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Agenda

Dorset County Council

Meeting:	Audit and Governance Committee
Time:	10.00 am
Date:	20 September 2016
Venue:	Committee Room 2, County Hall, Colliton Park, Dorchester, Dorset, DT1 1XJ

Trevor Jones (Chairman)	Kate Wheller (Vice-Chairman)	Pauline Batstone
Andrew Cattaway	Hilary Cox	Lesley Dedman
David Harris	Peter Richardson	Matt Hall
Peter Wharf		

Notes:

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- **Public Participation**

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  Public Speaking

  Members of the public can ask questions and make statements at the meeting. The closing date for us to receive questions is 10.00am on 15 September 2016, and statements by midday the day before the meeting.

Debbie Ward
Chief Executive

Contact: Denise Hunt, Senior Democratic Services Officer
County Hall, Dorchester, DT1 1XJ
01305 224878 - d.hunt@dorsetcc.gov.uk

Date of Publication:
Monday, 12 September 2016

1. **Apologies for Absence**

To receive any apologies for absence.

2. **Code of Conduct**

Councillors are required to comply with the requirements of the Localism Act 2011 regarding disclosable pecuniary interests.

- Check if there is an item of business on this agenda in which the member or other relevant person has a disclosable pecuniary interest.
- Check that the interest has been notified to the Monitoring Officer (in writing) and entered in the Register (if not this must be done on the form available from the clerk within 28 days).
- Disclose the interest at the meeting (in accordance with the County Council's Code of Conduct) and in the absence of a dispensation to speak and/or vote, withdraw from any consideration of the item.

The Register of Interests is available on Dorsetforyou.com and the list of disclosable pecuniary interests is set out on the reverse of the form.

To confirm the minutes of the meeting held on 8 June 2016 (attached).

To consider a report outlining Cabinet decisions arising from recommendations of the Audit and Governance Committee or any outstanding actions identified at the last meeting.

5. **Public Participation**

(a) Public Speaking

(b) Petitions

To consider a report by the Chief Financial Officer (attached).

To consider a report by KPMG, the Council's External Auditor (attached).

To consider a report by the Chief Executive (attached).

To consider a report by the South West Audit Partnership (attached).

To consider a report by the Chief Financial Officer (attached).

To consider a report by the Chief Financial Officer (attached).

17. **Questions from County Councillors**

To answer any questions received in writing by the Chief Executive by not later than 10.00am on 15 September 2016.

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Dorset County Council

Audit and Governance Committee

Minutes of the meeting held at County Hall, Colliton Park, Dorchester, Dorset, DT1 1XJ on Wednesday, 8 June 2016

Present:
Trevor Jones (Chairman)
Kate Wheller, Pauline Batstone, Lesley Dedman and Peter Richardson.

Other Members Attending as Observers:
Deborah Croney, Daryl Turner, David Walsh

Officers Attending: Jonathan Mair (Monitoring Officer), Mark Taylor (Group Manager - Governance and Assurance), Richard Bates (Chief Financial Officer), Denise Hunt (Senior Democratic Services Officer), Peter Moore (Head of Environment), Chris Scally (Project Manager, Corporate Development), Marc Eyre (Senior Assurance Manager (Governance, Risk and Special Projects)), Rupert Bamberger (Audit Manager (South West Audit Partnership)) and John Oldroyd (External Auditor).

(Notes: These minutes have been prepared by officers as a record of the meeting and of any decisions reached. They are to be considered and confirmed at the next meeting of the Committee to be held on **Tuesday, 20 September 2016**.)

Apologies for Absence

1 Apologies for Absence were received from Hilary Cox, Janet Dover, David Harris and Peter Wharf.

Code of Conduct

2 There were no declarations by members of any disclosable pecuniary interests under the Code of Conduct.

Terms of Reference

3 **Resolved**
That the Committee's terms of reference be noted.

Public Participation

4 Public Speaking
There were no public questions received at the meeting in accordance with Standing Order 21(1).

There were no public statements received at the meeting in accordance with Standing Order 21(2).

Petitions
There were no petitions received in accordance with the County Council's petition scheme at this meeting.

Annual Internal Audit Report 2015/16

5 The Committee considered a report by the South West Audit Partnership (SWAP) which summarised the work of the Internal Audit service for 2015/16. The Assistant Director (SWAP) introduced the report and provided a brief introduction of the role of SWAP which was set out in the Internal Audit Charter. He advised that the Council had been awarded a reasonable assurance in 2015/16 and that risks had generally been well managed with no areas of significant corporate concern.

One specific audit review had been commissioned to help assess the apportionment of the financial contributions and governance model for the Joint Archives Service. The outcomes of this review had reflected on concerns over the disproportionate governance model in place when compared to the activity involved. SWAP had also provided an objective basis for the funding settlement between the partner authorities of Dorset, Bournemouth and Poole over the next 2 years.

The Chairman then highlighted that previous SWAP audits had raised a number of issues with regard to the country parks service and that 22 recommendations had been raised leading to a partial assurance. The Head of Environment had therefore been asked to attend the meeting to provide information on the current status of audit recommendations.

The Head of Environment clarified that this latest review was not related to the procurement of a catering contract at Durlston Country Park that had been the subject of previous consideration a few years ago by the Audit and Scrutiny Committee. This particular audit review concerned the income management portfolio where a large number of relatively low level issues had been identified, primarily at Durlston Country Park. This had led to SWAP's assessment of a partial assurance opinion. He reported that a large number of the recommendations had been implemented, however, further work was required to assess recommendations that were in conflict with existing practices and whether these could be implemented on a practical level.

The Committee was informed that good progress had been made and that there was an ongoing dialogue with SWAP regarding the audit actions. Most of the required actions would be completed during the summer period and the longest timescale for an action was 31 March 2017 in relation to the Income Strategy.

It was confirmed that follow up audit work would be undertaken due to the partial assurance that had been given and an update provided in SWAP's next quarterly report to the Committee.

Resolved

1. That the Head of Internal Audit's overall positive assurance opinion on the Council's risk management, governance and internal control environment for 2015/16 be noted;
2. That the assurance opinion given in respect of the "review of the effectiveness of internal audit" as required by the Accounts and Audit Regulations 2015 be noted;
3. That the results of the follow up audit for country parks be included in the SWAP quarterly report to be considered by the Committee at its meeting on 20 September 2016.

Reasons for Decisions
To contribute to the Council's aim to 'provide innovative and value for money services' through;
The Head of Internal Audit's opinion on the Council's risk management, governance and internal control environment for 2015/16.
The Chief Financial Officer's opinion on the "review of the effectiveness of internal audit and system of internal control" for 2015/16.

Internal Audit Plan 2016/17

6 The Committee considered a report by the Assistant Director, SWAP which set out the Internal Audit Plan for 2016/17 and included the Internal Audit Charter setting out the relationship between the County Council and SWAP.

The Assistant Director highlighted elements of the plan, in particular the work in relation to outcomes arising from the Healthy Organisation review which sought to provide an assessment of the health of the organisation by reviewing certain themes including corporate governance and risk management. He also confirmed that the audit plan was flexible and that, if necessary, resources could be adjusted to cover audits not currently identified in the plan to address emerging issues.

Referring to the high risk reviews identified in the Plan in 2016/17, the Chairman stated that risks associated with the audit of the Joint Archives Service should be shared more widely with the aim of highlighting the governance and funding risks that remained many years after the inception of the Joint Archives Service. This would be particularly relevant given the future requirement for partnership working.

Resolved

1 That the Internal Audit Plan for 2016/17 and the Internal Audit Charter be noted;

2 That the outcomes of the audit of the Joint Archives Service be incorporated into the audit of governance / due diligence work of devolution bids, local government reorganisation and combined authority in 2016-17 and be also fed into the Healthy Organisation review.

Reason for Decisions

To enable an annual independent assurance opinion to be given on the Council's risk, governance and internal control environment

External Audit Plan 2015/16

7 The Committee considered a report by the Senior Manager, KPMG, which outlined the Financial Statement Audit and Value for Money Arrangements work. A significant audit risk had been identified relating to the valuation of property and other areas of audit focus concerned the preparation of group accounting in relation to the Local Authority Trading Company (LATC), Tricuro Support Ltd, which was also audited by KPMG.

KPMG had been contacted by a member of the public under the right of elector challenge and asked to investigate Section 38 agreements which had remained outstanding for more than a decade, primarily in relation to the Poundbury development. The elector challenge had not yet been formally accepted by KPMG.

The Vice-Chairman questioned whether the Committee should receive copies of Tricuro audit reports in order to provide independent assurance. The Chief Finance Officer advised that such reports would be considered by the Tricuro Management Board in the first instance, however, further assessment of how audit reports were fed back to the partner authorities could be explored at his monthly meetings with the Director of Tricuro. He reported that the Company had made a surplus during its first year of operation and had performed well from a financial perspective.

Members were further advised that the Executive Shareholder Group had a scrutiny role and that any proposal to expand scrutiny would be a joint arrangement in conjunction with the partner authorities.

The Chairman of the People and Communities Overview and Scrutiny Committee advised that this Committee would receive information from Tricuro and that two members of the Committee were in the process of investigating how to take this forward.

Noted

Draft Annual Governance Statement 2015/16

8 The Committee considered a report by the Chief Executive setting out the draft Annual Governance Statement for 2015/16 which was a statutory document that set out the key features of the governance framework in the Authority and a review of its effectiveness.

Members were informed that the Statement contained the actions that would be necessary to achieve full compliance with the Local Code of Corporate Governance Compliance Assessment 2015-16. It was suggested that the Committee may want to revisit the document later in the year to ensure compliance had been achieved.

RECOMMENDED
That Cabinet considers and comments on the draft Annual Governance Statement for 2015/16.

Reason for Recommendation
Approval and publication of an Annual Governance Statement by the County Council was a statutory requirement and provided evidence that the County Council maintained high standards of governance and addressed significant shortcomings and risks.

Bidding Procedure to Manage External Funding Activity

9 The Committee considered a report by the Policy and Performance Officer that included a revised corporate external funding bidding form. The former Audit and Scrutiny Committee had wished to ensure that the process was adhered to and that future bids supported the Council's priorities in the corporate plan, given the limited availability of resources in undertaking bidding activity.

The Policy and Performance Officer advised that most bidding activity was managed within the individual service Directorates and that bids of up to £500k were approved by Heads of Service, or a decision by Cabinet was required if the bid was above this amount or resulted in a change of policy. There were sometimes very short timescales for the submission of bids which posed a difficulty in strict adherence to the approval process. A light touch enforcement approach had therefore been taken, given that there was no central team in place to undertake this activity.

Members were informed of the difficulty in developing a strategy due to the variety of bids and considered that this would quickly become out of date and very resource intensive to produce. The policy had therefore been tightened in order to align bids to the corporate priorities. The whole process would be further assisted by the outcomes based accountability framework which included specific measures. It would also be important to put in place robust governance arrangements through partnership agreements when bids were made in conjunction with other organisations.

The Chairman asked how officers were made aware of bids and was informed that this was through Heads of Service and certain officers having operational relationships with agencies, lottery and charitable funding streams and databases such as Grant Finder and Funding Central.

In response to a question it was confirmed that the opportunities to bid had declined since 2010, but had now plateaued at a lower level. The way in which bids were put together was becoming more sophisticated and could be based on outcomes across a geographic area or partnership.

Members asked how much effort had been involved in the securing of £100m funding during the previous 3 years and were advised that a large proportion had been acquired through successful highways bids using a competitive process linked to how the Asset Management Plan was rated. The Highways team had reaped benefits by ensuring that the Council's Asset Management Plan was in one of the top categories in this respect.

The Committee concluded that it would be necessary to accept the limited changes that were being proposed in the absence of a dedicated team to support this type of work. They were also mindful of the need to ensure that resources were not used in the development of bids that were disproportionate to the amount gained.

Members were informed that external funding would be reported to the Committee in future.

Resolved

1 That the update to the External Funding Policy highlighted in red text in Appendix A to this report be supported;
2 That the external funding Annual report to be considered by the Committee in January 2017 includes examples of simple and complex bids and any lessons learned.

Reason for Decisions

To ensure that the cost-benefit external funding bidding activity contributed to the delivery of corporate aims.

Draft 2015/16 Outturn and Financial Management Report

10 The Committee considered a report by the Chief Financial Officer containing the budget outturn information for the 2015/16 financial year and an early indication of the outlook for 2016/17 based on the latest information from Directorates.

The Chief Financial Officer advised that sign off of the accounts had taken place one month earlier on 31 May 2016 allowing external audit verification to commence on 6 June 2016.

Overall there had been an overspend of £688k which was less than that predicted in February 2016. Changes that had occurred in the intervening 3 month period to reduce the overspend included changes in redundancy costs, a lower overspend in the Adult and Community Services Directorate arising from the winter pressures contingency budget and a better than expected outturn on some of the partnership budgets.

He explained that there had been a change in the way the Authority calculated its Minimum Revenue Provision (MRP), an amount set aside for the repayment of borrowing used to fund the capital programme. Due to the way in which the calculation had been overly prudent in the past, some of this money would be released back into reserves which had improved the general balances, despite the overspend. However, the ability of the Authority to offset overspend from central reserves could not continue in the same way as previous years.

The Chief Financial Officer highlighted the areas of over and underspend detailed in the report, and in particular the impact on the Children's Services budget of the increased number of children in care which was a pressure faced by other local authorities. A monthly monitoring meeting had therefore been arranged between the Chief Financial Officer, the Chief Executive and the Director for Children's Services.

An area of risk within the Adult and Community Services Directorate was the securing S75 funding from the joint working with the Clinical Commissioning Group (CCG). He was pleased to report that the total amount of £10.5m had been successfully achieved and funding released to the County Council to support the Adult Social Care Budget in 2015/16. Any future decision to use business rates for this purpose would remove the need for negotiation of funding with the CCG.

In terms of the 2016/17 projection, it was felt that the potential overspends could be reduced by the year end to zero, or lower, if the savings on property were delivered. However, the main concern remained with the Children's Services budget.

In response to a question the Chief Financial Officer advised that the Audit and Governance Committee was the primary body to monitor the overall budget position. The Budget Strategy Task and Finish Group helped to drive the future savings programme but had no responsibility to manage the in-year budget and was not a formal committee. If there were particular concerns then the Committee had the ability to call a particular senior manager to account. It could also refer matters to the Overview and Scrutiny Committees if an in depth investigation of the issues was required.

The Chairman requested that a table be produced to show the way in which funding from central budgets had been used during the past 10 years to help offset overspends within Directorates. It was agreed that this information would be provided as part of a finance briefing report to the Overview and Scrutiny Management Board on 27 June 2016.

Resolved

1 That the comments of the outturn section of the report be noted;

2 That a further report on the outturn, as part of the closing of accounts and audit, be considered by the Committee on 20 September 2016.

3 That the forecast position for 2016/17 and actions being taken, through the Forward Together 2020 programme and the Budget Strategy Task and Finish Group be noted;

4 That a finance briefing report which includes an overview of the previous 10 years' budget outcomes be prepared for the next meeting of the Overview and Scrutiny Management Board on 27 June 2016.

Reasons for Decisions

To allow officers to continue work on the accounts closure process and to work positively with the Authority's Auditors, KPMG. The aim to have the unaudited accounts certified by the Chief Finance Officer by 31 May is a full month earlier than usual and would ensure compliance with the Accounts and Audit Regulations 2015 two years before earlier certification was mandatory.

To understand the anticipated pressures arising so far and to obtain comfort that strategies were in place to address the projected performance during the year.

Constitutional Changes

11 The Committee considered a report by the Monitoring Officer proposing changes to the Council's Petition Scheme.

The Monitoring Officer explained that changes to the Constitution would be part of the remit of the Committee in future as part of its governance role. The change to the Petition Scheme related to petitions containing between 50-999 signatures and it was suggested that these were considered by a Panel so that each petition could be heard in a shorter timescale than the current scheme. The Panel membership would include the relevant Cabinet Member, the Local Member and 3 other members, not politically proportioned.

The Chairman requested that the 3 other members were made up of Councillors from other groups wherever possible to avoid the Panel being dominated by one political group and it was confirmed that officers would strive to achieve this, bearing in mind the availability of members in forming a Panel.

It was further suggested that the list of actions under the section "How will the Council respond to petitions" should not be exhaustive and include other methods of response when necessary.

<u>RECOMMENDED</u>
That the Petitions Scheme be updated as outlined in Appendix 1, and replaced in the Constitution by the County Council.

<u>Reason for Recommendation</u>
To contribute to the corporate aim to 'provide innovative and value for money services'.

Work Programme
12 The Committee considered its work programme.

<u>Resolved</u>
That the Draft Financial Outturn and Financial Management Report be considered at the meeting on 20 September 2016.

Questions by County Councillors
13 No questions were asked by members under Standing Order 20 (2).

Meeting Duration: 10.00 am - 11.45 am

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Audit and Governance Committee

Dorset County Council

Date of Meeting	20 September 2016
Officers	<u>Lead Cabinet Member</u> Robert Gould – Leader <u>Local Members</u> All Members <u>Lead Director</u> Debbie Ward, Chief Executive
Subject of Report	**Progress on Matters Raised at Previous Meetings**
Executive Summary	This report records:- (a) Cabinet decisions arising from recommendations from Audit and Governance Committee meetings; and (b) Outstanding actions identified at the last meeting. There has been 1 meeting of the Cabinet since the last Committee meeting and there were no variations to recommendations.
Impact Assessment:	Equalities Impact Assessment: N/A
	Use of Evidence: Information used to compile this report is drawn together from the Committee's recommendations made to the Cabinet, and arising from matters raised at previous meetings. Evidence of other decisions made by the Cabinet which have differed from recommendations will also be included in the report.

	Budget: No VAT or other cost implications have been identified arising directly from this programme.
	Risk Assessment: 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: Current Risk: LOW Residual Risk: LOW
	Other Implications: None
Recommendation	That Members consider the matters set out in this report.
Reason for Recommendation	To support the Council's corporate aim to provide innovative and value for money services.
Appendices	None
Background Papers	None
Report Originator and Contact	Name: Denise Hunt, Senior Democratic Services Officer Tel: (01305) 224878 Email: d.hunt@dorsetcc.gov.uk

Progress on Matters Raised at Previous Meetings

Date of Meeting	Note Number and subject reference	Action Required	Responsible Officer	Completed (incl comments)
8 June 2016	5 – Annual Audit Internal Report 2015/16	The results of the follow-up audit for country parks to be included in the SWAP quarterly report to be considered at the next meeting on 20 Sept 2016.	Rupert Bamberger	Completed – results of the follow up audit have been included in the SWAP quarterly report.
	6 - Internal Audit Plan 2016/17	The outcomes of the audit of the Joint Archives Service to be incorporated into the audit of governance / due diligence work of devolution bids, local government reorganisation and combined authority in 2016-17 and be also fed into the Healthy Organisation review.	Rupert Bamberger	Completed – outcomes of the Joint Archives Service audit will be fed into any relevant upcoming work. Furthermore, SWAP have prepared a document on Joint Working; the opportunities, risks and considerations. This will feature as an Agenda item for the September Audit & Governance Committee.
	9 – Bidding Procedure to Manage External Funding Activity	The external funding Annual report to be considered by the Committee in January 2017 to include examples of simple and complex bids and any lessons learned.	Chris Scally	A report to be submitted for consideration by the Audit and Governance Committee on 26 January 2017.
	10 – Draft 2015/16 Outturn and Financial Management Report	That a finance briefing report, including an overview of the previous 10 years' budget outcomes be prepared for the next meeting of the Overview and Scrutiny Management Board on 27 June 2016.	Richard Bates	Completed – the Board considered a financial outturn summary report and risks and implications for the future. It was agreed that future Audit and Governance Committee reports indicate the chairman of the appropriate overview and scrutiny committee, the lead officer and whether an area needed to be scrutinised.

Audit & Governance Committee

Dorset County Council

Date of Meeting	20 September 2016
Officer	Chief Financial Officer
Subject of Report	**Statement of Accounts**
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 30 June. 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 30 September. 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 by the Audit & Governance Committee at its meeting on 8th June 2016 and recommended for approval by Cabinet (Cabinet approval was given at the meeting on 29 June 2016. The Statement of Accounts for 2015/16 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 2016 as a financial management report was brought to the 8th June 2016 meeting. However, some summary analysis is repeated in this report for completeness. 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 2015/16.

	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 is already being kept informed of progress towards balancing the 2017/18 budget (and MTFP) and the forecast outturn position for 2016/17, separately.
	Risk Assessment: As the Statement of Accounts is largely an historical 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.
	Other Implications: None.
Recommendation	That members consider and approve the Statement of Accounts for the year ended 31 March 2016.
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 30 September.
Appendices	Statement of Accounts

Background Papers	Accounts and Audit (England) Regulations 2015 CIPFA Code of Practice on Local Authority Accounting in the UK 2015/16 CIPFA Service Reporting Code of Practice 2015/16 Internal Audit Quarterly and Annual Reports 2015/16 Corporate Governance Framework – Annual Compliance Assessment 2015/16
Report Originator and Contact	Name: Jim McManus Tel: 01305 221235 Email: j.mcmanus@dorsetcc.gov.uk

1. Background

1.1 The County Council is required to prepare its annual accounts in accordance with proper practice. This means compliance with the latest Code of Practice on Local Authority Accounting in the UK, the Service Reporting Code of Practice and the latest version of the Accounts and Audit Regulations. More information about adoption of and compliance with the Codes 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 30 June, with the Auditor's opinion due in time for final approval of the accounts by Members by 30 September.

