

Audit & Governance Committee

Dorset County Council



Date of Meeting	11 March 2019
Officer	Jim McManus – Acting Chief Finance 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: MEDIUM</p> <p>Residual Risk MEDIUM</p> <hr/> <p>Outcomes: The County Council's budget enables the delivery of all four corporate outcomes: safe, healthy, independent and prosperous.</p> <hr/> <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>
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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 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 (AP10, January) as set out in the table, below. A verbal update on the February forecast will be provided at the meeting.

Directorate	Net Budget	Forecast Outturn	Forecast (Overspend)/ Underspend	Of which	
				Forward Together	Base budget
	£k	£k	£k	£k	£k
Adult & Community Services	135,179	135,839	(660)	(1,147)	487
Children's Services	67,912	74,423	(6,511)	(4,222)	(2,289)
Environment & Economy	37,729	36,874	854	(90)	944
Partnerships	19,408	19,079	329	0	329
Chief Executive's Dept	12,563	12,512	51	(209)	260
Total Service Budgets	272,790	278,726	(5,936)	(5,668)	(268)
Central/Corporate Budgets	(264,485)	(267,077)	2,592	0	2,592
Whole Authority	8,305	11,649	(3,344)	(5,668)	2,325

There is a further, in-year overspend on the High Needs Block of the Dedicated Schools Grant of £3.9m with an expectation that this may move still higher.

- 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 January, the Children's Services Directorate budget is forecast to overspend by £6.5m. 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 adolescents. Alternative placement options for this group of children are limited.
- 2.4 The priority continues to be the reduction in the number of children in high-cost residential and Independent Fostering Agency placements. Recruitment and training of our own in-house foster carers is continuing as reported by the Director at the last meeting of this Committee.
- 2.5 The SEN Transport area is forecast to overspend by £0.72m. This area is affected by the rise in the number of children and young people with an Education, Health and Care Plan (EHCP), see paragraph 2.6. Approximately 50% of children and young people with an EHCP receive transport funded from the SEN Transport budget.

Dedicated Schools Grant (DSG)

- 2.6 In addition to the overspends set out in the table above, the DSG is forecast to overspend by £3.9m, but likely to higher. The main pressures 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 Plans (EHCPs). Nationally, there has been significant growth in the number of children and young people (CYP) with an EHCP, causing a pressure on many upper tier authorities' budgets. As at the end of December 2018 the number of Dorset funded EHCPs already exceeded the number expected at the end 2023 and is a rise of over 50% from April 2016's total of 1,594.
- 2.7 Funding has not matched growth, thereby producing the overspend. Over £2m of the overspend is predicted to be in the independent sector placements 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 mainstream bases have already been filled by new demand.
- 2.8 One important point to note is that the disapplication request that was submitted to the Secretary of State was subsequently approved. Whilst this eases pressures on the High Needs Block for 2019-20, it does not solve the longer-term disparity of volume growth versus funding and we await the opportunity to feed further into the funding debate and CSR 2019.

Adult & Community Services

- 2.9 The Adult & Community Services Directorate budget totals £135.2m for 2018-19 and is currently forecast to be overspent by £660k (0.5%). The underlying pressure in the Adult Social Care base budget continues to increase. However, the final outturn position has been eased in recent months by the re-purposing of £1.1m (improved Better Care Fund (iBCF) monies originally intended for investment in assistive technologies).
- 2.10 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 local authority trading company (LATC) contract and £900k from Early Help and Communities. The forecast overspend reflects shortfalls in savings plans for Adult Social Care of £1.0m and in Community Services of £104k (although these have now been covered through savings elsewhere) alongside pressures due to increased demand. Work is continuing to deliver savings.

Environment & Economy

- 2.11 The Environment and Economy Directorate is forecasting a £854k underspend. This is an improvement since the previous forecast and is due to an increase in income in the Dorset Travel Team and an increase in project delivery and capital recovery income for the Building & Construction Service. The forecast also includes estimated expenditure of £200k for the January 2019 snow event. The main risks to the Directorate are still in the Building & Construction Service where there is reliance on fee-earning income, mostly from the Council's capital programme and a further cold weather event during March.

