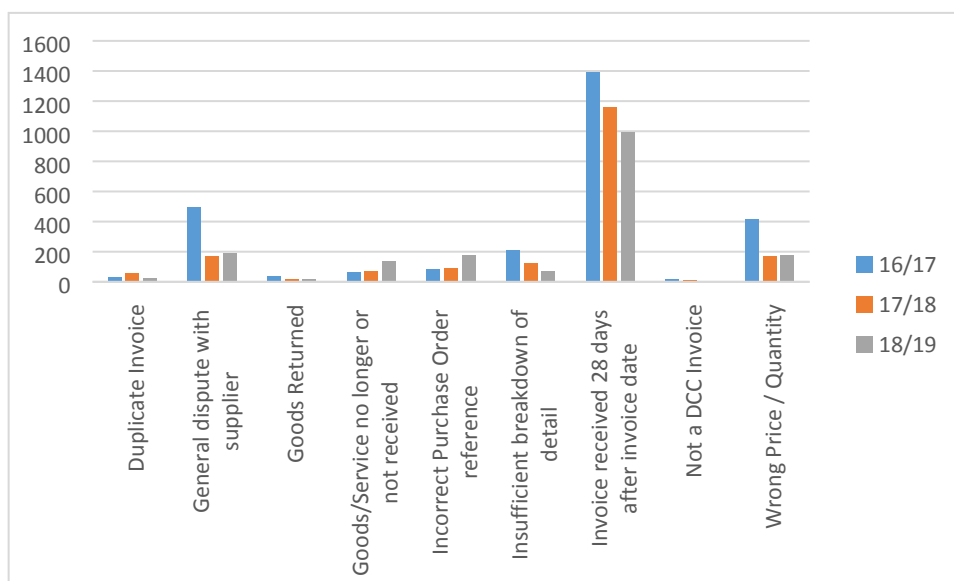
Cheque Payments Nov 2018	Count	£
Cheque payments this month	5	£621
Last month	9	£10,463
Nov 2017	16	£3,142

- 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 decrease in payment performance over the summer months is due to school summer holidays, meaning payment requests reached the AP Team out of time.

Month	2018-2019	
	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%	17,800
May	90%	16,932
June	90%	15,021
July	89%	18,870
August	88%	17,050
September	87%	18,536
October	89%	20,721
November	88%	16,165

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 Overall the number of disputed invoices has decreased however there are a few areas that have seen an increase from last year. These bear further investigation, the S2P hub have taken on more orders and this has led to increased consideration and categorisation of disputed invoices. Invoices that were previously not being marked as disputed due to lack of understanding out in the business are now being treated correctly.



6.7 The AP Team plans to improve these figures further still, by expanding the scope of auto-goods-receiving 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.

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Auto Goods Receipting	Vendors	Transactions	Orders	Hours	Cost
<£100	8	3,447	1,727	65	£712
£101 to £1,000	37	4,666	2,494	156	£1772
>£1,000	15	22,772	8,142	458	£5215
Total	60	30,885	12,363	679	£7,699

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 As we enter the last quarter of the year, it is important for Directors to highlight concerns where there are continuing areas of variance from budget so that the organisation can understand the risks in the remainder of the year and take remedial action where possible. It is vital that any ongoing issues are highlighted to the Interim S151 Officer for consideration as part of the budget-setting exercise for the new Dorset Council. 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.

7.3 A verbal update will also be given, at the Committee regarding the December forecast position.

Richard Bates
Chief Financial Officer
January 2019