1.3 Government has made changes to the Accounts and Audit Regulations which will mean bringing forward the dates for certification, audit and approval of the statement of accounts. The faster closedown process is mandatory from the closedown of the 2017/18 accounts but the Authority implemented transition arrangements during 2015/16 to quicken the closedown and audit processes, to ensure early compliance.

1.4 I am pleased to be able to confirm that the Statement of Accounts was certified by the Chief Financial Officer on 31st May 2016. Further work will now be carried out to reduce the closedown timetable further over the course of the next two years, with a target date of 30th April for certification by the CFO.

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 being shared across the wider team allows tasks to be carried out in parallel rather than in sequence. A robust do/review/sign-off procedure and thorough working papers approach will also enable this reduction in time spent on the accounts so we can 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 but still must accompany any Statement of Accounts published in accordance with the Regulations.

2.2 The Annual Governance Statement for 2015/16 has been prepared in line with the recommendations published in 2007 by CIPFA and SOLACE, the public sector accountancy and local authorities' chief executives organisations, and additional requirements put forward by CIPFA in March 2010.

2.3 The Committee recommended approval of the draft statement to Cabinet at its meeting on 8th June 2016 and Cabinet approved the AGS on 29th June, so no further detail is provided here.

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 introduction to the accounts summarises the major issues addressed by the County Council during the year and key aspects of financial performance. The narrative also defines and describes the content of the primary financial statements.

3.3 Only limited, further analysis of the financial performance and position is offered here as it has already been covered in the foreword, in the accounts themselves and in previous reports to Committees covering the forecasts and final outturn for 2015/16. 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 and financial position at 31 March 2016

4.1 Overall the County Council overspent its budget by £0.688m. Table 1 illustrates the key variances against the Directorate and Central Budgets. The key variances were provided in the June report so are not repeated here.

Table 1 – outturn 2015/16

Directorate	Budget £000	Outturn £000	Variance £000	% Var
Children's Services	59,534	64,362	(4,828)	-8%
Adult & Community Services	120,713	121,373	(660)	-1%
Environment and the Economy	31,298	30,433	865	3%
Chief Executives	20,473	20,025	448	2%
Partnerships	19,135	18,798	337	2%
Service Total	**251,153**	**254,991**	**(3,838)**	**-2%**
Central budgets	(247,031)	(250,181)	3,150	**1%**
Total	**4,122**	**4,810**	**(688)**	**-16%**

4.2 Despite this net overspend of £0.688m for the year, the change of method of calculating minimum revenue provision (MRP) also enabled the authority to make backdated, cumulative changes during 2015/16, meaning an additional £2.7m was transferred to the general fund. The County Council's balances therefore closed the year at £14.6m, comfortably above the lower-end of the operating range of £10m.

4.3 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 outflow during the year and a negative cash balance at the year-end. However, this is because the Authority's cash balances and those of the Dorset Local Enterprise Partnership are managed on a unified basis and gave combined total net cash of £12.7m at 31 March 2016.

4.4 Note 38 to the accounts sets out the profile of the Authority's borrowing and shows that during the year there was net repayment of nearly £31m. The average interest rate, however, has increased to nearly 4% for both PWLB and other borrowing and the interest payable on all loans amounted to £7.564m compared to £7.494m in 2014/15.

4.5 In terms of the balance sheet, total fixed assets carrying values remains relatively stable with the only significant movements being in assets under construction (increase) and surplus properties (decrease). Current asset totals have reduced fairly significantly but principally as the short-term investments have been liquidated and then used to reduce the need to borrow externally (reflected above) which is also reflected in the reduction in short-term creditors where the reduction is also due to the reduction in short-term borrowing.

4.6 As noted elsewhere, the Authority's own share of the general balance is £14.6m out of the total £27.9m reported on the balance sheet. Note 52 provides a more detailed analysis of the overall balances position and movements. Earmarked reserves have reduced by nearly £6.5m during the year. Note 51 provides an analysis of the movements and sets out that the majority of this reduction is caused by movements in the IFRS-related reserves. This simply reflects the fact that a greater portion of the grants received were spent during the year alongside reserves brought forward.

4.7 The CFO has reviewed the adequacy of reserves and deemed these to be acceptable for the purposes of starting the MTFP round.

Richard Bates
Chief Financial Officer
September 2016

Financial Statements 2015/16

Working together for a strong and successful Dorset

Dorset County Council

Richard Bates
Chief Financial Officer
Dorset County Council
County Hall
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The purpose of this publication is to provide the Statutory Financial Statements for Dorset County Council for the period from 1 April 2015 to 31 March 2016.

This document also includes summary information relating to the Dorset County Pension Fund, which the County Council administers on behalf of its own staff and those of other Dorset Local Authority employees and certain other admitted bodies.

The Council provides a wide range of services for the citizens of Dorset, including education, social services, transport, planning, trading standards and libraries. Decisions relating to these services are made by the Elected Members of the Council, each Councillor representing a particular part of the County. Services in Bournemouth and Poole are administered by separate, Unitary Authorities serving those areas.

In addition to the full County Council, which meets quarterly, during 2015/16 the Council operated a Cabinet which met monthly. There were also Overview Committees which dealt with the main service areas and which met on a quarterly cycle. An Audit and Scrutiny Committee also met bi-monthly with responsibility for scrutinising decisions of the Cabinet and examining financial and audit arrangements. In addition there were five regulatory committees dealing with issues such as planning appeals, rights of way etc and a Standards Committee which promotes probity and high standards of conduct throughout the Council.

On 1st June 2016 a new structure was introduced, replacing the Overview Committees with Overview and Scrutiny Committees which are linked to the Council's stated outcomes, healthy, independent, safe and prosperous. The Audit and Scrutiny Committee becomes the Audit and Governance Committee.

Further details about the County Council, the six District Councils in Dorset and their respective services are available on the web site www.dorsetforyou.com.

Certification by Chief Financial Officer

I certify that these Financial Statements give a true and fair view of the financial position of Dorset County Council and of its financial performance for the year ended 31 March 2016.

These Financial Statements were authorised for issue as draft, subject to audit, on 31st May 2016 and authorised again as a final, audited set of financial statements on 20th September 2016.

Richard Bates
Chief Financial Officer

20th September 2016

Independent auditor's report to the members of Dorset County Council

We have audited the financial statements of Dorset County Council for the year ended 31 March 2016 on pages 34 to 68. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's and the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority and the Group as at 31 March 2016 and of the Authority's and the Group's expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2016; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- the Annual Governance Statement which accompanies the financial statements does not reflect compliance with ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007; or

- the information given in the Narrative Statement for the financial year for which the financial statements are prepared is not consistent with the financial statements; or

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit; or

- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014; or

- any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

Conclusion on Dorset County Council’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Comptroller and Auditor General (C&AG) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by C&AG in November 2015, as to whether Dorset County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Dorset County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Dorset

County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Dorset County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the financial statements of Dorset County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Harry Mears

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Gateway House, Tollgate,

Chandler’s Ford, SO53 3TG

September 2016

Financial performance against budget

Overall performance against the budget for the year to 31 March 2016 was an overspend of £3.8m against service budgets. This was offset by underspends of £550k on central budgets and in year changes to minimum revenue provisions (MRP) of £2.6m (explained on page 15) which reduced the in-year overspend to £688k. Backdated MRP adjustments to 2008 were also made totalling £4.4m which results in the reported figure being an underspend of £3.7m.

The budget itself was based on the last year of funding outlined in the coalition government's Spending Review 2013. The spending review itself brought a funding reduction of £11m for the County Council. When added to demographic, price and other upward pressures on expenditure, this resulted in the authority needing to deliver more than £15m of savings in the year.

Savings were identified through the *forward together* transformation programme and managed through the forward together Board. Despite an overall underspend, there were some key areas of overspend in specific directorates caused by severe pressure on services.

In Children's Services, for example, there has been sustained high pressure on the base budget provision for children in care, causing the family support service to overspend by £5.5m. In terms of volume of provision, the County Council acknowledged that resource needed to be added on a short-term as well as a permanent basis and this was addressed in the 2016/17 budget strategy.

In Adult & Community Services, there were overspends against demand-led budgets including direct payments, support for people with a learning disability, specialist services for older people and supported living.

The Environment and Economy Directorate and the Chief Executive's Department were both underspent – by £0.865m and £0.448m respectively. Corporate budgets including contingency, minimum revenue provision (MRP) - see notes below - and interest were underspent, principally due to the cumulative impact in 2015/16 of the MRP changes.

More details of the performance against budget are set out in the notes to the financial statements.

Adults and Community Services

Adult and Community Services is the largest Directorate in the County Council. The gross annual revenue budget is £163.4m with income totalling £42.6m which is around 46% of the County Council's net budget.

The current economic situation continues to be extremely challenging, resulting in significant and on-going reductions in Government funding. With an increasing demand for services, reduced funding and a need to achieve efficiency targets, the Directorate faces significant challenges in delivering its commitments in the medium term.

In line with national demographic trends the demand for adult social care services in Dorset continues to rise and will do so for many years to come. The numbers of younger adults with complex needs and older people continues to rise increasing demand for services and budget costs. In Dorset:

- The number of children with multiple and complex problems requiring support has increased in two years (2012-14) from 284 to 292 per 10,000 (3%) though this is still well below the national average of 7%.

- 26% of the population is aged 65+, compared to 17% nationally. This is expected to increase by 2.2% each year.

As part of the Pathways to Independence transformation programme, from 1 July 2015, certain in-house services were separated from Dorset County Council, combined with services from Bournemouth Borough Council and the Borough of Poole, and used to launch a Local Authority Trading Company (LATC) called Tricuro.

Tricuro provides the following Dorset County Council services:

- Residential services – including residential care homes and care homes with nursing.
- Reablement services – intensive short-term home care to help people get back on their feet after illness or hospital stays.
- Day services – support, rehabilitation and skills training for independent living, plus opportunities to socialise.

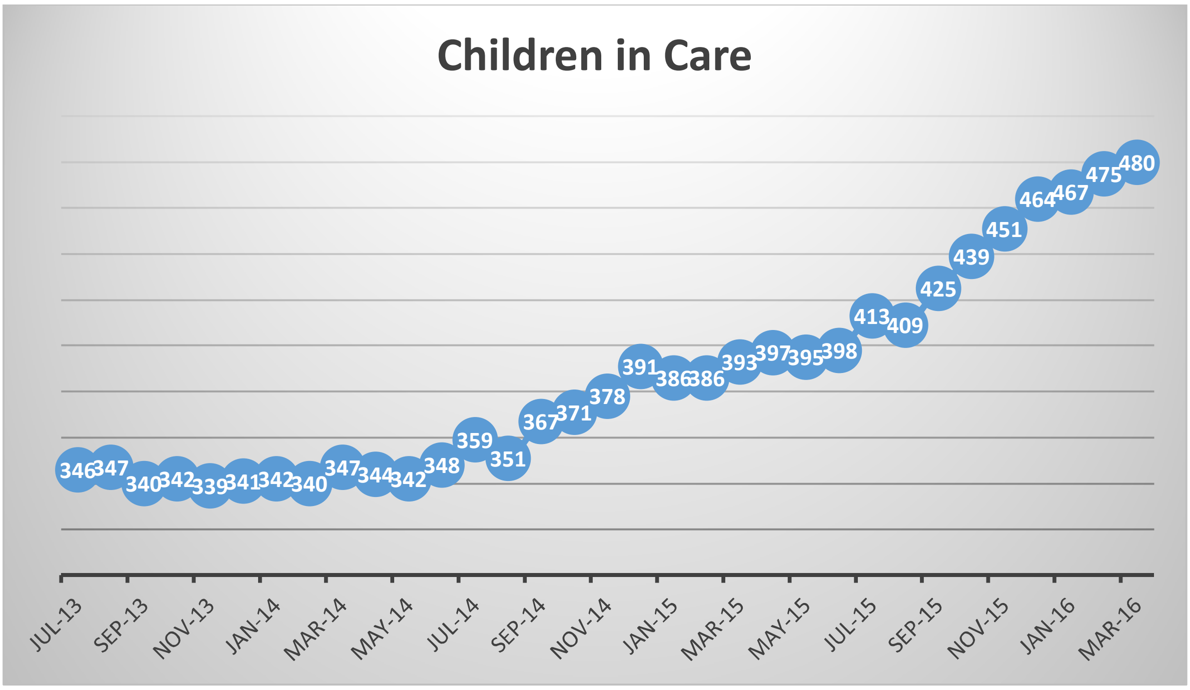
Children's Services

Children's Services has overall safeguarding responsibility for the 67,400 children across the County. It operates 117 maintained schools teaching 30,711 pupils. There are a further 55 academies or free schools teaching 19,149 pupils outside of County Council control. The County Council is responsible for providing school places and an additional 654 were made available during 2015/16, through a combination of new building and reconfiguration of existing space within the estate. A further 254 places will be made available for the 2016/17 financial year.

As part of its safeguarding role the County Council has seen an increase in the number of children that have been taken into its care during 2015/16. The graph below shows the monthly picture since July 2013, which has seen numbers in care move from a steady figure of around 345 start to increase from July 2014. The increase in this financial year has been from 393 at 1st April 2015 to 480 as at 31st March 2016, an increase of 87 (22%).

Demographic changes means that the numbers in care are expected to reduce during 2016/17, with early intervention work and permanency planning allowing further reductions as the year progresses.

During March the service was subject to an inspection by Ofsted under the single inspection framework (SIF). The outcome of the inspection was received on 4 May 2016 with the judgement that the authority requires improvement.



Environment and the Economy

Dorset has:

- 1,406 square km of Areas of Outstanding Natural Beauty, covering 55% of its total land area
- 135 Sites of Special Scientific Interest, covering 18,730 hectares
- 9 National Nature Reserves
- 62 Regionally Important Geological and Geomorphological Sites (with further under consideration)
- 1,227 Sites of Nature Conservation Interest
- 91 km of heritage coast
- 114 km of the Jurassic Coast-World Heritage site
- representatives of 85% of all species of mammals living in Britain, along with 90% of our birds
- 80% of our butterflies, 70% of our dragonflies, and nearly all our reptiles and amphibian species.

The Environment and Economy service maintains:

- 3,753km of roads
- 2,282km of footpaths and cycle ways
- 1,450 other structures including bridges
- 47,731 street lights, illuminated signs and bollards
- 7,844 traffic control and information systems.

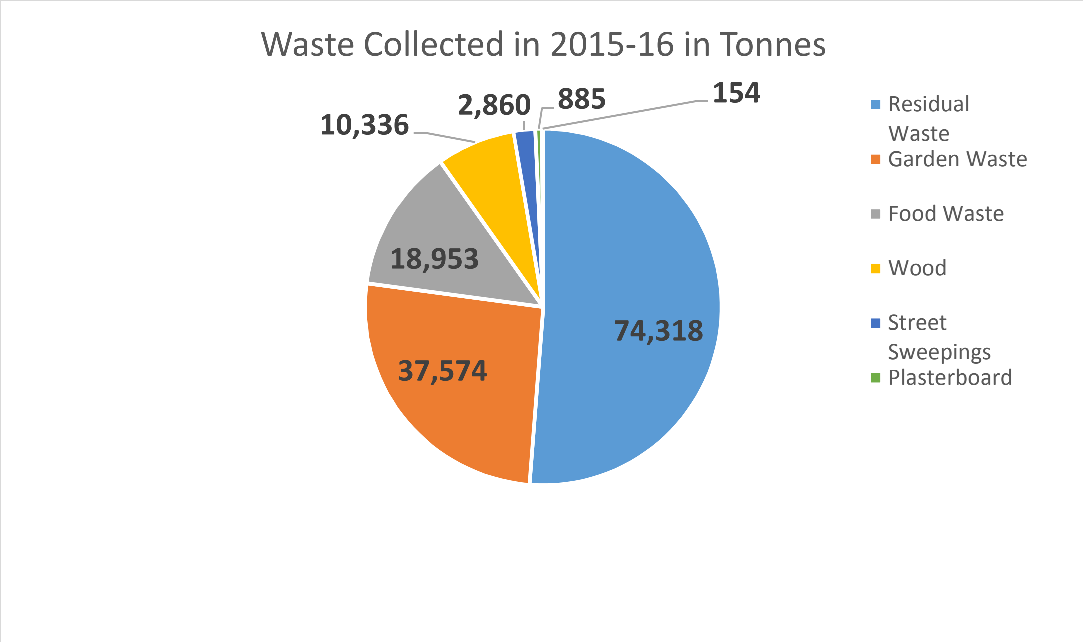
In addition, the service oversees the provision of public transport in Dorset, providing financial support to a number of routes and also promotes the Dorset economy through activities such as the Superfast Broadband project which will bring a superfast service to over 95% of Dorset premises.

NARRATIVE STATEMENT TO THE ACCOUNTS

Dorset Waste Partnership

The County Council, in partnership with District and Borough Councils in Dorset, provides the waste collection and disposal services to the residents of, and visitors to, Dorset through the Dorset Waste Partnership.

Over 145,000 tonnes of waste was collected in 2015/16 with the tonnage, by type of waste, shown below –

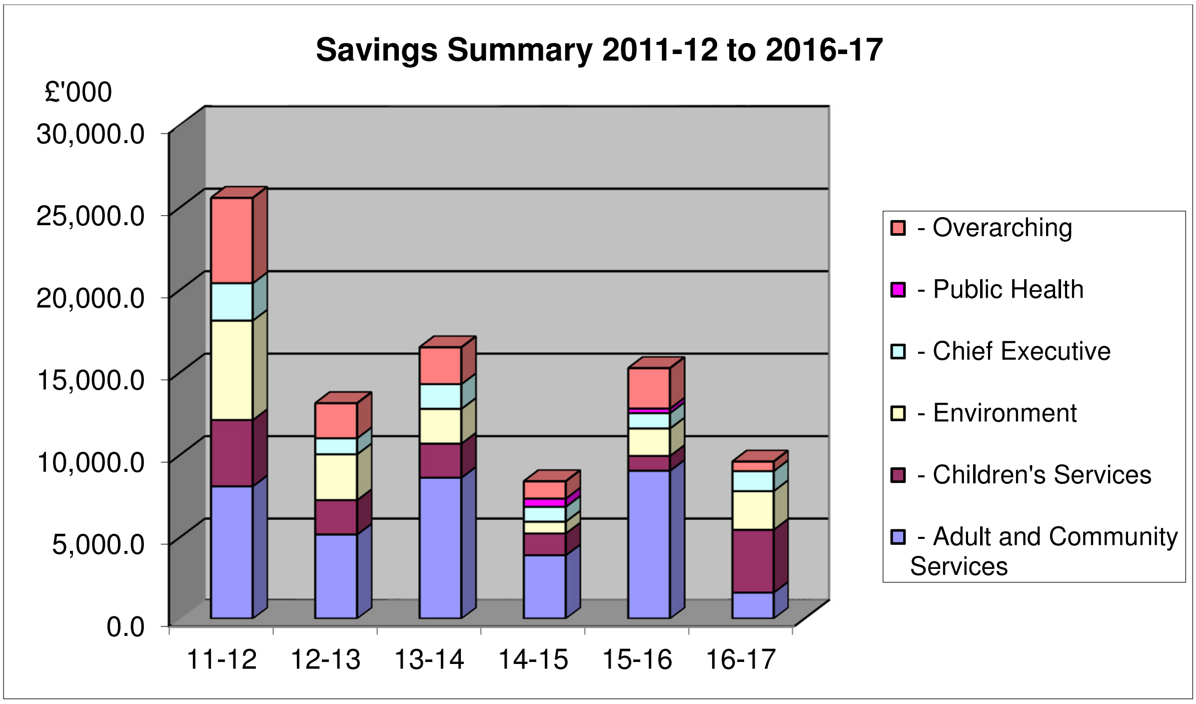


Recycling rates are around 60%.

Savings History

Dorset County Council have made just short of £79m of savings between 2011-12 and 2015-16, with a further £9.6m planned for 2016-17. The table and graph below shows how this has been distributed across services.

SAVINGS SUMMARY	2011-12 £'000	2012-13 £'000	2013-14 £'000	2014-15 £'000	2015-16 £'000	2016-17 £'000
- Adult and Community Services	8,104.0	5,179.8	8,628.0	3,900.0	9,050.0	1,602.0
- Children's Services	4,020.9	2,089.1	2,063.2	1,344.0	900.0	3,865.0
- Environment	6,029.8	2,778.5	2,110.2	722.0	1,664.0	2,346.0
- Chief Executive	2,264.8	971.8	1,498.7	896.0	930.0	1,214.0
- Public Health	0.0	0.0	0.0	500.0	275.0	0.0
- Overarching	5,169.5	2,125.8	2,231.6	1,050.0	2,450.0	576.0
	25,589.0	**13,145.0**	**16,531.7**	**8,412.0**	**15,269.0**	**9,603.0**



Staffing and restructuring

During the year there was significant reorganisation and restructuring work as the council transformed to deliver a lower cost organisation and manage cuts to its funding from central Government.