Partnerships

- 2.12 The Dorset Waste Partnership is forecasting an underspend of £127k of which the Dorset County Council share is £82k. The main reasons for the underspend are due to positive variances in waste volumes (£590k) and associated haulage costs (£374k). These are off-set by several overspends due to the unfavourable recycle prices (£643k), fuel costs (£166k), other transport/fleet related budget pressures

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(£235k) and funding of capital repayments (£113k). Any underspend (or overspend) at year-end will be taken to the Budget Equalisation reserve.

- 2.13 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

- 2.14 The Chief Executive's Dept is forecasting an underspend of £51k. There is significant underspend in HR (£189k), Legal Services (£34k) and the Chief Executive's Office budget (£22k). These have been partially offset by a overspend of £171k in the WWW Property Savings Budget. There is slippage in the savings programme which will mean some savings will be achieved in 2019/20 rather than 2018/19.

Central/Corporate budgets

- 2.15 A £2.592m favourable performance is being forecast at this stage with an underspend being predicted against the revenue contribution to capital expenditure, and higher interest receivable.

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. The anticipation that nearly £5.7m of these savings will not be delivered is evidence of how difficult savings have proved after removing over £125m from the revenue budget in recent years.

SAVINGS SUMMARY	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
- Adult and Community Services	8,104.0	5,179.8	8,628.0	3,900.0	9,050.0	1,602.0	7,110.0	9,382.0
- Children's Services	4,020.9	2,089.1	2,063.2	1,344.0	900.0	3,865.0	4,178.6	6,433.0
- Environment & Economy	6,029.8	2,778.5	2,110.2	722.0	1,664.0	2,346.0	4,473.0	1,639.0
- Chief Executive	2,264.8	971.8	1,498.7	896.0	930.0	1,214.0	1,132.0	964.0
- Public Health (DCC savings only)				500.0	275.0	1,375.0	700.0	
- Dorset Waste Partnership							700.0	455.0
- Overarching	5,169.5	2,125.8	2,231.6	1,050.0	2,450.0	576.0		
Total	25,589.0	13,145.0	16,531.7	8,412.0	15,269.0	10,978.0	18,293.6	18,873.0

Cumulative total 25,589.0 38,734.0 55,265.7 63,677.7 78,946.7 89,924.7 108,218.3 127,091.3

- 3.2 Children's Services budgets continue to be under pressure at a national level, not just locally. The Secretary of State for Education recently announced additional funding to support the budget but £100m of capital and £250m revenue over the two years to 2019/20 is simply inadequate given the pressure in the system.
- 3.3 The costs of looking after children in care are a key determinant of financial performance. Not only the absolute numbers of looked-after-children, but also, critically the mix of packages of care and the costs associated with them. Numbers of looked-after children have reduced steadily and remain around the 440 level but despite ambitious plans to reduce this number further, it has not proved possible to do so. The 'mix' has shifted towards more higher cost placements.
- 3.4 The budget for 2019/20 for the new Dorset Council has clearly recognised pressures on Children's Services and additional funding has been made available. The Interim S151 Officer has also made it clear, in his budget paper to the Council, that a full, base budget review will be necessary in order to confirm resource allocation across

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the new Council is appropriate and in line with the vision to be set out by new Members following the elections in May 2019.

- 3.5 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. Again, these risks do not diminish into 19/20. There is some additional IBCF money (£607k) in 19/20 plus significant on-going work to mitigate these risks as much as 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 The 2018/19 programme included £18.8m of savings which were required to balance the budget. However, as noted elsewhere, £5.7m of these savings are unlikely to be delivered in 19/20.

