

Audit & Governance Committee

16 November 2020

Dorset Council outturn and accounts 2019/20

Choose an item.

Portfolio Holder: Cllr G Suttle, Finance, Commercial & Capital Strategy

Local Councillor(s): Cllr

Executive Director: A Dunn, Executive Director, Corporate Development

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Report Status: Public

Recommendation:

It is recommended that the Committee:

1. notes the outturn position for Dorset Council for its first year of operation;
2. notes the impact this had on the Council's general fund and other reserves;
3. notes the Auditor's qualified opinion on arrangements for securing economy, efficiency and effectiveness in Children's Services and considers referring this to the People and Health Scrutiny Committee for possible inclusion in that Committee's work programme;
4. notes the content of the Auditor's ISA260 report (separate report);
5. approves and signs the audited financial statements for the period ending 31 March 2020.

Reason for Recommendation:

Under the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, the statement of accounts and annual governance statement (AGS) must be approved by the Council, or a committee to which the Council has delegated authority by 30 November.

It is also important for the Committee to understand any issues that need to continue to be monitored, challenged or scrutinised in future.

1. Executive Summary

The Regulations require the Council's Chief Finance Officer to certify that the financial statements represent a true and fair view of the position and performance, prior to being audited and available for public inspection. Upon completion of the audit, the Auditor is then required to report to those charged with governance (the ISA 260 report) with the findings and recommendations from their work). The accounts and AGS are required to be signed by the Committee and the Auditor by 30 November 2020.

A short presentation covering the outturn and accounts will also be delivered by officers at the committee meeting.

2. Financial Implications

All included within this report.

3. Climate implications

None.

4. Other Implications

None.

5. Risk Assessment

As the accounts are a historic document, there is no continuing risk. However, financial risk from the Council's continuing activities is reported separately to Cabinet at the end of each quarter and then reviewed by this Committee.

6. Equalities Impact Assessment

None.

7. Appendices

Statement of accounts, Dorset Council, year ended 31 March 2020

8. Background Papers

None.

9. Outturn vs budget (revenue)

9.1 The table below, shows the summary outturn for Dorset Council compared with its budget. The analysis shows that overall, service budgets were overspent by £20.462m, whilst there were underspends and offsetting savings in financing and central budgets of £15.473m, meaning an overall, net overspend of just under £5m.

9.2 The Council forecast an overspend throughout the year, so the outturn position was broadly as expected. When the budget was agreed by the Shadow Council in February 2019, a contingency sum was included in anticipation of potential cost pressures that could not be foreseen specifically at that time. The budget report also made reference to

collection fund surpluses, which whilst not specifically included in the budget, have proved helpful in supporting the in-year performance

Directorate	Net Budget	Forecast	Forecast (Overspend)/	
		Outturn	Underspend	
	£k	£k	£k	%
People - Adults	114,188	125,267	(11,080)	(9.70%)
People - Children's	65,025	73,757	(8,733)	(13.43%)
Place	58,726	60,054	(1,327)	(2.26%)
Corporate Development	35,200	34,737	462	1.31%
Legal & Democratic	8,830	8,615	215	2.44%
Public Health	818	818	0	0.00%
Total Service Budgets	282,787	303,248	(20,462)	(7.24%)
Central Finance	(358,177)	(373,651)	15,473	(4.32%)
Whole Authority	(75,390)	(70,403)	(4,988)	(6.62%)

- 9.3 The overspend was funded from the Council's general fund. Bringing together the predecessor councils created an initial general fund of £28.2m (before disaggregation of the County Council). However, the consolidation of predecessor councils' balance sheets also allowed other reserves to be reviewed because the risk profile of the new Council is different, and reserves could therefore be rationalised and repurposed. This enabled £5m from other earmarked reserves to be repurposed and made available to "top-up" the general fund.
- 9.4 2019/20 was the last financial year to be based on the four-year settlement set out in the Government's Spending Review 2015 (SR2015). Although it brought certainty for financial and operational planning purposes, SR2015 saw significant reductions in funding for councils. Although some of these were subsequently supported through transitional, one-off funding, and in spite of the improved one-year settlement given to local government for 2020/21, in the longer term, councils nationally need improved funding and longer-term certainty to manage service planning effectively.
- 9.5 More detail on the financial performance against budget is set out in the narrative statement to the accounts, and various notes and tables.
- 10. Outturn vs budget (capital)**
- 10.1 The capital budget was underspent by £30.2m; £46.4m of total expenditure, financed by £16.2m of grant. All of this slippage rolls forward into 2020/21 where it is being monitored through the Capital Strategy and Asset management Group (CSAM).
- 10.2 £18.6m of this spend was fully financed from the Council's own resources alongside around £5m to be partially funded. This helps to explain the improved performance against capital financing and treasury management budgets in 2020/21 set out in the quarter 2 report to Cabinet.