Headline FTE numbers reduced by 1,121 to 7,101 in the year. But when adjusted for the impact of Academy transfers (Academy staff are no longer employed by the County Council) and the TUPE transfer of staff to Tricuro, the real reduction in FTE numbers is 121.

Tricuro

On 1 July 2015, in partnership with Bournemouth Borough Council and the Borough of Poole, Dorset County Council launched Tricuro. Tricuro is a group of two companies established under *local authority trading company* principles to take the transfer of the three authorities' supply-side Adult Social Services business. The following table shows how many staff were transferred into the company from the three councils under the TUPE regulations.

Council	Headcount	FTEs
Dorset County	1,201	607.6
Bournemouth Borough	313	233.2
Borough of Poole	87	64.4
Total	**1,601**	**905.2**

Each authority owns one ordinary share in Tricuro Support Ltd, which in turn owns 100% of the equity of Tricuro Ltd. The value of business carried out by Tricuro in a full financial year is expected to be around £40m (the part-year to 31 March 2016 saw the company turn over £31m). A partnership agreement regulates the way in which the three councils manage Tricuro, including a profit/cost sharing agreement. Dorset County Council is contracted to provide support services to Tricuro for three years (until 30 June 2018). The value of this contract was £0.881m for the nine months to 31 March 2016. Bournemouth Borough

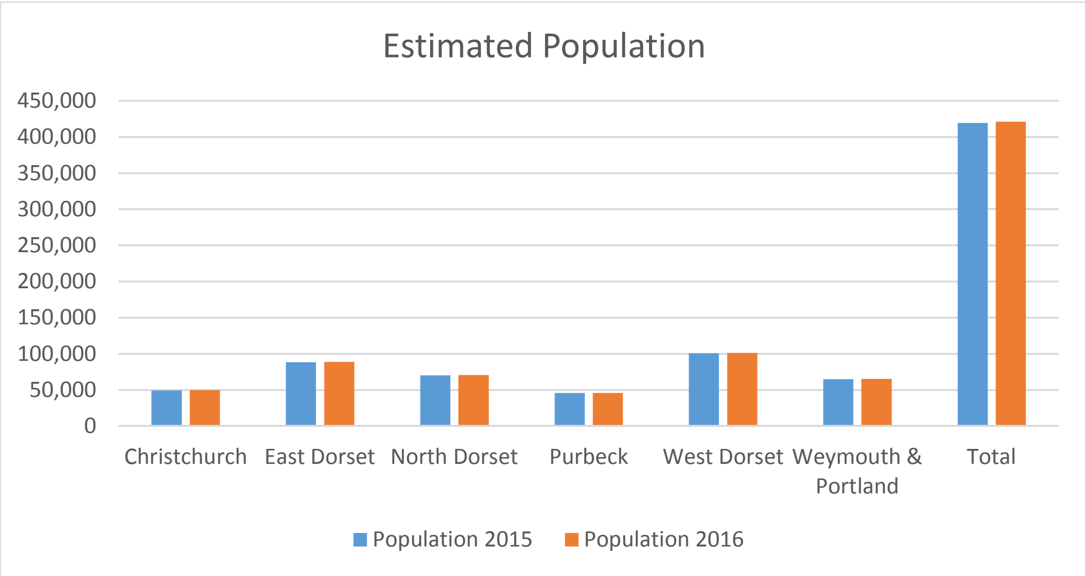
NARRATIVE STATEMENT TO THE ACCOUNTS

Council also provides certain support services to the company. The cost of this was £0.652m for the nine months to 31 March 2016.

Dorset County Council treats Tricuro as a joint venture, under the rules set out in IFRS11 (joint arrangements). More technical information about this is set out in the accounting policies section of the financial statements and in the notes covering group accounting.

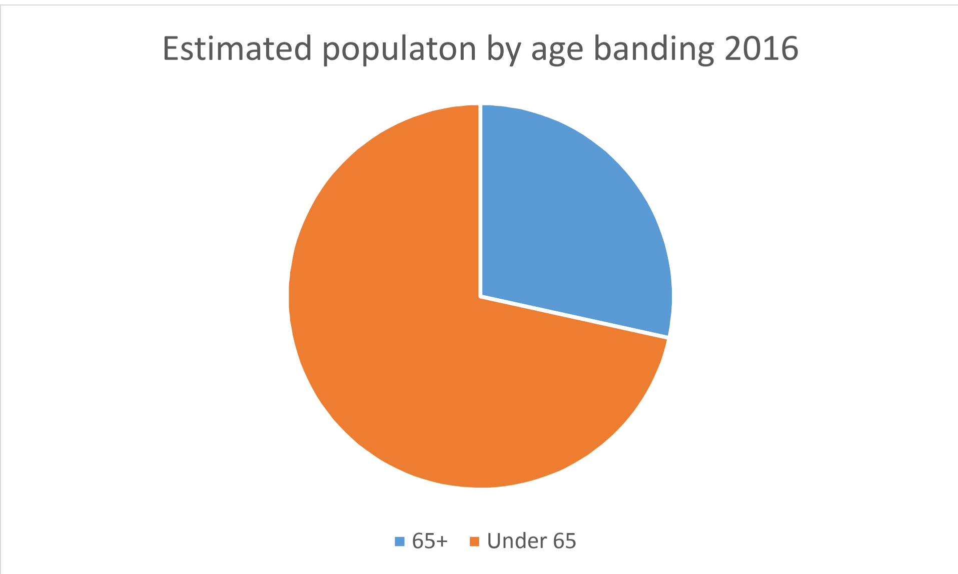
Population Data

The County Council provides services to a total estimated population of 421,140, a small increase over the population in 2015 which is estimated to stand at 419,602. The graph below shows the population across the Borough and District council boundaries within the region of Dorset that is served by the County Council.



Source: 2014 based District Projections , Dorset County Council and Office for National Statistics

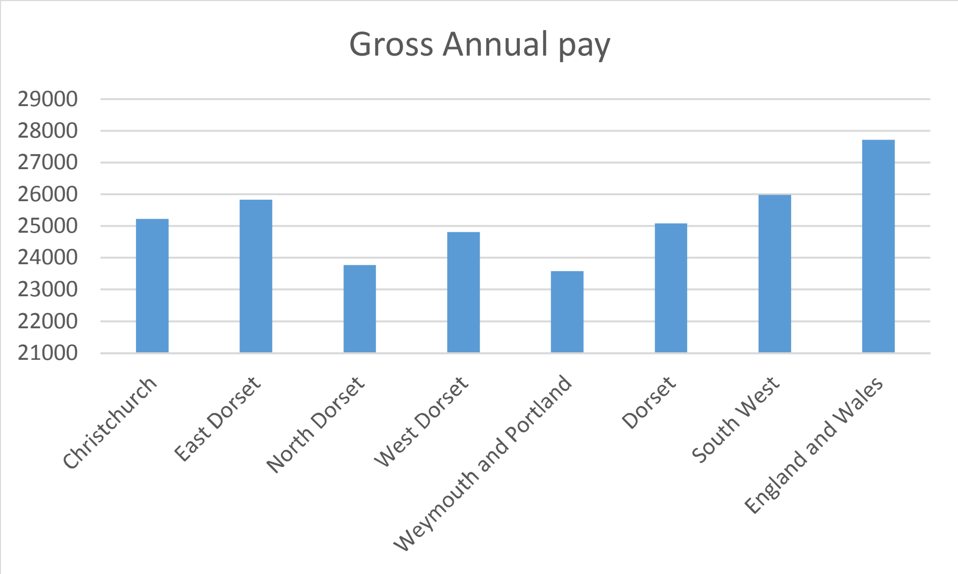
A significant proportion of the population is over retirement age, with an estimated 28% being over 65 years of age by 2016.



Source: 2014 based District Projections , Dorset County Council and Office for National Statistics

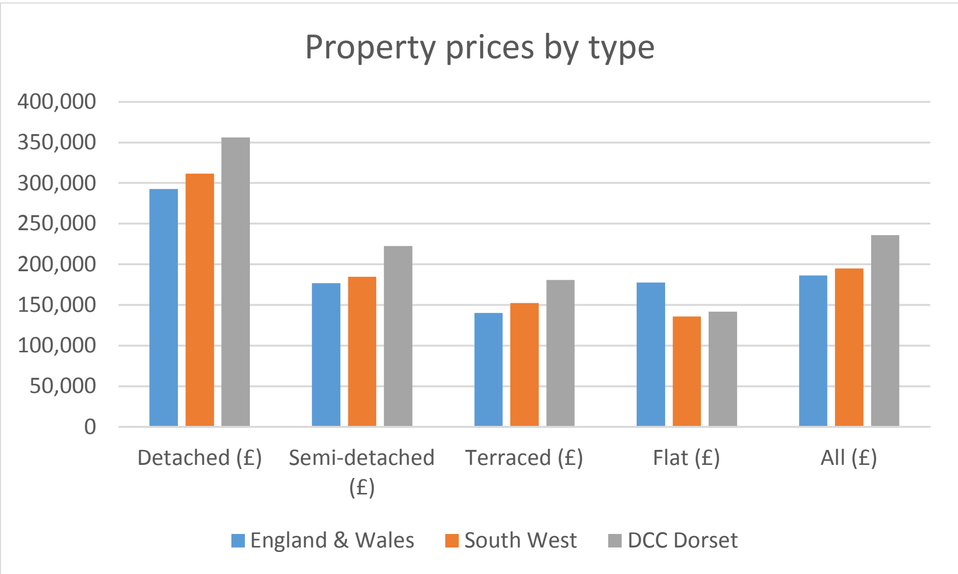
NARRATIVE STATEMENT TO THE ACCOUNTS

The average full time earnings for the area served by the County Council is shown on the chart below, across the council boundaries and in comparison with the South West and with England and Wales. The full time earnings for Dorset are lower than for the South West, and lower than for England and Wales.



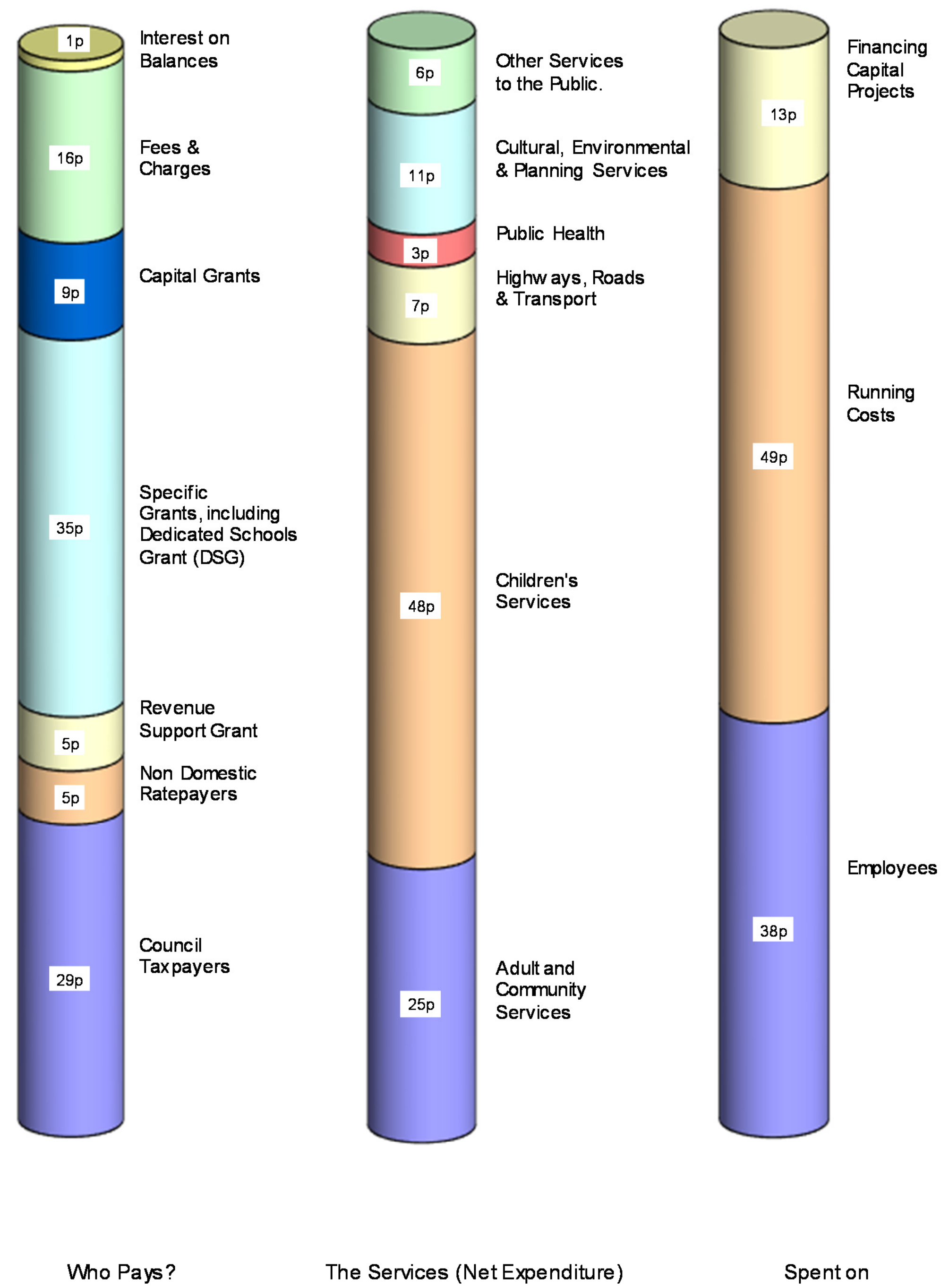
Source: Annual Survey of Hours and Earnings 2015, Office for National Statistics

The average price of properties in the region of Dorset served by the County Council is shown below, compared with the South West and with England and Wales. The average price of properties in Dorset is higher than the South West region, and higher than for England and Wales.



Source: House Price Index, Land Registry

Where the money comes from - and how each £1 is spent

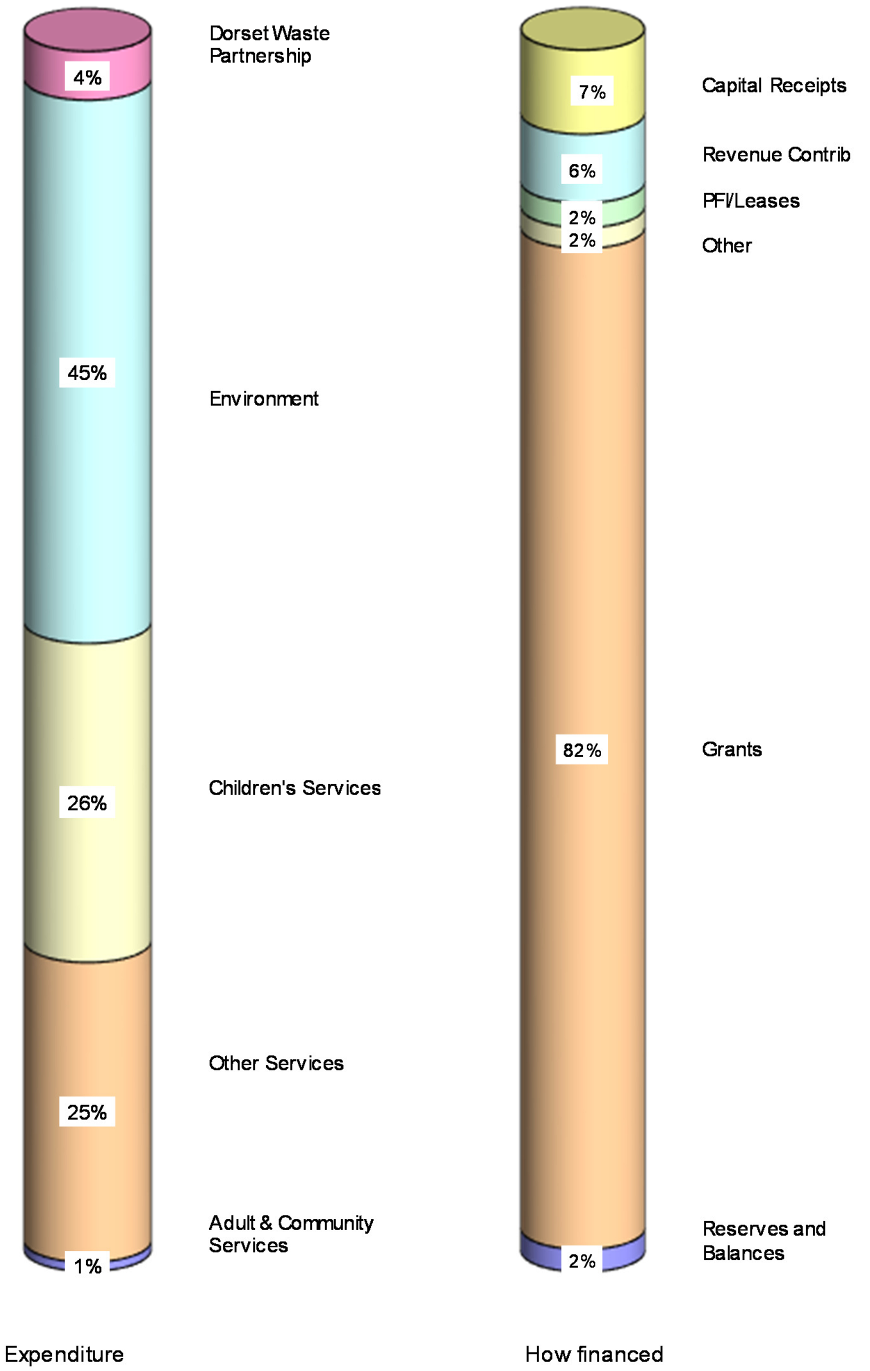


The columns show the proportion of each £1 that is received from or spent on the indicated categories. The first column shows the sources of income to the County Council, the second indicates the demands on the County's resources made by each service, and the third column shows how the money is spent in terms of employee costs, running costs and capital charges.

Capital Spending

The following charts show how the capital spending for the year of £88 million is distributed over the services provided by the County Council, and how it is financed.

Environment Services includes countryside, county farms and highways. Other services includes IT equipment.



Reserves & balances

A full analysis of the Authority's reserves is provided in the notes to the accounts. The level of usable reserves (those which the Council can use to deliver services) decreased by £20.6m during the year. The level of the Council's general balances (usable reserves which have not been specifically earmarked for a particular purpose) increased by £2.7m, mainly due to the MRP changes. The balance of this general fund, at £14.7m in total, which is close to the middle of our designated operating range which spans £10m to £20m.

Spending Review 2015 and the local government finance settlement resulted in a reduction of nearly £18m to the County Council's base funding for 2016/17. Not only was the level of reduction significant but there was no warning or consultation on the changes to the funding formula that delivered this outcome. As a result, when setting the budget strategy for 2016/17 the County Council had to apply £2.2m of its reserves to achieve the balanced budget required by statute. The funding reductions themselves continue past 2016/17 however, and despite prudent use of reserves to balance the 2016/17 position, the Council will lose a further £30m of funding by the end of the current parliament.

Minimum Revenue Provision

Minimum revenue provision (MRP) is a charge to the Council's revenue account to provide for the repayment of outstanding capital borrowing. By regulation, the County Council is required, annually, to determine for the current financial year, an amount of minimum revenue provision which it considers to be prudent. Until 31 March 2015, the County Council made provision at a rate of 4%.

During 2015/16 the County Council changed the provision rate to more closely align MRP with the lifespan of the assets against which borrowing was applied. Where capital expenditure was incurred before 1 April 2008, MRP will continue to be charged at 4% of the outstanding capital financing requirement. For capital expenditure incurred between 1 April 2008 and 31 March 2010 and funded through borrowing, the council will also continue to calculate MRP at a rate of 4% - based on the asset life being at least 25 years. For capital expenditure incurred on or after 1 April 2010 provision will be made based upon the asset life method but increased to 40 years and therefore 2.5%.

Although this is a change in the calculation, it does not constitute a change in accounting policy, so there is no need for prior period adjustment and the adjustment to the cumulative total MRP has been made in 2015/16. This cumulative adjustment is the key reason why the Council's budget has effectively underspent this year.

Borrowing and funding sources

The Prudential Borrowing system enables councils to borrow for capital investment without Government consent, as long as they can afford to service the debt. Before 2005/06 the Council did not exercise its powers to borrow for expenditure not supported by Government grant. However, primarily to provide funding for the schools modernisation programme in the capital programme, from 2005/06 the County Council borrowed without grant funding support. At the end of 2015/16 the County Council's capital financing requirement was £287.3m, with just under £39m relating to PFI schemes and finance leases. Total external borrowing was £184.3m externally, with the remainder financed temporarily from internal balances.