Summary - All FT Savings and 2018/19

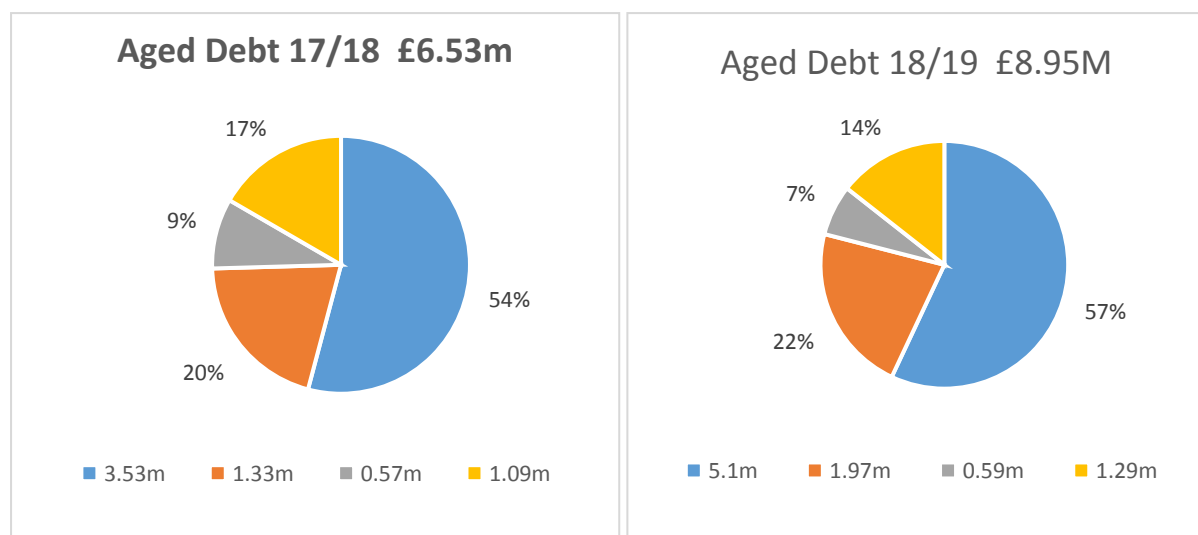
Savings measure	2018/19 £000's	Assessment of Savings achievement			
		Achieved £000's	On course £000's	More Work Needed £000's	Not achievable £000's
Adults	9,382	7,335	900	1,147	-
Childrens	6,433	1,058	1,153	3,980	242
Env & Economy	1,749	1,399	260	-	90
Chief Exec's	854	440	205	209	-
Public Health	-	-	-	-	-
Dorset Waste Partnership	455	-	455	-	-
Summary - All Savings 2018/19	18,873	10,232	2,973	5,336	332

5 Debt information

- 5.1 As at 25th February, the County Council's trade debt was £8.9m; an increase of around £2.4m since March 2018. The increase in debt is due to a number of high value invoices to the CCG being raised in the past 2-3 weeks and around 2,500 A&C social care invoices being issued w/c 18th February. The amount of debt over 6 months (180 days) has increased by £218k compared to March 2018, again 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
2016-17	9,392	1,739	606	1,521	13,258
	71%	13%	5%	11%	
2017-18	3,534	1,333	575	1,087	6,529
	54%	20%	9%	17%	
2018-19 (as at 25/02/19)	5,108	1,973	591	1,289	8,961
	57%	22%	7%	14%	

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5.3 The table below shows the debt position by directorate. Adult and Community Services debt is currently £4.9m, over £1.8m higher than the previous report in December 2018. However, £2.35m is less than 30 days old. Around 2,500 invoices (£800k) were raised for social care in the past week along with £1.4m worth of invoices raised to the NHS CCG in the past 2 weeks. A further £864k is less than 6 months old. The remaining £1.6m is made up from monies owed by 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.