11. General fund and reserves

- 11.1 As mentioned elsewhere, the overspend in 2019/20 was financed from the general fund which was immediately topped-up from repurposed reserves that predecessor councils had earmarked for risks that are no longer appropriate to mitigate. The general fund is therefore maintained at £28.2m.
- 11.2 This repurposing, especially of the funding that had previously been earmarked for potential support to the High Needs Block (HNB) of the Dedicated Schools Grant (DSG) has helped has allowed the Council to underpin the budget gap that has emerged during 2020/21.
- 11.3 Further work to rationalise reserves is in progress but the Council cannot be clear, yet about its future reserves strategy as we cannot be certain how much funding will be required to deal with the current year's projected overspend.

12. Balance sheet/statement of financial position

- 12.1 Establishing Dorset Council created an organisation with an asset base in excess of £1bn. This is the result of bringing together five predecessor, district councils and the part of Dorset County Council that was disaggregated to Dorset Council. The disaggregation exercise that was carried out meant that not only did budgets transfer to BCP Council, but a proportion of the balance sheet transferred, too.
- 12.2 As this is Dorset Council's first year of business, a previous year balance sheet is not available. However, accounting convention in such circumstances is to show opening and closing balance sheets for the year so the movement in the first year can be identified.
- 12.3 The Council's total assets reduced slightly during the year. An analysis of the movements is set out in note 23.
- 12.4 Net current assets reduced from £62m to £5m. There were notable movements in debtors and payments in advance (+£78m) and creditors and receipts in advance (-£89.9m) which mostly relate to changes in how the Council has accounted for the collection funds, with the effect of those changes largely offsetting each other. There was also a decrease in temporary investments (£52.2m) being a reduction in all short-term investments except UBS Global Asset Management (+£5.3m) and CCLA Diversified Income Fund (+£7m) which have both increased.
- 12.5 Despite a significant pension liability, the Council had a net asset position at the end of the year and believes it is right to continue to prepare the accounts on a going concern basis. The closing balance on the general fund, as noted earlier, was £28.2m and note 52 sets out an analysis of the closing balances on the Council's earmarked reserves.

13. Cash flow, treasury management, investments and borrowing

- 13.1 Liquidity was maintained at adequate levels during the year with no concerns over the ability to pay creditors and make other payments as they fell due.
- 13.2 There was a net increase in cash and cash equivalents during the course of the year, to £31.5m. This was the result of net cash inflow from operating activities (£10.6m), net cash outflow from investing activities (£29.1m) and net cash increases from movement in short-term borrowing and lending of £35m.
- 13.3 At 31 March 2020 the Council's capital financing requirement was £319.8m as set out in note 28. Note 40 shows that total external borrowing was £217.2m. The gap between the capital financing requirement and external borrowing is effectively the use of the Council's own cash balances (sometimes referred to as internal borrowing). The Council's weighted average cost of borrowing is 3.62%.

14. Impact of COVID-19

- 14.1 The COVID-19 pandemic is having an unprecedented impact on Dorset Council's income and expenditure levels and has created a huge degree of financial uncertainty. However, the timing of the pandemic and its impact on the Council was limited in 2019/20 with only a small amount of cost being incurred in that year, all of which was funded by general grant from Government.
- 14.1 The Committee is reviewing the quarter 2 Cabinet financial management report as part of this agenda and a significant amount of information is included in that report dealing with the impact on 2020/21 and the medium-term financial plan (MTFP).

15. Summary and conclusions

- 15.1 Bringing six councils together into a single, new, unitary authority was a hugely ambitious piece of work given the unprecedented, short timescale. Despite an overspend during the year, the delivery of more than £10m of savings from the reorganisation means this was clearly the right thing to do for the tax payer and to ensure that the Council continues to focus on putting money into services for residents and communities.
- 15.2 However, challenges presented by Dorset's geography and demographics remain. COVID-19 is also likely to have a long and sustained impact on the Council's finances and at the time of writing we are unclear about the levels of funding we will receive from Government in the future.
- 15.3 There is therefore still significant risk on the horizon and we continue to develop and implement plans to transform services to deliver better outcomes at lower cost. The Council is reducing the 2020/21 overspend and is also closing the budget gap for 2021/22 and beyond through a combination of tactical and transformational changes. We will continue to meet our financial challenges head-on and do the very best for our residents.

Aidan Dunn

Executive Director, Corporate Development

Footnote:

Issues relating to financial, legal, environmental, economic and equalities implications have been considered and any information relevant to the decision is included within the report.