Provisions, contingencies and write-offs

Movements in provisions, contingent and other long-term liabilities are disclosed in the notes to the financial statements. There have been no material changes in amounts during the year.

During the year the council wrote-off £58k of trade debt that was deemed irrecoverable.

Changes in statutory functions

There were no changes in statutory functions that require disclosure during the year.

Events after the balance sheet date

There were no significant events between the balance sheet date and the approval of these financial statements which would require disclosure or adjustment of the statements.

However we were informed in May 2016 by the scheme administrator of Municipal Mutual Insurance (MMI) that our levy has been raised to 25% and a further demand of £272k was received in relation to 2015/16. Dorset County Council has sufficient funds to meet this further payment in its earmarked reserves and thus no further provision is required. See note 40 of these accounts for further details.

Adopting the measurement requirements of the Code of Practice on Transport Infrastructure Assets

CIPFA/LASAAC has agreed that the 2016/17 edition of the Code will adopt the measurement requirements of the CIPFA Code of Practice on Transport Infrastructure Assets, as amended in 2013 (or any subsequent amendments to that Code that may be issued) ie measurement on a Depreciated Replacement Cost (DRC) basis. This change will constitute a change in accounting policy from 1 April 2016 and therefore should require full, retrospective restatement in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and IAS 1 Presentation of Financial Statements as adopted by this Code.

However, exceptionally, the 2016/17 Code will include an adaptation to IAS 1 for the transition for the move to measuring the Highways Network Asset at Depreciated Replacement Cost so that there is no requirement to restate the preceding year information or for an opening balance as at 1 April 2016. The change will therefore be accounted for as an adjustment to opening balances as at 1 April 2016.

Pension Fund

The recovery in global financial markets since the major fall in market values in 2008/09 has slowed in 2015/16. Note 7 on page [73] shows that the Fund as a whole had investment assets of £2.276bn at 31 March 2016, marginally down from £2.325bn at 31 March 2015 but still significantly ahead of the £0.999bn low of the financial crisis at 31 March 2009. Note 12 details the pension performance of the Fund for the year to 31 March 2016, which showed a total positive return of 0.08% against a benchmark of minus 0.92%. The triennial valuation conducted by the Fund's actuary as at 31 March 2013 showed an increase in liabilities and at this valuation the net liabilities were valued at £444m, up from £434m as at the 31 March 2010 valuation. This resulted in the Fund having a funding level of 82%, meaning the investment asset value was 82% of the total liabilities. The liabilities are long term in nature and represent all future retirement commitments, meaning that there is not an immediate problem for the Fund. The valuation in part has been affected by the historically low discount rate (related to bond yields) used in the calculations. Currently the cash flow continues to be positive with the Fund receiving more cash in the form of contributions from employees and employers, than it pays out in the form of pensions. In addition to this, surplus investment returns add to the positive cash flow position. The next actuarial valuation, as at 31st March 2016, will be provided by the fund Actuary during 2016.

Basis of preparation

The accounts for 2015/16 are prepared in accordance with:

- the Accounts and Audit Regulations 2015
- the CIPFA Code of Practice on Local Authority Accounting 2015/16
- the CIPFA Service Reporting Code of Practice (SERCOP) for the Comprehensive Income and Expenditure Statement.

This narrative statement provides context for the financial performance of the Council for the financial year and for its financial position as at 31 March 2016. In addition, separate summarised accounts are included in this document for the Dorset Pension Fund. Each set of accounts has its own explanatory notes, which provide further information.

The Primary Financial Statements comprise:

i) Comprehensive Income and Expenditure Statement (Pages 34 to 37)

This statement summarises the Council's total income and expenditure for the year. The statement shows the cost for the year of providing services in accordance with generally accepted accounting practices (under IFRS), rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations - which is different from the accounting cost. The difference between the accounting cost and costs chargeable to taxation are adjusted through the *statement of movement in reserves*.

There are separate statements are for DCC as a single-entity and the DCC group.

ii) Balance sheet (Page 38)

The balance sheet shows the value of assets and liabilities recognised by the County Council at a specific point in time. The net assets of the Authority (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. The first category, *usable reserves,* are those that the Authority may use to provide services - subject to the need to maintain a prudent level of general funds. The second category, unusable reserves, comprises funds that the Authority is not able to use to provide services. This category includes reserves such as unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets were to be sold, and reserves that hold timing differences shown in the *Movement in Reserves Statement* line *Adjustments between accounting basis and funding basis under regulations*.

The balance sheet identifies, in columnar format, the financial position both for DCC as a single-entity and for the DCC group.

iii) Statement of Movement in Reserves (Pages 39 to 40)

This statement shows the movement in the year on the different reserves held by the County Council, analysed into usable and unusable amounts. The *Surplus or (Deficit) on the Provision of Services* line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund for taxation purposes.

The Statement of Movement in Reserves identifies, in columnar format, the financial position both for DCC as a single-entity and for the DCC group

iv) Cash Flow Statement (Page 41 to 42)

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the County Council generates and uses cash and cash equivalents by classifying cash flows under a number of specified headings.

There are separate statements are for DCC as a single-entity and the DCC group

v) Notes to the Financial Statements (Pages 43 to 68)

These give further information and explanations of the figures in the primary financial statements. There are disclosures covering the single-entity and consolidated (group) information.

vi) Dorset County Pension Fund Accounts and Notes (Pages 69 to 81)

These summarise income and expenditure transactions and net worth of the Dorset Pension Fund, followed by further explanatory notes relevant to the Pension Fund.

Richard Bates

Chief Financial Officer

Trevor Jones

Chairman of the Audit & Governance Committee

The following statement describes the respective responsibilities of the County Council and the Chief Financial Officer for the Financial Statements.

The County Council is responsible for:

- securing appropriate arrangements for the proper administration of its financial affairs and ensuring that the nominated officer, namely the Chief Financial Officer, has the responsibility for them;
- managing its affairs so as to ensure the economic, effective and efficient use of resources and the safeguarding of assets;
- approving the Financial Statements.

Further information about policies, procedures, publications and contact details for the County Council and other relevant local authorities can be found on the dorsetforyou.com web site.

The Chief Financial Officer is responsible for:

- the preparation of the Council's Financial Statements (including those of the Dorset County Pension Fund) so as to ensure they give a true and fair view of the financial position at the accounting date and its income and expenditure for the year;
- selecting suitable accounting policies and applying them consistently;
- making reasonable and prudent judgements and estimates;
- complying in all material aspects with the Code of Practice on Local Authority Accounting in the United Kingdom and Best Value Accounting;
- keeping proper, up to date, accounting records, and taking reasonable steps for the prevention and detection of fraud and other irregularities.

1 INTRODUCTION

These accounts have been prepared in accordance with the principles recommended in the (IFRS Compliant) Code of Practice on Local Authority Accounting (The Code) and the Service Reporting Code of Practice (SERCOP), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). In complying with The Code, these Financial Statements also comply with International Financial Reporting Standards (IFRS) as they apply to Local Authorities in England.

2 ACCOUNTING CONVENTIONS & MEASUREMENT BASES

The Financial Statements of the Authority are prepared on the basis of historic cost except where disclosed otherwise in Accounting Policies or notes, or where required by IFRS. Areas where there is divergence from the historic cost convention typically include the revaluation of property, plant and equipment; inventories and certain financial assets and liabilities. The Financial Statements have been prepared with due regard to the pervasive accounting concepts of accruals, going concern and primacy of legislative requirements.

3 REVENUE RECOGNITION

The revenue recognition principle is a cornerstone of accrual accounting and determines the accounting period in which revenues and expenses are recognised. The County Council's policy is that revenues are recognised when they are realisable and are earned (usually when goods are transferred or services rendered), no matter when cash is received.

4 CHANGE OF ACCOUNTING POLICIES

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting Financial Statements. An entity is permitted to change an accounting policy only if the change is required by a standard or interpretation; or results in the Financial Statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance, or cash flows.

If a change in accounting policy is required by a change in reporting standards, the change is accounted for as required by that new pronouncement. If the new pronouncement does not include specific transition provisions, then the change in accounting policy is applied retrospectively. Retrospective application means adjusting the opening balance of each affected component for the earliest prior period presented, along with other comparative amounts disclosed for each prior period presented, and restating them as if the new accounting policy had always been applied.

5 PRIOR PERIOD ADJUSTMENTS

Prior period adjustments are material adjustments applicable to prior periods arising from either changes in accounting policies, or the correction of material errors. Prior period adjustments are accounted for by restating the comparative figures for each prior period presented in the primary statements and notes and adjusting the opening balances for the current period for the cumulative effect.

6 EVENTS AFTER THE BALANCE SHEET DATE

These are defined as events, which could be favourable or unfavourable, that occur between the end of the reporting period and the date that the Financial Statements are authorised for issue.

An adjusting event is an event that provides evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole or part of the enterprise is not appropriate. An adjusting event is one where the Financial Statements are adjusted to reflect the event.

A non-adjusting event is an event that is indicative of a condition that arose after the end of the reporting period. Non-adjusting events are disclosed in the Financial Statements if it is considered that non-disclosure would affect the ability of users to make proper evaluations and decisions, but the Financial Statements themselves are not adjusted to include the financial impact of it.

7 FINANCIAL INSTRUMENTS

In accordance with IFRS 7 and IFRS 9, financial assets and financial liabilities are recognised in the Authority's Balance Sheet when the Council becomes a party to the contractual provisions of the instrument.

Financial assets

The Authority has three classes of financial assets being:
(a) cash and cash equivalents
(b) investments
(c) trade receivables.

Trade receivables are recorded within debtors and payments in advance and disclosed separately in note 34.
Investments are shown either as long term investments or temporary investments in the Balance Sheet and analysed in note 31.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each Balance Sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of a provision account (though this itself netted off within the receivables total). Changes in the carrying amount of the provision account are recognised in the Comprehensive Income & Expenditure Statement.

Cash and cash equivalents

Cash is defined as cash in hand and deposits with any financial institution repayable without penalty or notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Financial liabilities
The Authority's financial liabilities are classified within the other creditor or liability headings as appropriate and disclosed within the notes to the Financial Statements.

Short term financial liabilities
Short term liabilities including short term borrowing and trade payables are carried at fair value.

Long term financial liabilities
Borrowings are initially measured at fair value, net of transaction costs. PFI liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

8 CONTINGENT LIABILITIES
In accordance with IAS 37, a contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority, or;

(b) a present obligation that arises from past events but is not recognised because;
(i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or;
(ii) the amount of the obligation cannot be measured with sufficient reliability.

No provision is made in the accounts for contingent liabilities. Details of any other liabilities are disclosed in the notes to the Financial Statements.

9 AGENCY ACCOUNTING
Council Tax revenue is reported in the Comprehensive Income and Expenditure Statement on a full accruals basis. The Authority also shows a share of the Billing Authorities debtors and creditors for Council Tax, proportionate to the relative demand on the Collection Fund.

10 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

Where capital expenditure does not result in the acquisition of a non-current asset, or is incurred on an asset not belonging to the County Council (such as a Voluntary Aided school), the expenditure is charged directly to the relevant service in the year it occurs, with the necessary appropriations from the Capital Adjustment Account shown in the Statement of Movement in Reserves.

11 INTANGIBLE ASSETS

i Recognition

Expenditure on the purchase of computer software licences is capitalised as intangible non-current assets. Internally developed intangible assets can only be capitalised where they satisfy the criteria set out in IAS 38. There are no such assets for Dorset County Council.

ii Measurement

Purchased intangible assets are capitalised at cost, and are unlikely to be revalued unless there is a readily ascertainable market value.

iii Amortisation

Intangible assets are amortised on a straight line basis over their useful economic lives, with no residual value. Intangible assets are amortised over periods ranging from 2 to 4 years.

iv Charges To Revenue

Capital charges to services are for depreciation or impairment. These charges are reversed in the Statement of Movement in Reserves (General Fund Balance) so the cost to the local taxpayer is unaffected by capital accounting requirements.

v Impairment

Impairment of intangible assets is taken to the Revaluation Reserve in the first instance, and will only be charged to Surplus or Deficit on the Provision of Services once the balance on the reserve in relation to the intangible asset has been reduced to zero.

vi Reversal of impairment

Intangible assets are reviewed annually to determine whether there is any indication that an impairment loss recognised in earlier periods for an asset may no longer exist or have decreased. If any such indication exists, the recoverable amount of that asset is estimated.

The reversal of an impairment loss of an asset (previously recognised in Surplus or Deficit on the Provision of Services) is only permitted to be recognised if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If there is an indication that the impairment loss recognised for an asset may no longer exist or may have decreased, this may indicate that the useful life, the depreciation method or the residual value need to be reviewed, even if no impairment loss is reversed for the asset.

The reversal of an impairment loss previously recognised in Surplus or Deficit on the Provision of Services shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. Any excess above the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years is treated as a revaluation gain and charged to the Revaluation Reserve.

12 FOREIGN CURRENCY TRANSLATION

In accordance with IAS 21, income and expenditure arising from transactions in foreign currency are translated into sterling at the exchange rate in operation on the date on which the transaction occurred. Balances denominated in a foreign currency are translated at the prevailing exchange rate at the Balance Sheet date.

13 GRANTS & THIRD PARTY CONTRIBUTIONS

All grants and contributions are realised in the Comprehensive Income & Expenditure Statement once there is reasonable assurance that any conditions applying to the income will be fulfilled, in accordance with IAS 20. Capital grant is initially transferred to the Capital Grants Unapplied Account. When the associated capital expenditure has been incurred, the grant is transferred to the Capital Adjustment Account. Unspent revenue grants are transferred to an earmarked revenue reserve. Once the expenditure is incurred the reserve is applied to fund that expenditure.

14 INTEREST

Interest receivable on temporary investments is reported in the Comprehensive Income & Expenditure Statement in the period to which it relates. Interest payable on external borrowing is fully accrued in order that the period bears the full cost of interest relevant to actual borrowing. Other types of interest (e.g. for finance leases) are reported in service accounts. An analysis of all interest payable is disclosed in the notes to the Financial Statements.

15 INVESTMENTS

The Authority holds no investments in companies or marketable securities. Short-term cash surpluses are invested with other Local Authorities, banks and building societies in accordance with the CIPFA Code on Treasury Management as detailed in the notes to the Financial Statements. Details of investments held by the Pension Fund are disclosed in the notes to the Pension Fund Financial Statements.

16 LEASES

In accordance with IAS 17, leases are classified as finance leases when substantially all the risks and rewards of ownership transfer to the lessee. All other leases are classified as operating leases.

For operating leases where DCC is the lessee, lease payments are recognised as an expense in the Comprehensive Income & Expenditure Statement over the life of the lease on an accruals basis.

For finance leases where DCC is the lessee, at the start of the lease term, the Authority records an asset and a corresponding liability at the lower of the fair value of the asset and the present value of the minimum lease payments. Finance lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Depreciation on finance leases is consistent with that for other property, plant and equipment.

For operating leases, where Dorset County Council is the lessor, lease receipts are recognised as income in the Comprehensive Income & Expenditure Statement over the life of the lease on an accruals basis. Where Dorset County Council is the lessor for a finance lease, at the commencement of the lease term, the Authority records a finance lease in the Balance Sheet as a receivable, at an amount equal to the net investment in the lease.
The Authority recognises finance income based on a pattern reflecting a constant periodic return on its net investment outstanding in respect of the finance lease.

Land and buildings elements of a lease of land and buildings are classified and accounted for separately. Leased land is always treated as an operating lease; buildings are assessed separately to determine whether they are finance or operating leases.

17 LEASE TYPE ARRANGEMENTS

IFRIC4 sets out the principle that in recent years, arrangements have developed that do not take the legal form of a lease, but which convey rights to use assets in return for a payment, or series of payments. Such arrangements are deemed to be leases where:

(a) fulfilment of the arrangement depends on a specific asset
(b) the arrangement conveys a right to control the use of the asset.

In such cases, the transaction is deemed to be a lease and is assessed as to whether it is an operating or finance lease and accounted for accordingly. Dorset County Council has no such arrangements in place.

18 PFI Schemes

The County Council is party to two long term contracts under the Private Finance Initiative (PFI); one for the provision of a replacement secondary school, the other for the provision of street lighting. The Authority accounts for both of these schemes in accordance with IFRIC 12 (Service Concessions). Both schemes are recorded as assets in the Council's Balance Sheet with corresponding liabilities which are discharged over the period of the contract.

19 OVERHEADS (SUPPORT COSTS)

Support Services are corporate activities of a professional, technical and administrative nature that are carried out in support of the direct service provision of the Authority. The Service Reporting Code of Practice requires Authorities to adopt consistent policies when allocating the costs of these services to users. These activities are fully allocated over all services on the basis of use. Time recording systems are operated by central support services to enable more accurate recharges of costs to customers. Charges for office accommodation are based on the floor area allocated to services. Other centrally provided services are recharged on the basis of actual usage, e.g. IT Services, or by direct charges to customers, e.g. printing.

Service level agreements defining the agreed quantity, cost and types of service to be provided for individual managers are also used in relation to the limited number of internal trading organisations operated by the Council. Contractual agreements have been established by a number of Directorates of the Authority to provide services to, amongst others, further education colleges, Care South, Dorset Police and Dorset Fire Authority.

Some overheads are not apportioned, recognising the Council's status as a multi-functional, democratic organisation. These costs are shown as part of the Net Cost of Services under the Corporate and Democratic Core heading in the Comprehensive Income & Expenditure Statement, along with certain other non-distributed costs relating to pension benefits.

20 PENSIONS

The cost of pensions is accounted for in accordance with IAS 19.

The net total of the following amounts is recognised in the Surplus or Deficit on the Provision of Services except to the extent that the Code requires or permits their inclusion in the cost of an asset:

a) current service cost
b) interest cost
c) the expected return on any plan assets and on any reimbursement right recognised as an asset
d) past service cost
e) the effect of any curtailments or settlements.

21 PROVISIONS

In accordance with IAS 37, the County Council maintains provisions to meet liabilities arising from past events, where it is deemed that there will be a future obligation, but the timing and precise amount are uncertain. The adequacy of the County Council's provisions is reviewed annually. Provisions are measured at the present value of the expenditure required to settle the obligation, where the time value of money is significant.

The Council maintains external insurance only for major risks, self-funding the remaining significant elements of risk. A provision has been established to meet insurance liabilities not covered externally. Provisions are separately disclosed on the face of the Balance Sheet, classified as to current or non-current liabilities (all are deemed to be current liabilities).

22 REDEMPTION OF DEBT

The County Council finances a proportion of its capital spending by borrowing and is required to charge a prudent percentage of the previous year's Capital Financing Requirement in the Comprehensive Income & Expenditure Statement in each financial year. Details are shown in the notes to the Financial Statements.

23 RESERVES

A number of earmarked reserves have been established to meet future expenditure. These include reserves to finance particular capital projects and reserves to smooth irregular expenditure. Many new reserves were established with the transition to IFRS, due to the change in accounting policy for grants and other contributions.

Reserves which are the result of IFRS compliance (rather than reserves held for designated purposes by the Authority) continue to be shown separately within note 51.

24 INVENTORIES

In accordance with IAS 2, stocks and stores held at the year-end are valued at the lower of cost and net realisable value. Certain minor stocks are not valued (e.g. stationery) and are therefore excluded from the Balance Sheet. The requirement for stock is regularly reviewed.

25 PROPERTY, PLANT & EQUIPMENT

i Recognition

The Code requires Authorities to maintain asset registers to record information on their capital assets. These assets are valued and revalued periodically by professional valuers, for inclusion in the Balance Sheet in accordance with IFRS 13 and IAS 16.

A de-minimis level of £25,000 has been applied to Land and Buildings. There is no de-minimis for other asset classes.
Property, plant and equipment is capitalised if:

(a) it is held for use in delivering services or for administrative purposes
(b) it is probable that future economic benefits will flow to, or service potential will be supplied to the Authority
(c) it has a useful economic life of more than one year
(d) the cost of the item can be measured reliably.

The main assets will be classified as follows (RICS Valuation – Professional Standards UK 2014 – UK Appendix 5: 2.1):

Property, plant and equipment (PPE):

These assets form the majority of the County Council's portfolio and are used in the delivery of services and/or the production of goods. These operational assets may be rented to others, but would not be held solely for that purpose or they would be re-classified as investment assets (INV). The County Council holds no investment assets which fall to be valued in the 2016 valuation report.
PPE assets are tangible fixed assets that bring longer-term economic benefits or service potential to the authority

Property, plant and equipment - Surplus (PPES):

Surplus Assets are formerly PPE assets which have been declared surplus to service needs and the needs of the County Council. These are non-operational assets which are yet to meet the criteria of asset held for sale (AHS)

Assets held for sale (AHS):

Assets held for sale is the next classification afforded to PPES assets which are being marketed for disposal. The asset must be immediately available for sale and the sale of the property must be highly probable and anticipated to be within a year. AHS should be measured at the lower of carrying amount and fair value less costs to sell.

ii Measurement

Assets will be valued to either Fair Value (FV) or Current Value (CV):

Fair Value (FV) - defined under IFRS as: 'The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Fair Value applies to the measurement of PPES and AHS categories of assets. For most practical purposes the figure to be reported as the Fair Value of an asset is likely to be conceptually the same as that which would be reported as market value and implies the highest and best use of that asset in the principal or most advantageous market.