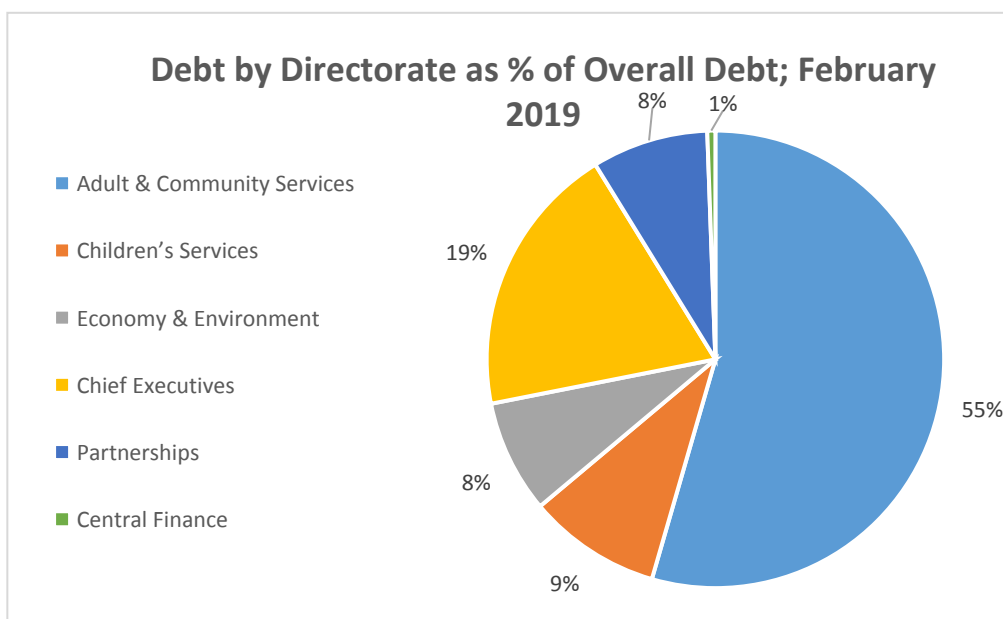
5.4 The Environment and Economy debt has increased due to a series of invoices being raised in the past few weeks but almost all the debt is less than 6 months old. The £70k debt over 1 year relates to several outstanding insurance claim settlements for damage caused to the highway network by individual drivers, this is down from the last report as over £10k has recently been recovered.

Total Debt by Directorate 25/02/19 (£ 000)							
Directorate	< 30 Days	30 –180 Days	181 – 365 Days	> 1 Year	Total (25/02/19)	Previous Total £k (31/12/18)	Variance (-ve is adverse)
Adult & Community Services	2,353	864	466	1,199	4,882	3,001	-1,881
Children's Services	388	375	63	18	844	945	101
Economy & Environment	400	202	44	70	716	469	-247
Chief Executives	1,244	485	1	1	1,731	1,586	-145
Partnerships	693	41	2	1	737	72	-665
Central Finance	30	6	15	0	51	938	887
Total	5,108	1,973	591	1,289	8,961	7,011	-1,950