Current Value (CV) – defined as: the amount that would be exchanged for the asset in its existing use. Several methods are identified as appropriate for arriving at a CV

Existing Use Value (CVEUV) - is to be used only where the asset is occupied by the authority and which provides a service potential where an active market exists. EUV is defined as: The estimated amount for which a property should exchange on valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the asset required by the business, and disregarding potential alternative uses and any other characteristics of the asset that would cause its market Value to differ from that needed to replace the remaining service potential at least cost.

Depreciated Replacement Cost (CVDRC) is a method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation. Where DRC is used as the valuation methodology the 'instant build' approach is used. This method of valuation is applied to assets for which there is a good degree of observable specialisation or for which there is no readily reliable or observable market data.. It should be noted that the DRC method of valuation does not represent the figure that could be achieved if the asset were to be placed on the market for sale. It is a representation of the value of the asset to the authority while it is providing service potential.

Assets are re-valued with sufficient regularity to ensure that the carrying amount (net book value) of an asset does not differ materially from that which would be determined at the end of the financial year in which the 2016 valuation report is prepared.

Comparable evidence, BCIS build costs and Baseline build costs will be compiled and assessed and utilised as appropriate to provide the values for each asset. Dorset Property Buildings and Design services will be utilised to provide component details for each asset as required, including updates to previously componentised assets as required and where replacement of elements has occurred.

In respect of DRC valuations the Valuer will rely on projected BCIS data utilising the first quarter 2015 average prices index for the relevant class of asset. Due regard will be given to the Baseline cost directive where appropriate.

In respect of DRC calculations where multiple age buildings exist on one site, an average age and obsolescence factor will be applied, taking into account the age and type of structures and the anticipated replacement cycle of the asset as assessed by the service head/asset team

Valuations of land may include calculations utilising a Residual Valuation approach to arrive at a Fair Value where there is limited suitable comparable data to available.

Section 2.10.2.29 of the Code iterates IFRS 13 in the provision of valuation hierarchy levels for assets classified as PPES and AHS to increase consistency and comparability in fair value measurements and related disclosures. These are categorised into three levels

Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
Level 2 Inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 Inputs – unobservable inputs for the asset or liability.

The highest priority is given to quoted prices (unadjusted) in active markets for identical assets or liabilities and lowest priority to unobservable inputs. The assets valued in the 2016 valuation report are not identical and therefore hierarchy 1 reporting and disclosure is not possible. All assets held at PPES and AHS attract a hierarchy level 2 unless specifically stated in the special assumptions of the 2016 valuation report

Where the MV of an asset valued using the DRC method is:

- significantly lower than that attributed to the continued occupation and use by the authority it will be noted in the notes section of the summary valuation.
- significantly higher for a readily identifiable use the value will also be given in the same notes section.

County Farms are categorised as Property Plant and Equipment (PPE) and have been valued on a CVEUV basis as tenanted farms to be re-let on a rolling and planned basis for the foreseeable future due to established County Council policy drivers. There will be occasional rationalisation of farm units which may release additional value but which would not be appropriate to report against any of the assets due to the overriding principle of maintaining a County Farm asset base. The County Farms are valued using capitalised net income flows: this approach excludes any alternative use, FV basis or break-up value: if those policies were reversed all County Farms would display considerably higher FV figures

At the end of April 2016 the Valuer undertook an impairment or material economic change review to ensure that assets are carried at no more than their recoverable amount (i.e. the amount to be recovered through use or sale of the asset). This year end assessment is required to indicate if an asset might be impaired or had any material economic change to its value.

iii Impairment

Assets are reviewed annually for evidence of impairment. Impairment is the reduction in the recoverable amount of a non-current asset below the amount at which it is being carried in the Balance Sheet. It can be the result of physical damage, use, obsolescence or the passing of time. If any indication of impairment exists, the recoverable amount is estimated. Upward revaluation of an asset is matched by an increase to the Revaluation Reserve to reflect an unrealised gain. Where an asset is impaired (downward revaluation), the value of the asset is written down to the recoverable amount as soon as the impairment is recognised. Impairment losses on revalued assets are recognised in the Revaluation Reserve, up to the amount in the Reserve for each respective asset and thereafter charged to Surplus or Deficit on the Provision of Services.

iv Reversal of impairment

Assets are reviewed annually to determine whether there is any indication that an impairment loss recognised in earlier periods for an asset may no longer exist or have decreased. If any such indication exists, the recoverable amount of that asset is estimated.

The reversal of an impairment loss of an asset (previously recognised in Surplus or Deficit on the Provision of Services) is only permitted to be recognised if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

If there is an indication that the impairment loss recognised for an asset may no longer exist or may have decreased, this may indicate that the useful life, the depreciation method or the residual value need to be reviewed, even if no impairment loss is reversed for the asset.

The reversal of an impairment loss previously recognised in Surplus or Deficit on the Provision of Services shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. Any excess above the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years, is treated as a revaluation gain and charged to the Revaluation Reserve.

v Disposals

Capital receipts from the disposal of property and other assets owned by the Council, less up to 4% of the cost of the sale, are credited to the usable capital receipts reserve and used to finance new capital expenditure.

vi Gains and losses on disposal of assets

A gain or loss arises when the proceeds from the sale of an asset differ from the net book value of that asset in the Balance Sheet. The gain or loss is shown in the Other Operating Income & Expenditure section of the Comprehensive Income & Expenditure Statement and reversed out in the Statement of Movement in Reserves (General Fund Balance).

vii Depreciation

Tangible non-current asset depreciation is charged in the Comprehensive Income & Expenditure Statement where the assets have a finite useful life. This includes buildings in accordance with the requirements of IFRS. As part of the annual valuation of assets, the Valuation and Estates Manager determines the estimated useful life of the properties.

The depreciation charge is based on equal annual instalments over the expected life of the asset with no allowance for residual value. Generally, vehicles and equipment are depreciated over periods of 2 to 10 years and buildings over periods of 20 to 60 years. No depreciation charge is made for land or community assets. Infrastructure assets are treated on a pooled basis and are depreciated on a reducing balance basis.

viii Charges to revenue

Capital charges to services are for depreciation and/or impairment only. These charges are reversed in the Statement of Movement in Reserves (General Fund Balance) in order that the cost to the local taxpayer is unaffected by capital accounting requirements.

ix Subsequent expenditure

Where subsequent expenditure enhances an asset beyond its original specification, the directly attributable cost is capitalised. Subsequent expenditure which does not add to the future economic benefits or service potential of the asset, is expensed in the Comprehensive Income and Expenditure Statement in the year in which it is incurred.

x Componentisation

Component accounting has applied (prospectively) since 1 April 2010. Component accounting is the separate recognition of two or more significant components of an asset for depreciation purposes (ie as if each component were a separate asset in its own right) where the useful life is substantially different.

Each part of an item of property, plant or equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Assets are reviewed for componentisation whenever they are acquired, revalued, or enhanced.

The annual valuation exercise that is carried out by the Authority revalues a proportion of the Council's assets each year. A policy for assessing these assets for componentisation was developed with the Valuations & Estates Team and approved by the Auditors in 2010/11. This looks at componentising over a six year period.

xi Component derecognition

Where a component is replaced or restored, the carrying amount of the old component is derecognised to avoid double-counting and the new component reflected in the carrying amount, subject to the recognition principles set out in accounting policy 26(i) and 26(ix). This includes derecognition of parts of an asset not previously recognised as a separate component, the componentisation of which has been triggered by the replacement or restoration.

xii Residual values

DCC does not use residual values in its asset accounting or depreciation calculations. The accounting policy is to depreciate the full cost of the asset over the useful economic life.

26 DONATED ASSETS

Donated assets, transferred to the Authority for nil consideration, are recognised immediately at fair value as assets on the Balance Sheet. The asset is recognised in the Comprehensive Income & Expenditure Statement as income unless the transfer has a condition that the Authority has not satisfied. In which case the asset is credited to the Donated Assets Account and recognised in the Comprehensive Income & Expenditure Statement once the condition has been met. Donated assets are valued, depreciated and impaired in accordance with the accounting policies for other noncurrent assets.

27 VAT

Income and Expenditure excludes any amounts relating to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT is recoverable from them.

28 HERITAGE ASSETS

FRS 30 defines a heritage asset as one with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. The Code offers further interpretation of this definition: "heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the reporting entity in pursuit of its overall objectives in relation to the maintenance of heritage."

DCC has interpreted this to mean that an asset is not classified as a heritage asset merely because it has certain qualities (e.g. a listed building). It is the intention to preserve the asset for future generations that is important, coupled with a demonstrable contribution to knowledge and culture.

Operational heritage assets have always been shown in the Balance Sheet under their appropriate classifications. These assets continue to be shown in this way and carried in accordance with the other asset accounting policies set out herein. FRS 30 and the Code (4.10.2.7) do not apply to such assets.

Heritage assets (other than operational heritage assets) are measured at a valuation in line with FRS 30. The standard states that the valuation may be made by any method that is appropriate and relevant. Buildings are valued at depreciated replacement cost. Other Heritage assets are not deemed to have a material value and the cost involved in valuing them would be disproportionate to the benefit received by the users of these Financial Statements.

Dorset also owns significant volumes of archive information and collections. These are not included in the Balance Sheet as the cost of valuation would not be commensurate with the benefits of the information and the valuations would not be readily ascertainable in many cases.

29 INVESTMENT PROPERTY

Investment property is defined by IAS 40 as property (land or a building, or part of a building, or both) held to earn rentals or for capital appreciation or both, rather than for:
(a) use in the production or supply of goods or services or for administrative purposes, or
(b) sale in the ordinary course of operations.

Changes to fair value of Investment Property are taken to Surplus or Deficit on the Provision of Services and then reversed out to the Capital Adjustment Account.

30 ACQUIRED AND DISCONTINUED OPERATIONS

Activities are considered to be acquired only if they are acquired from outside the Public Sector. The Code does not include local government reorganisation since any 'machinery of government' changes are neither acquired nor discontinued operations. Similarly, activities are deemed to be discontinuing only if they are transferring outside of the Public Sector, or if they are ceasing completely.

Notwithstanding this, note 5 provides information about schools which achieved/plan to achieve Academy status in 2015/16 and 2016/17.

31 EMPLOYEE BENEFITS

Salaries, wages and employment-related payments and any termination benefits are recognised in the period in which the service is received from employees. Annual leave not taken at the end of the financial year is accrued for in the Surplus or Deficit on the Provision of Services, in accordance with IAS 19.

32 DCC GROUP – BASIS OF CONSOLIDATION

DCC Group Accounts have been produced using the Equity Method of consolidation. The DCC Group position is shown either in separate, or alongside the Authority only single-entity Financial Statements. Disclosure notes to the Accounts relate to the Authority single-entity only unless otherwise stated.

33 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DCC GROUP ACCOUNTS

The accounting policies of Tricuro Support Ltd joint venture are aligned where applicable with those of Dorset County Council.

2014/15		2015/16			
Net Spending £'000	**Gross Spending, Gross Income, Grants & Net Expenditure on Continuing Operations**	**Gross Spending £'000**	**Income £'000**	**Specific Grants £'000**	**Net Spending £'000**
	Adult Social Care				
14,132	Physical Support (18-64)	15,073	1,892	604	12,577
43,596	Physical Support (65+)	72,268	31,082	3,451	37,735
115	Sensory Support (18-64)	260	24	-	236
291	Sensory Support (65+)	319	50	-	269
242	Memory & Cognition (18-64)	76	13	-	63
3,326	Memory & Cognition (65+)	6,818	2,064	-	4,754
19,774	Learning Disability (18-64)	28,583	4,452	-	24,131
1,448	Learning Disability (65+)	2,631	537	-	2,094
2,504	Mental Health (18-64)	2,693	312	-	2,381
647	Mental Health (65+)	1,527	382	-	1,145
491	Substance Abuse	40	25	-	15
363	Support for Carers	719	576	-	143
2,137	Assistive Equipment & Technology	4,417	427	1,963	2,027
13,189	Social Care Activities	15,104	571	314	14,219
2,133	Information & Early Intervention	4,508	1,303	153	3,052
16,479	Commissioning & Service Delivery	17,164	1,603	89	15,472
	Public Health				
-	Sexual health	7,198	3,304	3,894	-
-	NHS health check programme	651	299	352	-
-	Health protection	69	40	29	-
-	National child measurement programme	48	22	26	-
-	Public health advice	673	311	362	-
(20)	Substance misuse	4,968	2,174	2,734	60
-	Smoking & tobacco	778	357	421	-
-	Children 5-19 public health programmes	1,326	609	717	-
(36)	Other public health services	4,147	1,978	2,715	(546)
-	Children 0 - 5 years	5,166	2,398	2,768	-
	Central Services				
2,681	Democratic Representation and Management	2,538	-	-	2,538
2,042	Corporate Management	13,172	5,955	755	6,462
2,759	Non Distributed Costs	3,947	1,973	313	1,661
1,220	Revenue expenditure on surplus assets	6,490	30	-	6,460
	Central Services to the Public				
191	Registrars	1,004	854	-	150
237	Emergency Planning	381	21	-	360
737	Coroners	648	-	-	648
	Children's & Education Services				
101,943	Primary Schools - Delegated Budgets	104,012	5,687	9,841	88,484
1,742	Primary Schools - LEA Expenditure	1,149	19	-	1,130
87,046	Secondary Schools - Delegated Budgets	72,487	3,439	2,727	66,321
4,964	Secondary Schools - LEA Expenditure	25,208	1,828	10,614	12,766
5,768	Special Schools - Delegated Budgets	7,488	762	856	5,870
-	Special Schools - LEA Expenditure	1	-	-	1
(197,257)	Dedicated Schools Grant	-	-	176,297	(176,297)
12,184	Delegated Nursery School Budgets	13,189	13	-	13,176
2,877	Early Years Provision	3,240	372	-	2,868
4,221	Children's Centres	4,157	53	-	4,104
274	Adult & Community Learning	2,453	291	2,127	35
7,341	Other Services To Young People	6,956	342	-	6,614
1,652	Other Strategic Functions - Special Education	2,486	59	254	2,173
23,703	Other Strategic Functions - Learner Support	24,459	931	73	23,455
3,180	Other Strategic Functions - Access	4,758	1,123	500	3,135
3,721	Other Strategic Functions - LA Education Functions	4,336	747	10	3,579
1,335	Service Strategy (Children's Social Care)	3,400	239	905	2,256
14,498	Commissioning & Social Work	15,839	43	-	15,796
16,008	Children looked after	21,366	673	656	20,037
3,286	Family support services	3,703	132	193	3,378
1,424	Youth Justice	1,460	15	170	1,275
1,620	Other children's & families' services	2,241	155	-	2,086
564	Children & Young People's Safety	579	152	-	427
	Culture & Related Services				
1,027	Culture and Heritage	1,521	384	-	1,137
447	Recreation and Sport	572	160	-	412
1,818	Open Spaces	3,200	1,214	177	1,809
6,673	Library Service	7,219	570	-	6,649

2014/15		2015/16			
Net Spending £'000	**Gross Spending, Gross Income, Grants & Net Expenditure on Continuing Operations**	**Gross Spending £'000**	**Income £'000**	**Specific Grants £'000**	**Net Spending £'000**
	Environmental & Regulatory Services				
225	Coastal Protection	137	-	-	137
-	Community Safety (Safety Services)	66	7	45	14
683	Agriculture & Fisheries Services	314	731	-	(417)
1,366	Trading Standards	1,471	183	2	1,286
24,439	Waste Disposal	22,752	68	-	22,684
2,623	Recycling	4,788	1,440	-	3,348
160	Street Cleansing	1,808	24	-	1,784
(5,446)	Household Waste Collection	9,794	11,316	-	(1,522)
212	Trade Waste	1,433	1,894	-	(461)
	Planning Services				
578	Development Control	1,197	251	-	946
1,090	Planning Policy	1,073	144	-	929
334	Environmental Initiatives	2,866	717	893	1,256
5,619	Economic Development	12,826	48	913	11,865
1,131	Community Development	975	57	31	887
(69)	Business Support	4	-	-	4
	Highways and Transport Services				
1,718	Transport Planning, Policy and Strategy	1,981	269	507	1,205
19	Structural Maintenance	685	379	-	306
16,868	Capital Charges for construction projects	14,341	3	-	14,338
9,313	Environment, Safety & Routine Maintenance	12,967	2,177	89	10,701
2,043	Street Lighting (including energy costs)	4,834	364	2,546	1,924
884	Winter Service	1,237	260	-	977
693	Traffic management & Road Safety (education/safe routes)	283	14	34	235
2,334	Traffic Management & Road Safety (other)	1,408	6	-	1,402
(316)	Parking Services	831	1,342	-	(511)
4,377	Public transport: discretionary concessionary fares	4,590	51	-	4,539
2,636	Public transport: support to operators	3,913	126	392	3,395
890	Public Transport Coordination	2,133	334	374	1,425
	Housing Services				
265	Gypsy Sites/Affordable Housing	432	223	-	209
317,406	**Deficit on Provision of Services**	674,022	107,469	232,886	333,667
	Other Operating Income & Expenditure				
2,483	Net loss/(gain) on disposal of non-current assets	(341)	-	-	(341)
31,669	Net loss on disposal of Academies	9,580	-	-	9,580
605	Levies and Precepts	770	-	112	658
-	(Write-back)/impairment re Icelandic Banks	(529)	-	-	(529)
	Financing & Investment Income & Expenditure				
7,494	Interest Payable	7,564	-	-	7,564
(804)	Interest and Investment Income	-	398	-	(398)
21,182	Pensions Interest Cost & Expected Return on Assets	21,004	-	-	21,004
380,035	**Net Operating Expenditure**	712,070	107,867	232,998	371,205
	Taxation & Non-Specific Grant Income				
(45,983)	Revenue Support Grant				(34,338)
(10,905)	Non-Domestic Rates				(9,489)
(25,258)	Non-Domestic Rates top-up receipts from Central Government				(25,740)
(192,743)	Council Tax				(198,171)
(7,119)	Other Central Grants				(7,266)
(46,212)	Capital Grants				(62,543)
(328,220)	**Total Finance**				(337,547)
51,815	**Deficit for the year**				33,658
(22,632)	(Surplus) on the revaluation of Property, Plant & Equipment				(13,637)
140,045	Actuarial loss/(gain) on Pension Fund Assets & Liabilities				(66,069)
169,228	**Net Comprehensive (Income)/Expenditure**				(46,048)

2014/15 Net Spending £'000	Gross Spending, Gross Income, Grants & Net Expenditure on Continuing Operations	2015/16 Gross Spending £'000	Income £'000	Specific Grants £'000	Net Spending £'000
	Adult Social Care				
14,132	Physical Support (18-64)	15,073	1,892	604	12,577
43,596	Physical Support (65+)	72,268	31,082	3,451	37,735
115	Sensory Support (18-64)	260	24	-	236
291	Sensory Support (65+)	319	50	-	269
242	Memory & Cognition (18-64)	76	13	-	63
3,326	Memory & Cognition (65+)	6,818	2,064	-	4,754
19,774	Learning Disability (18-64)	28,583	4,452	-	24,131
1,448	Learning Disability (65+)	2,631	537	-	2,094
2,504	Mental Health (18-64)	2,693	312	-	2,381
647	Mental Health (65+)	1,527	382	-	1,145
491	Substance Abuse	40	25	-	15
363	Support for Carers	719	576	-	143
2,137	Assistive Equipment & Technology	4,417	427	1,963	2,027
13,189	Social Care Activities	15,104	571	314	14,219
2,133	Information & Early Intervention	4,508	1,303	153	3,052
16,479	Commissioning & Service Delivery	16,335	1,603	89	14,643
	Public Health				
-	Sexual health	7,198	3,304	3,894	-
-	NHS health check programme	651	299	352	-
-	Health protection	69	40	29	-
-	National child measurement programme	48	22	26	-
-	Public health advice	673	311	362	-
(20)	Substance misuse	4,968	2,174	2,734	60
-	Smoking & tobacco	778	357	421	-
-	Children 5-19 public health programmes	1,326	609	717	-
(36)	Other public health services	4,147	1,978	2,715	(546)
-	Children 0 - 5 years	5,166	2,398	2,768	-
	Central Services				
2,681	Democratic Representation and Management	2,538	-	-	2,538
2,042	Corporate Management	13,172	5,955	755	6,462
2,759	Non Distributed Costs	3,947	1,973	313	1,661
1,220	Revenue expenditure on surplus assets	6,490	30	-	6,460
	Central Services to the Public				
191	Registrars	1,004	854	-	150
237	Emergency Planning	381	21	-	360
737	Coroners	648	-	-	648
	Children's & Education Services				
101,943	Primary Schools - Delegated Budgets	104,012	5,687	9,841	88,484
1,742	Primary Schools - LEA Expenditure	1,149	19	-	1,130
87,046	Secondary Schools - Delegated Budgets	72,487	3,439	2,727	66,321
4,964	Secondary Schools - LEA Expenditure	25,208	1,828	10,614	12,766
5,768	Special Schools - Delegated Budgets	7,488	762	856	5,870
-	Special Schools - LEA Expenditure	1	-	-	1
(197,257)	Dedicated Schools Grant	-	-	176,297	(176,297)
12,184	Delegated Nursery School Budgets	13,189	13	-	13,176
2,877	Early Years Provision	3,240	372	-	2,868
4,221	Children's Centres	4,157	53	-	4,104
274	Adult & Community Learning	2,453	291	2,127	35
7,341	Other Services To Young People	6,956	342	-	6,614
1,652	Other Strategic Functions - Special Education	2,486	59	254	2,173
23,703	Other Strategic Functions - Learner Support	24,459	931	73	23,455
3,180	Other Strategic Functions - Access	4,758	1,123	500	3,135
3,721	Other Strategic Functions - LA Education Functions	4,336	747	10	3,579
1,335	Service Strategy (Children's Social Care)	3,400	239	905	2,256
14,498	Commissioning & Social Work	15,839	43	-	15,796
16,008	Children looked after	21,366	673	656	20,037
3,286	Family support services	3,703	132	193	3,378
1,424	Youth Justice	1,460	15	170	1,275
1,620	Other children's & families' services	2,241	155	-	2,086
564	Children & Young People's Safety	579	152	-	427
	Culture & Related Services				
1,027	Culture and Heritage	1,521	384	-	1,137
447	Recreation and Sport	572	160	-	412
1,818	Open Spaces	3,200	1,214	177	1,809
6,673	Library Service	7,219	570	-	6,649

2014/15 Net Spending £'000	Gross Spending, Gross Income, Grants & Net Expenditure on Continuing Operations	2015/16 Gross Spending £'000	Income £'000	Specific Grants £'000	Net Spending £'000
	Environmental & Regulatory Services				
225	Coastal Protection	137	-	-	137
-	Community Safety (Safety Services)	66	7	45	14
683	Agriculture & Fisheries Services	314	731	-	(417)
1,366	Trading Standards	1,471	183	2	1,286
24,439	Waste Disposal	22,752	68	-	22,684
2,623	Recycling	4,788	1,440	-	3,348
160	Street Cleansing	1,808	24	-	1,784
(5,446)	Household Waste Collection	9,794	11,316	-	(1,522)
212	Trade Waste	1,433	1,894	-	(461)
	Planning Services				
578	Development Control	1,197	251	-	946
1,090	Planning Policy	1,073	144	-	929
334	Environmental Initiatives	2,866	717	893	1,256
5,619	Economic Development	12,826	48	913	11,865
1,131	Community Development	975	57	31	887
-	Economic Research	-	-	-	-
(69)	Business Support	4	-	-	4
	Highways and Transport Services				
1,718	Transport Planning, Policy and Strategy	1,981	269	507	1,205
19	Structural Maintenance	685	379	-	306
16,868	Capital Charges for construction projects	14,341	3	-	14,338
9,313	Environment, Safety & Routine Maintenance	12,967	2,177	89	10,701
2,043	Street Lighting (including energy costs)	4,834	364	2,546	1,924
884	Winter Service	1,237	260	-	977
693	Traffic management & Road Safety (education/safe routes)	283	14	34	235
2,334	Traffic Management & Road Safety (other)	1,408	6	-	1,402
(316)	Parking Services	831	1,342	-	(511)
4,377	Public transport: discretionary concessionary fares	4,590	51	-	4,539
2,636	Public transport: support to operators	3,913	126	392	3,395
890	Public Transport Coordination	2,133	334	374	1,425
	Housing Services				
265	Gypsy Sites/Affordable Housing	432	223	-	209
317,406	**Deficit on Provision of Services**	674,022	107,469	232,886	333,667
-	Share of (profit) or loss on the provision of services by joint vent	(3)			(3)
-	Tax expenses of joint venture	2			2
317,406	**Group (Surplus) / Deficit**	674,021	107,469	232,886	333,666
	Other Operating Income & Expenditure				
2,483	Net loss/(gain) on disposal of non-current assets	(341)	-	-	(341)
31,669	Net loss on disposal of Academies	9,580	-	-	9,580
605	Levies and Precepts	770	-	112	658
-	Net trading account (surplus)/deficit	-	-	-	-
-	(Write-back)/impairment re Icelandic Banks	(529)	-	-	(529)
	Financing & Investment Income & Expenditure				
7,494	Interest Payable	7,564	-	-	7,564
(804)	Interest and Investment Income	-	398	-	(398)
21,182	Pensions Interest Cost & Expected Return on Assets	21,004	-	-	21,004
380,035	**Net Operating Expenditure**	712,069	107,867	232,998	371,204
	Taxation & Non-Specific Grant Income				
(45,983)	Revenue Support Grant				(34,338)
(10,905)	Non-Domestic Rates				(9,489)
(25,258)	Non-Domestic Rates top-up receipts from Central Government				(25,740)
(192,743)	Council Tax				(198,171)
(7,119)	Other Central Grants				(7,266)
(46,212)	Capital Grants				(62,543)
(328,220)	**Total Finance**				(337,547)
51,815	**Deficit for the year**				33,657
(22,632)	(Surplus) on the revaluation of Property, Plant & Equipment				(13,637)
140,045	Actuarial loss/(gain) on Pension Fund Assets & Liabilities				(66,069)
-	Share of other comprehensive income and expenditure of joint venture				-
169,228	**Net Comprehensive (Income)/Expenditure**				(46,049)

31 March 2015				31 March 2016			
				DCC Single Entity		DCC Group	
£'000	£'000		Note	£'000	£'000	£'000	£'000
2,622		**Intangible Assets**		**2,447**		**2,447**	
		Property, Plant & Equipment					
		Operational Assets					
371,597		Land and Buildings		**379,417**		**379,417**	
26,070		Vehicles, Plant, Furniture & Equipment		**26,402**		**26,402**	
347,876		Infrastructure Assets (e.g. highways)		**342,626**		**342,626**	
10,024		Community Assets (e.g. country parks)		**10,031**		**10,031**	
		Non-operational Assets					
28,772		Assets under construction		**47,753**		**47,753**	
17,402		Surplus Assets		**10,650**		**10,650**	
	804,363		*21*		**819,326**		**819,326**
		Investment in Joint Venture					**1**
	38	**Long term Investments**	*31*		**38**		**38**
	13,266	**Long term Debtors**	*32*		**4,591**		**4,591**
	817,667	**Long term Assets**			**823,955**		**823,956**
		Current Assets					
693		Inventories	*33*	**950**		**950**	
56,356		Debtors and Payments in Advance	*34*	**65,521**		**65,521**	
45,000		Temporary Investments	*31*	**-**		**-**	
3,677		Assets held for sale	*21, 36*	**5,320**		**5,320**	
19,668		Cash & cash equivalents	*37*	**19,201**		**19,201**	
125,394				**90,992**		**90,992**	
		Current Liabilities					
30,783		Short Term Borrowing	*38*	**820**		**820**	
63,688		Creditors and Receipts in Advance	*39*	**60,707**		**60,707**	
4,528		Provisions	*40*	**3,275**		**3,275**	
19,554		Bank Overdraft	*37*	**23,625**		**23,625**	
118,553				**88,427**		**88,427**	
	6,841	**Net Current Assets**			**2,565**		**2,565**
	824,508	**Total Assets less Current Liabilities**			**826,520**		**826,521**
		Long Term Liabilities					
(184,341)		Long Term Borrowing	*38*	**(183,521)**		**(183,521)**	
(34,999)		Long Term PFI Liability	*11*	**(32,612)**		**(32,612)**	
(26)		Other Long-Term Liabilities	*42*	**(74)**		**(74)**	
(7,017)		Obligations Under Finance Leases	*12*	**(6,321)**		**(6,321)**	
(639,008)		Pensions Asset / (Liability)	*23*	**(598,828)**		**(598,828)**	
	(865,391)	**Total Long Term Liabilities**			**(821,356)**		**(821,356)**
	(40,883)	**Net Assets/(Liabilities)**			**5,164**		**5,165**
		Financed by :-					
		Usable Reserves					
31,901		General Fund Balance	*52, 53*	**27,857**		**27,858**	
62,581		Earmarked Reserves	*51*	**56,085**		**56,085**	
2,968		Usable Capital Receipts Reserve	*50*	**(26)**		**(26)**	
24,515		Capital Grants Unapplied Account	*47*	**17,406**		**17,406**	
	121,965	**Total Usable Reserves**			**101,322**		**101,323**
		Unusable Reserves					
5,615		Collection Fund Adjustment Accounts	*45*	**5,825**		**5,825**	
99,497		Revaluation Reserve	*48*	**107,134**		**107,134**	
(639,008)		Pensions Reserve	*23*	**(598,828)**		**(598,828)**	
373,682		Capital Adjustment Account	*44*	**391,266**		**391,266**	
(4,473)		Accumulated Absences Account	*46*	**(3,435)**		**(3,435)**	
330		Deferred Capital Receipts Reserve		**330**		**330**	
1,509		Financial Instrument Adj Account	*49*	**1,550**		**1,550**	
	(162,848)	**Total Unusable Reserves**			**(96,158)**		**(96,158)**
	(40,883)	**Total Reserves**			**5,164**		**5,165**

The Balance Sheet is a record of the financial position of the County Council at 31 March 2016. Figures relating to the Dorset County Pension Fund are excluded. The summarised Pension Fund Accounts are set out in separate statements later in this document. Detailed notes supporting the Balance Sheet are shown later in this document.

STATEMENT OF MOVEMENTS IN RESERVES

	General Fund Balance	Earmarked GF Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Change in Total Usable Reserves	Collection Fund Adjustment Accounts	Revaluation Reserve	Pensions Reserve	Capital Adjustment Account	Accumulated Absences Account	Deferred Back pay Reserve	Financial Instrument Adjustment Account	Change in Total Unusable Reserves	Change in Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 31 March 2014	40,058	60,416	5,028	22,426	127,928	3,131	88,581	(477,481)	390,087	(5,432)	-	1,529	415	128,343
					-								-	-
Movement in reserves during 2014/15														
Surplus/(Deficit) for the year	(51,815)				(51,815)								-	(51,815)
Other Comprehensive Income & Expenditure														
Revaluation gains on property, plant & equipment							22,632						22,632	22,632
Actuarial loss on pension fund assets & liabilities								(140,045)					(140,045)	(140,045)
Total Comprehensive Income & Expenditure	(51,815)	-	-	-	(51,815)	-	22,632	(140,045)	-	-	-	-	(117,413)	(169,228)
Adjustments between accounting basis and funding basis under regulations														
Charges for depreciation & Impairment of non-current assets	34,539				34,539		(3,206)		(31,333)				(34,539)	-
Revenue expenditure funded from capital under statute	27,142				27,142				(27,142)				(27,142)	-
Net (gains)/losses on disposal of non-current assets	2,389		2,919		5,308		(636)		(5,002)		330		(5,308)	-
Net (gains)/losses on disposal of Academies	31,669				31,669		(7,873)		(23,796)				(31,669)	-
Amounts by which the finance costs charged to the Comprehensive Income & Expenditure Statement differ from statutory requirements	21				21							(21)	(21)	-
Reversal of items relating to retirement benefits charged in the Comprehensive Income & Expenditure Statement	51,918				51,918			(51,918)					(51,918)	-
Amount by which Council tax income in the Comprehensive Income & Expenditure Statement differs from statutory requirements	(2,008)				(2,008)	2,008							2,008	-
Amount by which Non-Domestic Rates income in the Comprehensive Income & Expenditure Statement differs from statutory requirements	(476)				(476)	476							476	-
Statutory provision for financing of capital investment	(17,464)				(17,464)				17,464				17,464	-
Capital Expenditure charged against the General Fund	(2,311)				(2,311)				2,311				2,311	-
Employer's pensions contributions and direct payments to pensioners payable in the year	(30,436)				(30,436)			30,436					30,436	-
Usable Capital Receipts funding revenue income from finance leases	63		(63)		-								-	-
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis differs from statutory requirements	(958)				(958)					958			958	-
Use of Capital Receipts to finance new capital expenditure			(4,899)	-	(4,899)				4,899				4,899	-
Total Adjustments	94,088	-	(2,043)	-	92,045	2,484	(11,715)	(21,482)	(62,599)	958	330	(21)	(92,045)	-
Transfers to/from specific reserves														
Transfer to Capital Grants Unapplied Reserves	(45,411)			45,411	-								-	-
Net transfer to / (from) Earmarked Reserves	(637)	637			-								-	-
Interest on Developer Contributions	(93)			93	-								-	-
Transfer from Capital Grants Unapplied to CAA				(46,195)	(46,195)				46,195				46,195	-
Reclassifications between balances and Reserves	(4,291)	1,527	(17)	2,781	-								-	-
Revenue reserves used to finance capital expenditure		-			-				-				-	-
Deferred Back pay Adjustment	-				-						-		-	-
Total transfers	(50,432)	2,166	(17)	2,090	(46,195)	-	-	-	46,195	-	-	-	46,195	-
Balance as at 31 March 2015	31,901	62,581	2,968	24,515	121,965	5,615	99,497	(639,008)	373,682	(4,473)	330	1,509	(162,848)	(40,883)

STATEMENT OF MOVEMENTS IN RESERVES

	General Fund Balance	Earmarked GF Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Change in Total Usable Reserves	Collection Fund Adjustment Accounts	Revaluation Reserve	Pensions Reserve	Capital Adjustment Account	Accumulated Absences Account	Deferred Capital Receipts	Financial Instrument Adjustment Account	Change in Total Unusable Reserves	Change in Total Reserves	Authority's Share of Reserves of Joint Venture	Total Reserves for the Group
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000		
Note	52, 53	51	50	47		45	48	23	44	46	50	49				
Balance as at 31 March 2015	31,901	62,581	2,968	24,515	121,965	5,615	99,497	(639,008)	373,682	(4,473)	330	1,509	(162,848)	(40,883)	-	(40,883)
Movement in reserves during 2015/16																
Surplus/(Deficit) for the year	(33,658)				(33,658)								-	(33,658)		(33,658)
Share of (profit) or loss on the provision of services by joint venture					-								-	-	1	1
Other Comprehensive Income & Expenditure																
Revaluation losses/(gains) on property, plant & equipment							13,637						13,637	13,637		13,637
Actuarial loss on pension fund assets & liabilities								66,069					66,069	66,069		66,069
Share of other comprehensive income and expenditure of joint venture													-	-	-	-
Total Comprehensive Income & Expenditure	(33,658)	-	-	-	(33,658)	-	13,637	66,069	-	-	-	-	79,706	46,048	1	46,049
Adjustments between group accounts and authority accounts					-								-	-		-
Net Increase/(Decrease) before Transfers	(33,658)	-	-	-	(33,658)	-	13,637	66,069	-	-	-	-	79,706	46,048	1	46,049
Adjustments between accounting basis and funding basis under regulations																
Charges for depreciation & Impairment of non-current assets	49,006				49,006		(3,319)		(45,687)				(49,006)	-		-
Revenue expenditure funded from capital under statute	22,908				22,908				(22,908)				(22,908)	-		-
Net gains/(losses) on disposal of non-current assets	(406)		4,036		3,630		(621)		(3,009)		-		(3,630)	-		-
Net gains/(losses) on disposal of Academies	9,581				9,581		(2,060)		(7,521)				(9,581)	-		-
Amounts by which the finance costs charged to the Comprehensive Income & Expenditure Statement differ from statutory requirements	(41)				(41)							41	41	-		-
Reversal of items relating to retirement benefits charged in the Comprehensive Income & Expenditure Statement	55,159				55,159			(55,159)					(55,159)	-		-
Amount by which Council tax income in the Comprehensive Income & Expenditure Statement differs from statutory requirements	(1,179)				(1,179)	1,179							1,179	-		-
Amount by which Non-Domestic Rates income in the Comprehensive Income & Expenditure Statement differs from statutory requirements	968				968	(968)							(968)	-		-
Statutory provision for financing of capital investment	(12,023)				(12,023)				12,023				12,023	-		-
Capital Expenditure charged against the General Fund	(4,942)				(4,942)				4,942				4,942	-		-
Employer's pensions contributions and direct payments to pensioners payable in the year	(29,270)				(29,270)			29,270					29,270	-		-
Usable Capital Receipts funding revenue income from finance leases	66		(66)		-								-	-		-
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis differs from statutory requirements	(1,038)				(1,038)					1,038			1,038	-		-
Use of Capital Receipts to finance new capital expenditure			(6,083)		(6,083)				6,083				6,083	-		-
Total Adjustments	88,789	-	(2,113)	-	86,676	211	(6,000)	(25,889)	(56,077)	1,038	-	41	(86,676)	-	-	-
Transfers to/from specific reserves														-		
Transfer to Capital Grants Unapplied Reserves	(62,251)			62,251	-								-	-		-
Net transfer to / (from) Earmarked Reserves	7,096	(7,096)			-								-	-		-
Interest on Developer Contributions	(20)			20	-								-	-		-
Transfer from Capital Grants Unapplied to CAA				(72,050)	(72,050)				72,050				72,050	-		-
Reclassifications between balances and Reserves	(4,000)	2,211	(881)	2,670	-								-	-		-
Revenue reserves used to finance capital expenditure		(1,611)			(1,611)				1,611				1,611	-		-
					-								-	-		-
Total transfers	(59,175)	(6,496)	(881)	(7,109)	(73,661)	-	-	-	73,661	-	-	-	73,661	-	-	-
Balance as at 31 March 2016	27,857	56,085	(26)	17,406	101,322	5,825	107,134	(598,828)	391,266	(3,435)	330	1,550	(96,158)	5,164	1	5,165

Revenue & Capital Reserves Analysis as at 31 March 2016	General Fund Balance	Earmarked GF Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Change in Total Usable Reserves	Collection Fund Adjustment Accounts	Revaluation Reserve	Pensions Reserve	Capital Adjustment Account	Accumulated Absences Account	Deferred Capital Receipts	Financial Instrument Adjustment Account	Change in Total Unusable Reserves	Change in Total Reserves	Authority's Share of Reserves of Joint Venture	Total Reserves for the Group
Revenue	25,231	56,085	-	-	81,316	5,825	-	(598,828)	-	(3,435)	330	1,550	(594,558)	(513,242)	1	(513,241)
Capital	2,626	-	(26)	17,406	20,006	-	107,134	-	391,266	-	-	-	498,400	518,406	-	518,406
	27,857	56,085	(26)	17,406	101,322	5,825	107,134	(598,828)	391,266	(3,435)	330	1,550	(96,158)	5,164	1	5,165

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CASH FLOW STATEMENT

2014/15				2015/16	
£'000	£'000		Note	£'000	£'000
		Operating Activities			
		Expenditure			
(323,121)		Cash Paid to or on behalf of employees		**(268,996)**	
(262,642)		Other operating costs		**(318,188)**	
(7,494)		Interest paid		**(7,564)**	
	(593,257)				**(594,748)**
		Income			
192,743		Precept - Council Tax		**198,171**	
45,983		Revenue Support Grant		**34,338**	
36,162		National Non Domestic Rates		**35,229**	
256,927		Other Government Grants	*13*	**240,335**	
82,708		Cash Received for goods and services		**98,813**	
859		Interest received		**398**	
	615,382				**607,284**
	22,125	**Net cash inflow / (outflow) from operating activities**			**12,536**
		Investing Activities			
		Expenditure			
(80,774)		Purchase of fixed assets/capital repayments	*25*	**(87,958)**	
		Income			
(2,060)		Sale of fixed assets/(application of capital receipts)		**(2,994)**	
46,384		Capital grants and contributions received		**62,695**	
	(36,450)	**Net cash inflow / (outflow) from investing activities**			**(28,257)**
	(14,325)	**Net cash inflow / (outflow) before financing**			**(15,721)**
		Management of Liquid Resources			
(20,038)		Short term lending		**-**	
45,000		Short term lending repaid		**45,000**	
		Financing			
10,036		New Short term borrowing		**-**	
(30,405)		Short term borrowing repaid		**(29,963)**	
(2,330)		Movement in PFI liabilities		**(2,387)**	
(1,318)		Movement in finance lease liabilities		**(696)**	
26		Movement in Long Term Investments		**49**	
4,158		Movement in Long Term Borrowing		**(820)**	
	5,129	**Net cash inflow / (outflow) from financing activities**			**11,183**
	(9,196)	**Net increase / (decrease) in cash & cash equivalents**			**(4,538)**
	9,310	**Cash & cash equivalents at the beginning of the period**			**114**
	114	**Cash & cash equivalents at the end of the period**			**(4,424)**

2014/15				2015/16	
£'000	£'000		*Note*	**£'000**	**£'000**
		Operating Activities			
		Expenditure			
(323,121)		Cash Paid to or on behalf of employees		**(268,996)**	
(262,642)		Other operating costs		**(318,277)**	
(7,494)		Interest paid		**(7,596)**	
-		Equity Dividends paid		**-**	
-		Income Tax paid		**-**	
	(593,257)				**(594,869)**
		Income			
192,743		Precept - Council Tax		**198,171**	
45,983		Revenue Support Grant		**34,338**	
36,162		National Non Domestic Rates		**35,230**	
256,927		Other Government Grants	*13*	**240,335**	
82,708		Cash Received for goods and services		**98,813**	
859		Interest received		**518**	
	615,382				**607,405**
	22,125	**Net cash inflow / (outflow) from operating activities**			**12,536**
		Investing Activities			
		Expenditure			
(80,774)		Purchase of fixed assets/capital repayments	*25*	**(87,958)**	
		Transfers/PFI capital repayments			
-		Net overdraft acquired with joint venture		**-**	
		Income			
(2,060)		Sale of fixed assets/(application of capital receipts)		**(2,994)**	
46,384		Capital grants and contributions received		**62,695**	
-		Net cash acquired with joint venture		**-**	
	(36,450)	**Net cash inflow / (outflow) from investing activities**			**(28,257)**
	(14,325)	**Net cash inflow / (outflow) before financing**			**(15,721)**
		Management of Liquid Resources			
(20,038)		Short term lending		**-**	
45,000		Short term lending repaid		**45,000**	
		Financing			
10,036		New Short term borrowing		**-**	
(30,405)		Short term borrowing repaid		**(29,963)**	
(2,330)		Movement in PFI liabilities		**(2,387)**	
(1,318)		Movement in finance lease liabilities		**(696)**	
26		Movement in Long Term Investments		**49**	
4,158		Movement in Long Term Borrowing		**(820)**	
-		Purchase/redemption of share capital		**-**	
-		Issue of share capital		**-**	
	5,129	**Net cash inflow / (outflow) from financing activities**			**11,183**
	(9,196)	**Net increase / (decrease) in cash & cash equivalents**			**(4,538)**
	9,310	**Cash & cash equivalents at the beginning of the period**			**114**
	114	**Cash & cash equivalents at the end of the period**			**(4,424)**

1. Accounting standards that have been issued but not yet adopted

Appendix C of the Code requires Local Authorities to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year. Standards that fall into this category are:

IAS 19 - Employee Benefits
annual improvements to IFRSs (2010 - 2012 Cycle)
IFRS 11 - Joint Arrangements
amendment to IAS 16 - Property, Plant and Equipment
IAS 38 - Intangible Assets
annual Improvements to IFRSs (2012 - 2014 Cycle)
amendment to IAS 1 - Presentation of Financial Statements

All of these standards will be incorporated into the Code from 2015/16 and will be complied with by the Authority. However, none have material impact for the Council and none warrant specific disclosure in these accounts.