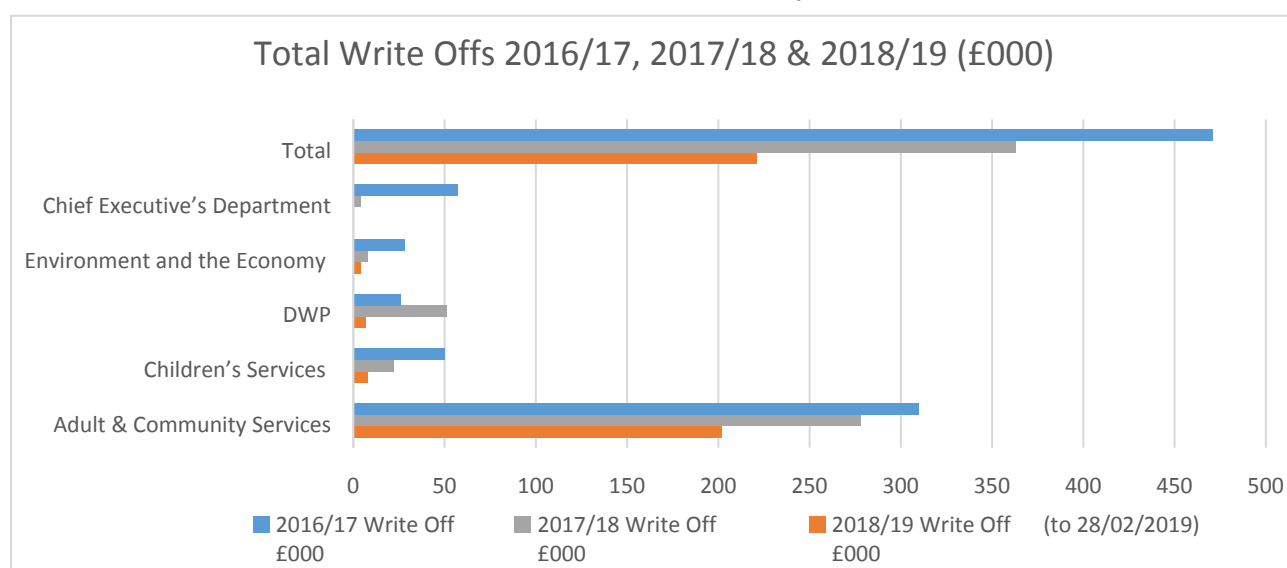
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5.5 Chief Executive's Dept debt shows a £145k increase. This again is a result of the timing of the report. A £1.2m invoice was raised to Tricuro for annual support costs in the past 30 days and three invoices, which were raised to North Dorset, West Dorset and Christchurch and East Dorset councils totalling £460k at the end of 2018 for Shaping Dorset Council programme costs.

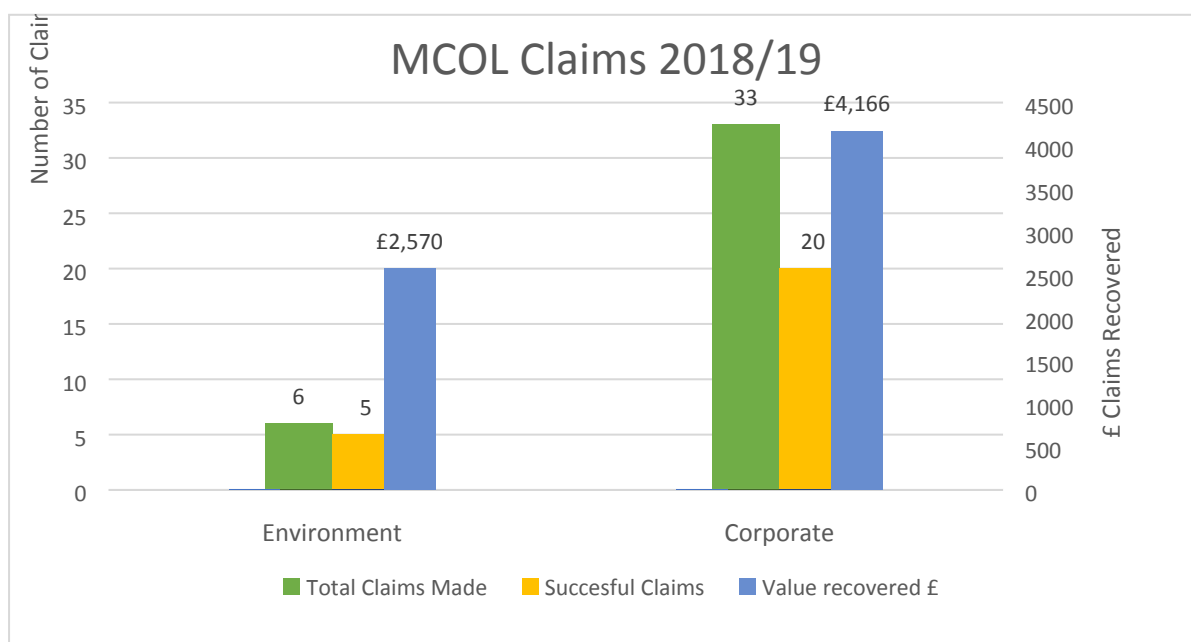
5.6 The chart below shows that around 55% of 'trade' debt relates to Adult and Community Services, an increase of 10% on the previous report. Environment and Economy, Children's Services and Partnerships account for almost all the remaining debt but almost all of their debt is less than 6 months old and is being actively pursued.