2. Related party transactions

Central Government

Significant grants are received from the Department for Education, the Department for Communities & Local Government and the Department of Health. Other Government Departments provide smaller levels of grant.

Specific Grants are set out in the Comprehensive Income and Expenditure Statement and Note 13.

Other Local Authorities and Bodies levying demands on the council tax

Levies paid to other bodies during 2015/16 included the following material transactions: -

2014/15 £'000		**2015/16 £'000**
559	Environment Agency	**567**
203	Southern Sea Fisheries Committee	**203**

The County Council administers the Dorset County Pension Fund on behalf of its employees and those of other local authorities in the county and other admitted bodies (charities or former local authority bodies such as Housing Associations). Employers' Contributions to the Fund are shown in the pension fund accounts.

Transactions with Bournemouth and Poole Borough Councils, Primary Care and Hospital NHS Trusts in respect of the pooled budget scheme are detailed in Note 24.

The Head of Legal & Democratic Services was Clerk to Dorset Fire Authority. The Chief Financial Officer was Treasurer to Dorset Fire Authority and Treasurer to the Dorset Police & Crime Commissioner. The County Council supplied services to these authorities as detailed in the following table.

2014/15 £'000		**2015/16 £'000**
169	Dorset Police & Crime Commissioner	**170**
164	Dorset Fire Authority	**166**

At the end of the financial year, amounts owed by related parties were as follows: -

2014/15 £'000		**2015/16 £'000**
126	Dorset Police & Crime Comm (Capital Financing)	**125**
245	Dorset Police & Crime Commissioner	**63**
232	Dorset Fire Authority	**101**

Elected Members, Staff & close families

All Councillors, Senior Officers and purchasing staff have been informed of the requirements and the need for disclosure. Some Councillors are appointed by the County Council to boards of voluntary bodies or charities in receipt of support from the County Council.

3. Disclosure of nature and extent of risk arising from financial instruments

The County Council's activities expose it to a variety of financial risks, the key risks are:

Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways: -

by formally adopting the requirements of the Code of Practice;
by approving annually in advance prudential indicators for the following three years limiting:

The Council's overall borrowing;
Its maximum and minimum exposures to fixed and variable rates;
Its maximum exposure to the maturity structure of its debt in any one time period;
Its maximum annual exposures to investments maturing beyond a year;

by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. An annual review of actual performance and a mid year update are also reported to Members.

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed periodically.

Credit risk
Credit risk arises from deposits with financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Ratings Services. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

In October 2008 the Icelandic banking sector defaulted on its obligations. The Council had £28.1m invested in this sector at that time. In accordance with accounting practice the Council has been notified of objective evidence that impairment has occurred and the investments have been impaired according to accounting requirements. The impact of the principal invested has been mitigated in the accounts according to government regulations, although all related investment income has been fully impaired.

The Council initiates a legal charge on property where, for instance, clients require the assistance of social services but cannot afford to pay immediately. The total collateral as at 31 March 2016 was £21.2m (2015 £21.9m).

Liquidity risk
The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Refinancing and Maturity Risk
The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and

monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

Market risk
Interest rate risk - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise;
borrowings at fixed rates – the fair value of the borrowing will fall;
investments at variable rates – the interest income credited to the Income and Expenditure Account will rise;
investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in other comprehensive income and expenditure, unless the investments have been designated as Fair Value through the Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

4. Events after the Balance Sheet date

There were no material events after the balance sheet date. However we were informed in May 2016 by the scheme administrator of Municipal Mutual Insurance (MMI) that our levy has been raised to 25% and a further demand of £272k was received in relation to 2015/16. Dorset County Council has sufficient funds to meet this further payment in its earmarked reserves and thus no further provision is required. See note 40 of these accounts for further details.

5. Local Government reorganisations

Section 2.5 of the Code sets out the accounting requirements for Local Government reorganisation and other business combinations. In essence, public sector bodies are deemed to be under common control and any reorganisations are generally timed to start on 1 April. Such reorganisations are generally reflected in the accounts by re-stating the opening balance sheet for the current year. Transfers are not reflected in the Comprehensive Income & Expenditure Statement, but are instead disclosed in the Movement In Reserves Statement. The notes to the Financial Statements disclose the impact of the transfers rather than re-state comparative year figures.

Dorset Waste Partnership

On 1 April 2011, the County Council entered into a partnership arrangement with four of the District Councils (Phase 1), to form the Dorset Waste Partnership (DWP). This saw the Authority take on the net assets of each of the four Districts' Waste Collection Services. On 1 April 2013 the remaining two Districts (Weymouth & Portland Borough Council and West Dorset District Council) became full partners in the DWP (Phase 2). Detailed disclosure of the impact on the County Council's affairs was given in the Authority's previous Financial Statements and is not repeated here.

Academies

During the year ended 31 March 2016, the following Schools were established as Academies under the Academies Act 2010. The amounts in the table below are included in the Comprehensive Income & Expenditure Statement on account of each school.

	2014/15					2015/16	
Schools Delegated Budgets	Schools - LEA Expenditure	Dedicated Schools Grant	**Conversion Date**		**Schools Delegated Budgets**	**Schools - LEA Expenditure**	**Dedicated Schools Grant**
£'000	£'000	£'000			**£'000**	**£'000**	**£'000**
5,352	4,521	4,562	01/04/15	The Sir John Colfox School	(642)	(642)	-
473	440	391	01/04/15	Milborne St Andrew First School	-	-	-
405	392	352	01/04/15	Piddle Valley CE VA First School	55	55	-
598	580	487	01/04/15	Puddletown CE First School	(52)	(52)	-
586	527	463	01/04/15	Frome Valley CE VA First School	60	60	-
763	740	628	01/07/15	St Mark's CE Primary School, Swanage	223	171	152
532	448	421	01/07/15	Corfe Castle CE Primary School	230	119	126
913	781	721	01/07/15	Wareham St Mary Primary School	392	170	196
472	420	391	01/12/15	Sixpenny Handley First School	371	283	282
484	454	357	01/12/15	Three Legged Cross First School	336	242	255
723	648	561	01/12/15	Oakhurst Community First School	569	401	396
681	590	525	01/12/15	St Ives First School	485	265	351
518	499	465	01/12/15	St James' CE VC First School, Alderholt	367	304	302
662	620	554	01/12/15	St Mary's CE VC First School, West Moors	458	340	351
13,162	11,660	10,878			**2,852**	**1,716**	**2,411**

The funding changes in 2013/14 have simplified the recoupment from the Dedicated Schools Grant in respect of academies. The only recoupment is now for the formula funded element of Dedicated Schools Grant, which now includes the de-delegated budgets (budgets delegated to schools which maintained schools have decided to transfer back to central DSG funding). The Department For Education also makes reductions to Local Authority funding via the Education Services Grant to provide grant to academies to fund their central services (previously provided by the Authority).

As well as the fourteen converting schools named, above, three schools became Academies in 2011/12, twelve in 2012/13, two in 2013/14 and 22 in 2014/15.

The Authority also received notification from the following Schools, that they intend to become Academies under the Academies Act 2010. The amounts shown are the values of the schools balances in the Authority's General Fund as at 31 March 2016.

School	Actual/Advised Date (if known)	School Balance at 31 March 2016 Surplus/(deficit) £
Bridport Primary School	01/04/2016	221,482
Bridport, St Mary's Church of England Primary School	01/04/2016	116,551
Burton Bradstock Church of England Voluntary Controlled	01/04/2016	44,110
Loders CofE VC Primary School	01/04/2016	(35,658)
Somerford Primary School	01/06/2016	153,056
Ferndown Upper School	01/07/2016	(490,685)
Broadmayne First School	Approved	43,595
The Blandford School	Applied	228,397
Trent Young's Endowed CE VA Primary	Applied	12,751

When a School achieves Academy status, it legally closes as a Local Authority School and is immediately re-established as a separate legal entity.
When an Academy is established, it is funded directly by the Government, through distribution of General Annual Grant from the Education Funding Agency. A calculation to determine the value of any School balances in the Local Authority's accounts must be completed within four months of the transfer date. The Academy then has one month in which to appeal to the Secretary of State for a review if it disagrees with the calculated balance. The Secretary of State has three months in which to make a determination of the actual balance. The Local Authority must pay over any surplus balance to the Academy within one month of the Academy agreeing the surplus balance (or failing to apply for a review by the statutory date) or the determination of the surplus by the Secretary of State.
Where the transferring converter School has a deficit balance, the Government reimburses the Local Authority for this. For sponsored Academies, any deficit remains with the Local Authority.

Tricuro - Local Authority Trading Company (LATC)
On 1 July 2015, in partnership with Bournemouth Borough Council and the Borough of Poole, Dorset County Council launched Tricuro. Further information can be found in note 6 on Group Accounts.

6. Group accounts and disclosure of interests in other entities
Dorset Development Partnership
On 26th April 2011, the Authority entered into an agreement with BV Strategies Facilitating Ltd, to establish a Limited Liability Partnership, PSP Dorset LLP, trading as Dorset Development Partnership (the Partnership). BV Strategies Facilitating Ltd changed its name to PSP Facilitating Ltd on 24 February 2012.

The Partnership was established to build value, over and above the latent market value, for land and/or buildings identified as surplus to the County Council's requirements. Not all surplus assets have potential for increased value, but those that do are subject to the Partnership's process of de-risking and being made more saleable.

The Partnership has an accounting date of 30 April.

At 31 March 2016, the following properties were being worked on by the Partnership:

Blandford Depot, Wimborne Road, Blandford
Damers Road Store, Damers Road, Dorchester
Part of the Barracks Site, Dorchester
White Pit Farm buildings, Shillingstone
Former residential premises for Adult Services, Alexandra Road, Weymouth
During the year ended 31 March 2016, the partnership did not dispose of any properties committed to it by the Authority, no sales of assets are reflected in the accounts for Dorset County Council, and no further disclosure is required here.

Additional properties are being considered for transfer and will be committed to the partnership if value can be added.

Surplus properties are not transferred legally or contractually to the partnership, nor to any third party until the final sale is achieved. At 31 March 2016, the properties being worked on by the Partnership were still assets of Dorset County Council and are shown within the *surplus assets* section of the Balance Sheet.

The partnership incurs the costs accrued in making the assets more saleable and these costs are financed jointly by PSP Facilitating Ltd and Dorset County Council. The partners share the profits from the sale of the assets, subject to a guaranteed minimum receipt for the Authority and a profit sharing formula.

The partnership is not considered relevant for consolidation into group accounts for the Authority on the grounds of materiality and also that the turnover of the business is materially reported through the capital receipt achieved by the County Council in its single-entity accounts.

As at 30 April 2016, the draft accounts for the partnership showed net assets of £723k (£142k as at 30 April 2015), materially all of this being work in progress.

South West Audit Partnership (SWAP)

Until 31 March 2013, SWAP was a joint committee established by its members to assist them in the provision of a shared internal audit, counter-fraud and governance-related service. It operated under S101 of the Local Government Act 1972 and was hosted by South Somerset District Council. The Members considered that the future operation of SWAP as a company would improve efficiency and SWAP's management, governance and accounting processes.

SWAP therefore established itself as a company limited by guarantee, a local authority controlled company, and started trading on 1 April 2013. There are twelve members, Dorset County Council being one of them. Given the Council's influence through it's membership, the company falls to be treated as a joint venture. However, as its results are not material, SWAP is not consolidated into the Group Accounts for Dorset County Council for the year ended 31 March 2016, though the following disclosures are offered for the Company.

Summary Balance Sheet	**31/03/2015**	**31/03/2016**
	£'000	**£'000**
Tangible assets	20	**20**
Current assets	1,286	**907**
Creditors due within 12 months	(1,104)	**(664)**
Pension fund liability	(9,019)	**(5,150)**
Net liabilities	(8,817)	**(4,887)**
Financed by:		
Retained earnings	(8,996)	**(5,066)**
Other reserves	179	**179**
Total reserves	(8,817)	**(4,887)**

Summary Income & Expenditure	**31/03/2015**	**31/03/2016**
	£'000	**£'000**
Turnover	2,567	**2,507**
Admin expenses	(2,445)	**(2,449)**
Operating loss	122	**58**
Net redundancy costs	(189)	**-**
Opening pension deficit		
Interest receivable and similar income	3	**4**
Interest payable and similar charges	(222)	**(263)**
Loss on ordinary activities	(286)	**(201)**

Turnover included above, from trading with Dorset County Council was £344k (£344k in 2014/15).

TRICS Consortium Ltd

TRICS Consortium Ltd was incorporated on 14th October 2014 by Dorset County Council and five other local authorities (East Sussex County Council, West Sussex County Council, Hampshire County Council, Surrey County Council and Kent County Council). Each of these members owns £37,500 of ordinary shares in the company. All shares are fully paid-up. Each authority appoints a Director to the company's Board of Directors.

Prior to incorporation, the TRICS consortium was operated as a joint committee with West Sussex County Council as the accountable body. Members of the unincorporated consortium contributed funding to the joint arrangement to pay for costs falling to West Sussex as the accountable body and also contributed their expertise and other resources at their own cost.

The decision to incorporate was taken after legal advice surrounding the rules for local authorities involved in trading and the potential for the TRICS arrangements to generate revenue for the members beyond what is currently allowed if operated purely by a local authority.

The Company employs four members of staff; the Managing Director, an Operations Manager and two Operations Officers. The Managing Director reports to the Board of Directors at monthly Board Meetings and takes strategic direction from the Board.

The company's main purpose is to operate an online Trip Rate Database for use of the Transportation Industry for the production of Transport Assessments and Travel Plans during the Planning Application process and for the monitoring of active Travel Plans, usually under section 106 agreements. The company manages the database and commissions independent data collection companies to survey different land uses and developments so that the data can be input into the system.

The accounting date is 31 December. The results and performance, from the company's Financial Statements for the 15 month period to 31 December 2015, and from the company's management accounts for the 3 months to 31 March 2016, are:

Summary Balance Sheet	Period to 31/12/2015 £'000	3 months to 31/03/2016 £'000
Intangible assets	378	365
Tangible assets	5	5
Current assets	577	890
Creditors due within 12 months	(336)	(275)
Creditors due after more than one year	-	(71)
Net assets (liabilities)	624	914
Financed by:		
Ordinary share capital	225	225
Share premium	365	365
Retained profit	34	324
Total reserves	624	914

Summary Income & Expenditure	Period to 31/12/2015 £'000	3 months to 31/03/2016 £'000
Turnover	1,330	423
Cost of sales	(285)	(40)
Other operating expenses	(390)	(83)
Interest receivable and similar income	-	0
Profit on ordinary activities	655	300
Tax on profit on ordinary activities	(132)	-
	523	300

Turnover included above, from trading with Dorset County Council for the 15 month period to 31 December 2015 was £4k (2014/15 £4k). Dorset County Council received a dividend of £81k during 2015/16 (2014/15 nil).

Tricuro - Local Authority Trading Company (LATC)

On 1 July 2015, in partnership with Bournemouth Borough Council and the Borough of Poole, Dorset County Council launched Tricuro. Tricuro is a group of two companies established under local authority trading company principles to take the transfer of the three authorities' supply-side Adult Social Services business, with staff transferring from each of the three authorities in order to provide care services.
Each authority owns one ordinary share in Tricuro Support Ltd, which in turn owns 100% of the equity of Tricuro Ltd. The value of business carried out by Tricuro in a full financial year is expected to be around £40m (the part-year to 31 March 2016 saw the company turn over £31m). A shareholder agreement regulates the way in which the three councils manage Tricuro, including a profit/cost sharing agreement. Dorset County Council is contracted to provide support services to Tricuro for three years (until 30 June 2018). The value of this contract was £881k for the nine months to 31 March 2016. Bournemouth Borough Council also provides certain support services to the company. The cost of this was £652k for the nine months to 31 March 2016.
Dorset County Council treats Tricuro as a joint venture. Tricuro applies consistent accounting policies with DCC, and the results for Tricuro for the nine months to 31 March 2016 have been consolidated into the DCC Group financial statements, with information reported in relevant disclosure notes to the DCC accounts.

7. Prior period adjustments

There are no prior year adjustments to disclose for the 2015/16 Accounts.

8. Impairment/write-back re Icelandic Banks

Charges made in the Comprehensive Income & Expenditure Statement for impairment/(write back) of deposits held with Icelandic banks were as follows:

	Pre-2014/15 £000	2014/15 £000	2015/16 £000
Impairment charge /(write-back)	6,857	-	(528)

Payments received to date from Heritable exceed what was anticipated at 31 March 2015. Until final settlements are agreed, the loans continue to be carried in the Authority's Balance Sheet, but are fully impaired.

Dorset County Council carries the Heritable deposits at a gross value of £13.1m, fully impaired. On 26 August 2015, the administrator made a fifteenth interim payment of 3.98% to all unsecured creditors, amounting to £528k for the County Council. This payment brings the return to date to 98% of the original claim. It is still possible that the full 100% could be recovered.

9. Segmental Analysis

The Code requires Local Authorities to report segmentally on their income and expenditure in accordance with IFRS 8. The Code requires this to be presented in a format which is similar to the internal management accounts used by the Authority and for this to be reconciled to the surplus/deficit on provision of services figure in the Comprehensive Income and Expenditure Statement. The impact for the DCC Group Accounts is not material, and is not included in the figures below.