5.7 The total debt written-off in the 11 months to February 2019 was £221k, 91% of which (£202k), 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 fairly constant.



5.8 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. 25 of these debts have now been recovered which is worth over £6.6k. 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 or earlier where appropriate, 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.

**Increase in January 2019 due to Blue Badge Refunds*

Cheque Payments Jan 2019	Count	£
Cheque payments this month*	7	£5,150
Last month	3	£143
Jan 2018	3	£1,264

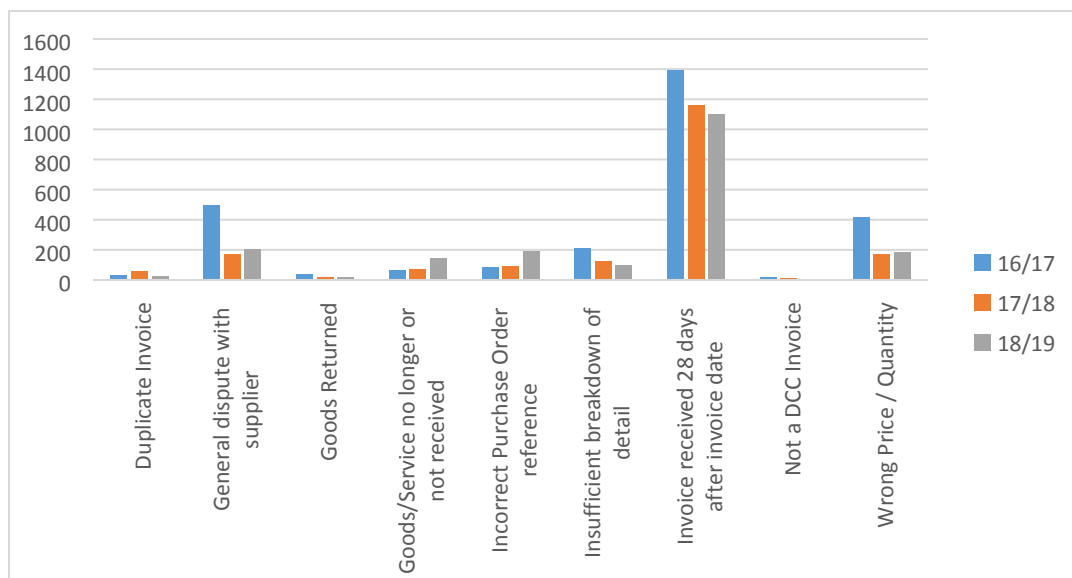
6.4 The latest payment performance figures show an annual improvement over the preceding year. The AP Team works to a target of 85% within 30 days. The decrease

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
December	89%	16,129
January	89%	15,764

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 outside of the S2P hub are now being treated correctly.



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 January 2019.

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Auto Goods Receipting	Vendors	Transactions	Orders	Hours	Cost
<£100	8	3,620	1,824	69	£750
£101 to £1,000	37	5,146	2,710	172	£1,954
>£1,000	15	23,762	8,444	476	£5247
Total	60	32,528	12,978	717	£7,951

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 we continue to highlight any ongoing concerns to the Interim S151 Officer. 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 February forecast position and work that is still in hand to reduce the overspend and minimise the impact on the general fund being carried into the new Dorset Council.

Jim McManus
Acting Chief Financial Officer
February 2019