	2015/16								2014/15
	Adult & Community Services	Chief Executive's Dept & Cabinet	Children's Services	Corporate Resources	Environment & Economy	Partnerships (DCC Leads)	Centrally Managed Costs	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Internal Charges/Trading	1,037	(6,562)	4,689	-	(1,922)	2,152	600	**(6)**	-
Authority (Democratic) Costs	-	798	-	-	-	-	-	**798**	791
Pay Related Costs	32,833	22,599	179,565	-	17,245	11,517	(340)	**263,419**	301,284
Premises Related Costs	2,232	460	12,082	-	5,261	1,161	1,739	**22,935**	29,771
Transport Related Costs	1,055	1,739	10,247	-	8,999	2,504	-	**24,544**	34,714
Supplies and Service	35,720	9,334	57,362	-	6,992	8,660	413	**118,481**	105,655
Transfer Payments	23,279	-	704	-	-	73	-	**24,056**	23,875
Third Party Payments	80,029	269	19,355	-	11,032	32,264	-	**142,949**	129,203
Net Schools Budget adjs	-	-	689	-	-	-	-	**689**	210
Cost Centre Balances	-	3	1,005	-	-	-	(327)	**681**	688
Government Grants	(9,496)	(1,699)	(203,411)	-	(5,013)	(13,270)	-	**(232,889)**	(249,650)
Reimbursements and Contributions	(22,205)	(3,757)	(10,894)	-	(1,381)	(22,756)	(79)	**(61,072)**	(69,498)
Fees and Charges	(23,110)	(3,042)	(6,035)	-	(10,727)	(3,478)	(5)	**(46,397)**	(46,587)
Corporate Income & Expenditure	(2)	(45)	(963)	-	-	-	-	**(1,010)**	(4,932)
Funding	-	(66)	-	-	-	-	-	**(66)**	-
Transfers to/(from) Reserves	-	(5)	(33)	-	(52)	(29)	119	**-**	-
Reported in Management Accounts	**121,372**	**20,026**	**64,362**	**-**	**30,434**	**18,798**	**2,120**	**257,112**	255,524
Recharges	8,383	(12,894)	19,962	-	(8,131)	266	(2,820)	**4,766**	297
Capital Charges	2,447	21,727	19,341	-	22,013	6,261	-	**71,789**	61,588
Deficit on Provision of Services	**132,202**	**28,859**	**103,665**	**-**	**44,316**	**25,325**	**(700)**	**333,667**	317,409

The table above, shows the deficit on provision services; the same as reported on the corresponding line in the Comprehensive Income and Expenditure Statement. The line marked *reported in management accounts* reflects the figures that the County's Management Team reviews on a monthly basis to monitor the Authority's financial performance.

10. Comparison of outturn with budget

The Comprehensive Income & Expenditure Statement and the movements on the General Fund are further analysed against budget in the table below.

2014/15 Net Spending £'000	Service Division	2015/16 Original Estimate £'000	Final Estimate £'000	Net Spending £'000	Variance ( ) = over £'000
120,867	Adult Social Care	117,878	120,396	120,313	83
(56)	Public Health	55	(546)	(486)	(60)
8,702	Central Services	6,247	18,103	17,121	982
428	Central Services to the Public	321	508	510	(2)
4,206	Children's & Education Services - Schools	(13,862)	(2,524)	(1,725)	(799)
97,888	Children's & Education Services - Other	95,519	100,573	104,394	(3,821)
737	Court Services	694	696	648	48
42,910	Cultural, Environmental & Planning Services	37,195	52,986	52,747	239
41,459	Highways, Roads and Transport Services	37,516	39,642	39,936	(294)
265	Housing Services	179	207	209	(2)
317,406	**Net Cost of Services**	281,742	330,040	333,667	(3,627)
2,483	Net (gain) / loss on disposal of non-current assets	-	(341)	(341)	-
31,669	Net (gain) / loss on disposal of Academies	-	9,581	9,580	1
605	Levies and Precepts	677	677	658	19
7,494	Interest payable	8,178	8,178	7,564	614
(804)	Interest on Balances	(1,045)	(1,045)	(398)	(647)
21,182	Pensions Interest Cost	-	21,004	21,004	-
-	Exceptional item; Impairment Icelandic Banks	-	(529)	(529)	-
380,035	**Net Operating Expenditure**	289,552	367,565	371,205	(3,640)
	Principal Sources of Finance :-				
(45,983)	Revenue Support Grant	(34,338)	(34,338)	(34,338)	-
(10,905)	National Non-Domestic Rates	(10,060)	(9,461)	(9,489)	28
(25,258)	Business rates Top-up Receipts From Central Govt	(25,740)	(25,740)	(25,740)	-
(192,743)	Precept (Council Tax)	(196,992)	(198,171)	(198,171)	0
(7,119)	Other Central Grants	(5,911)	(7,286)	(7,266)	(20)
(46,212)	Capital Grants	-	(62,710)	(62,543)	(167)
(328,220)	**Total Funding**	(273,041)	(337,706)	(337,547)	(159)
51,815	**NET GENERAL FUND (SURPLUS)/DEFICIT**	16,511	29,859	33,658	(3,799)
(34,539)	Depreciation and impairment of non-current assets	(33,333)	(49,006)	(49,006)	-
(27,142)	REFCUS	-	(22,908)	(22,908)	-
(2,389)	Net gain or (loss) on disposal of non-current assets	-	406	406	-
(31,669)	Net gain or (loss) on disposal of Academies	-	(9,581)	(9,581)	-
(21)	Soft Loan Interest Adjustment	-	41	41	-
(21,482)	Appropriations to/(from) Pensions Reserve	-	(25,889)	(25,889)	-
2,484	Collection Fund Adjustment Accounts	-	211	211	-
17,464	Statutory provision for repayment of debt	12,817	19,099	12,023	7,076
2,311	Capital charged to the General Fund Balance	8,119	4,942	4,942	-
(63)	Usable Capital Receipts for finance leases	-	(66)	(66)	-
958	Accumulated Absences Account Transfers	-	1,038	1,038	-
45,411	Transfer to Capital Grants Unapplied Reserve	-	62,251	62,251	-
637	Transfers to / (from) Specific Reserves	(6,961)	(7,096)	(7,096)	-
93	Interest on Developer Contributions		-	20	(20)
4,291	Re-classifications of reserves and balances		-	4,000	(4,000)
8,157	**(Increase)/Reduction in General Balances**	(2,847)	3,301	4,044	(743)
(40,058)	**General Balances b/fwd**			(31,901)	
(31,901)	**General Balances c/fwd**	(2,847)	3,301	(27,857)	(743)

The Council monitors expenditure as part of its comprehensive performance management framework. This provides for monthly reporting of projected outturn against budget for all cost centres and in addition detailed reporting of the 'Top 20' identified vulnerable and demand led budgets. This information is available to members and managers via the Council's intranet. The final out-turn figures are reported to the Overview Committees for scrutiny and overview.

11. Long-term contracts (Private Finance Initiative)

In 1997 a contract was entered into for the replacement of Colfox School, Bridport using the Government's Private Finance Initiative (PFI). The contract provides for fully serviced accommodation for the school including buildings, grounds maintenance, catering, caretaking, security, waste disposal, energy, utilities, IT equipment and renewal of furniture and equipment. Payments under the contract commenced in 1999 and continue for a 30-year period. The school became an Academy on 1 April 2015 but despite the change in status, the PFI arrangement will continue to be the responsibility of the County Council.

In 2009, the County Council also entered into a PFI scheme for the provision and replacement of street lighting. This arrangement deals with a backlog of replacements and maintenance over 25 years.

Payments made and PFI Grants receivable to support the schemes were as follows:

Payments 2014/15 £'000	Grants Rcvd 2014/15 £'000		**Payments 2015/16 £'000**	**Grants Rcvd 2015/16 £'000**
5,194	(2,546)	Street lighting (provider)	**5,396**	**(2,546)**
1,570	-	Street lighting (energy)	**1,276**	**-**
2,613	(1,559)	Colfox School (provider)	**2,645**	**(1,559)**

Repayments to be made (to the end of the contracts) under PFI arrangements are analysed as follows:

	Street lighting £'000	**Colfox School £'000**
Capital repayment	**68,776**	**17,525**
Interest charges	**5,416**	**10,087**
Service charges	**48,703**	**20,776**
	122,895	**48,388**

Movements of PFI asset and liability balances are analysed as follows:

Assets	**Street lighting £'000**	**Colfox School £'000**
Opening balance	**43,818**	**20,967**
Additions/developments/lifecycle	**1,775**	**-**
Revaluations	**-**	**2,008**
Depreciation	**(1,425)**	**(415)**
Closing balance	**44,168**	**22,560**

Liabilities	**Street lighting £'000**	**Colfox School £'000**
Opening balance	**(23,711)**	**(11,288)**
Additions/developments/lifecycle	**(1,775)**	**(217)**
Repayments	**3,758**	**621**
Closing balance	**(21,728)**	**(10,884)**

12. Leases

Dorset County Council accounts for leases in accordance with the Accounting Policies set out in this document.
Specific information for leases is as follows:

Carrying amount of assets held under finance leases

	Plant, equipment, vehicles £'000	**Buildings £'000**
Carrying amount as at 31/03/2014	**2,394**	**5,196**
Leases surrendered	**(398)**	**-**
Depreciation charge	**(608)**	**(224)**
Carrying amount as at 31/03/2015	**1,388**	**4,972**
Leases surrendered	**14**	**-**
Depreciation charge	**(521)**	**(224)**
Carrying amount as at 31/03/2016	**881**	**4,748**

Carrying amount of liabilities held under finance leases

	Plant, equipment, vehicles £'000	Buildings £'000
Carrying amount as at 31/03/2014	(2,574)	(5,761)
Leases surrendered	234	-
Capital repayment	930	155
Carrying amount as at 31/03/2015	(1,410)	(5,606)
Leases surrendered	(14)	-
Capital repayment	547	162
Carrying amount as at 31/03/2016	(877)	(5,444)

The following amounts were paid/are payable under lease agreements:

	2014/15 £'000	2015/16 £'000	Leases expiring within one year £'000	Leases expiring after one year but less than five years £'000	Leases expiring after more than five years £'000
Finance leases - property	581	581	581	2,171	10,661
Finance leases - plant, equipment, vehicles	1,095	586	537	444	0
All finance leases	1,676	1,167	1,118	2,615	10,661
Operating leases - property	962	793	791	2,144	10,438
Operating leases - plant, equipment, vehicles	3,203	1,881	1,724	1,425	0
All operating leases	4,165	2,674	2,515	3,569	10,438
All leases	5,841	3,841	3,633	6,184	21,099

Total future minimum lease payments (MLP) are as follows:

	MLP £'000	Net Present Value MLP £'000
Finance leases	14,393	8,316
Operating leases	13,373	8,248

Debtor representing interest in finance leases

	£'000
Closing balance 31/03/2014	130
Payments received	(64)
Closing balance 31/03/2015	66
Payments received	(66)
Closing balance 31/03/2016	-

Future receipts from leases

	Leases expiring within one year £'000	Leases expiring after one year but less than five years £'000	Leases expiring after more than five years £'000
Finance leases - property	71	0	0
Operating leases - property	4,551	17,268	12,915

Operating leases above include the following arrangements with Tricuro:

	Leases expiring within one year £'000	Leases expiring after one year but less than five years £'000	Leases expiring after more than five years £'000
Operating leases - property	3,214	12,857	819

Total future minimum lease receipts (MLR) are as follows:

	MLR £'000	Net Present Value MLR £'000
Finance leases - property	71	69
Operating leases - property	34,734	29,932

13. Analysis of Government Grants

This table gives details of the specific grants received from central Government Departments.

2014/15 £'000		2015/16 £'000
226,121	Education	205,890
5,544	Communities & Local Government	6,972
14,022	Health	20,179
1,057	Transport	1,308
916	Environment, Food & Rural Affairs	619
219	Culture, Media & Sport	958
596	Work & Pensions	-
335	Business, Innovation & Skills	315
94	Ministry of Defence	97
48	European Union	7
501	Home Office	271
357	Other	485
249,810		237,101

14. Deployment of Dedicated Schools Grant

Since 2006-07, the Council's expenditure on schools has been mainly funded by grant monies provided by the Department for Education (Department for Children, Schools and Families), the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a delegated budget share for each school. Over and underspends on the two elements are required to be accounted for separately. Details of the deployment of DSG receivable for 2015/16 are as follows: -

Total 2014/15 £'000		Central Expenditure £'000	Individual Schools Budget (ISB) £'000	Total 2015/16 £'000
197,257	Final DSG for 2015/16 before Academy recoupment	41,036	135,261	176,297
12,035	Brought forward from 2014/15	5,622	6,055	11,677
209,292	Final budgeted distribution in 2015/16	46,658	141,316	187,974
(39,283)	Actual central expenditure	44,049		44,049
(158,332)	Actual ISB deployed to schools		133,404	133,404
11,677	Carry forward to 2016/17	2,609	7,912	10,521

NB. The actual Central Expenditure and balance may be subject to slight adjustment when the apportionments required in the statutory section 251 outturn statement (which has to be submitted to the Department for Education at the end of August) are finalised.

15. Revenue Expenditure Funded from Capital Under Statute (REFCUS)

The Total Capital Expenditure reported by the Council includes expenditure referred to as Revenue Expenditure Funded from Capital Under Statute. This is principally capital expenditure on properties which the County Council does not own and which are not included in its asset register. This expenditure is charged to the Income and Expenditure account in the year it is incurred with the necessary appropriations in the Statement of Movement in Reserves between the General Fund and the Capital Adjustment Account to reflect that although financing is from a capital source, it funds revenue expenditure in the Authority's accounts.

2014/15 £'000		2015/16 £'000
27,142	Expenditure in Service Budgets funded from Capital Adjustment Account	22,908

16. Members' allowances

The total amount of Members' allowances paid in the year is shown in the following table.

2014/15 £'000		2015/16 £'000
735	Members' Allowances	746

17. Remuneration of senior staff

The accounts and audit regulations cover the requirement to disclose remuneration of senior employees. The requirement includes the duty to disclose details of the numbers of staff with remuneration and benefits, including redundancy, in excess of £50,000 per annum to be reported. Missing bands have no staff in them for either year (eg £150,000 to £155,000).

2014/15 Non-schools	2014/15 LEA Schools	2014/15 VA/VC Schools	Group	**2015/16 Non-schools**	**2015/16 LEA Schools**	**2015/16 VA/VC Schools**
163	50	49	£50,000 to £55,000	**143**	**95**	**65**
61	27	31	£55,000 to £60,000	**70**	**35**	**25**
42	26	28	£60,000 to £65,000	**39**	**24**	**18**
21	15	20	£65,000 to £70,000	**17**	**21**	**21**
9	6	10	£70,000 to £75,000	**13**	**11**	**7**
3	11	2	£75,000 to £80,000	**5**	**8**	**8**
3	5	2	£80,000 to £85,000	**4**	**7**	**4**
3	1	-	£85,000 to £90,000	**4**	**5**	**-**
11	3	-	£90,000 to £95,000	**4**	**1**	**-**
4	-	1	£95,000 to £100,000	**6**	**2**	**-**
2	3	-	£100,000 to £105,000	**3**	**1**	**-**
3	1	1	£105,000 to £110,000	**2**	**1**	**1**
-	-	1	£110,000 to £115,000	**1**	**-**	**-**
1	-	-	£115,000 to £120,000	**-**	**-**	**-**
3	-	-	£120,000 to £125,000	**2**	**1**	**1**
1	-	-	£125,000 to £130,000	**-**	**-**	**-**
2	-	-	£130,000 to £135,000	**-**	**1**	**-**
1	-	-	£135,000 to £140,000	**2**	**-**	**-**
-	-	-	£140,000 to £145,000	**1**	**1**	**-**
1	-	-	£160,000 to £165,000	**-**	**-**	**-**
1	-	-	£175,000 to £180,000	**1**	**-**	**-**
335	148	145		**317**	**214**	**150**

Dorset County Council follows Local Government salary scales and conditions of service, negotiated and agreed at national level.
The Regulations also require the disclosure of remuneration of Senior Officers whose salary was £150,000 or more per annum, by name. In line with the Authority's pay policy, there are no such officers and so only information on senior posts is disclosed.

2014/15 Total £'000	**Post Holder Information**	**Salary £'000**	**Allowances £'000**	**Pension £'000**	**Total £'000**
	Chief Executive				
176	Current postholder	**149**	**-**	**31**	**180**
	Director for Corporate Resources				
75	Previous postholder *(retired 30 September 2014)*	**-**	**-**	**-**	**-**
25	Interim postholder *(from 1 Oct 2014 to 4 Jan 2015)*	**-**	**-**	**-**	**-**
100		**-**	**-**	**-**	**-**
	Assistant Chief Executive				
27	Current postholder *(from 5 Jan 2015)*	**94**	**-**	**20**	**114**
	Director for Adult & Community Services				
139	Current postholder	**118**	**-**	**24**	**142**
	Director for Environment and Economy				
134	Current postholder	**115**		**24**	**139**
	Director for Children's Services				
134	Current postholder	**115**	**-**	**24**	**139**
	Director of Public Health*				
164	Current postholder	**100**	**-**	**21**	**121**
	Assistant Directors of Public Health*				
125	Current postholder	**110**	**-**	**14**	**124**
	Current postholder	**94**	**-**	**12**	**106**
999		**895**	**-**	**170**	**1,065**

* - these posts are jointly funded by Dorset County Council, Bournemouth Borough Council and the Borough of Poole as part of a jointly funded arrangement for which Dorset County Council is the accountable body.

18. Exit packages & termination benefits

The revised Code requires the Authority to disclose details of the number and value of exit packages agreed in the bandings shown below in the table and to distinguish these by compulsory redundancies and other departures. Voluntary early retirement under the scheme rules is not a termination benefit and does not require disclosure. Missing bands have no staff in them (eg £180,000 to £200,000).

Value of exit package	Compulsory redundancies 2015/16	Other departures 2015/16	Total cost £000 2015/16
Non-Schools			
Up to £20,000	9	33	**361**
£20,000 to £40,000	6	27	**966**
£40,000 to £60,000	1	6	**364**
£60,000 to £80,000	3	4	**486**
£80,000 to £100,000	2	6	**735**
£100,000 to £120,000	-	1	**102**
£120,000 to £140,000	1	5	**794**
£140,000 to £160,000	-	4	**593**
£160,000 to £180,000	-	1	**164**
£220,000 to £240,000	-	1	**228**
	22	88	**4,793**
Schools			
Up to £20,000	9	24	**139**
£20,000 to £40,000	-	3	**78**
	9	27	**217**
Total	31	115	**5,010**

As at 31 March, the following exit packages (with estimated costs) had been approved but not yet paid by the Authority. No provision is made for these amounts in the 2015/16 accounts as the costs fall to the contingency budget in the year in which they are incurred.

Value of exit package	Redundancies	Total cost £000
Up to £20,000	6	**55**
£20,000 to £40,000	2	**60**
£40,000 to £60,000	1	**46**
£60,000 to £80,000	3	**197**
	12	**358**

19. Audit fees

Fees payable to KPMG LLP, for services carried out as the appointed Auditor were:

2014/15 £'000		**2015/16 £'000**
99	External Audit Services	**74**
5	Certification of grant/other claims	**5**
104		**79**

20. Interest

Interest payable and receivable by the Authority is analysed as follows:

2014/15 £'000		**2015/16 £'000**
7,494	Interest payable on borrowings (as per I&E)	**7,564**
(804)	Interest receivable and investing income (as per I&E)	**(398)**
1,860	Interest payable on service concessions (PFI schemes)	**1,762**
289	Interest payable on finance leases (property)	**282**
129	Interest payable on finance leases (plant & equipment)	**38**
(9)	Interest receivable on finance leases (property)	**(4)**
8,959		**9,244**

Interest payable and receivable on service concessions and finance leases is included within the appropriate lines of costs of services in the Comprehensive Income & Expenditure Statement.

21. Property, plant and equipment

The following table shows the overall movements in property, plant and equipment during the year. Infrastructure assets include, for example, highways, and community assets include country parks. Intangible assets are computer software licences which have a useful economic life of more than one financial year. The table also shows the cost of assets under construction not yet in operational use, and those declared surplus awaiting disposal plans. Surplus assets continue to be depreciated but once a surplus property is being actively sold, it is transferred to the class referred to as assets held for sale. These assets are not depreciated.

	Land & Buildings £'000	Vehicles, plant, furniture & equipment £'000	Infrastructure assets £'000	Community assets £'000	Total operational assets £'000	Intangible assets £'000	Assets under construction £'000	Surplus assets £'000	Assets held for sale £'000	Total property, plant & equipment £'000
Net book value as at 31 March 2015	371,597	26,070	347,876	10,024	755,567	2,622	28,772	17,402	3,677	808,040
Additions	14,758	7,039	6,574	7	28,378	481	36,186	3	0	65,048
Disposals	(12,730)	(1,318)	(82)	0	(14,130)	(1)	0	0	(4,749)	(18,880)
Revaluations	10,620	0	0	0	10,620	0	0	1,459	1,558	13,637
Transfers	10,513	879	4,882	0	16,274	534	(17,205)	(1,911)	2,308	0
Depreciation	(10,818)	(7,298)	(16,641)	0	(34,757)	(1,190)	0	172	0	(35,775)
Depreciation on assets sold	2,195	1,030	17	0	3,242	1	0	0	2,441	5,684
Impairment (non enhancing expenditure)	0	0	0	0	0	0	0	0	0	0
Impairment (fall in market value) and reversals	(6,718)	0	0	0	(6,718)	0	0	(6,475)	85	(13,108)
Net book value as at 31 March 2016	**379,417**	**26,402**	**342,626**	**10,031**	**758,476**	**2,447**	**47,753**	**10,650**	**5,320**	**824,646**
Asset Financing										
Owned	352,109	25,521	298,459	10,031	686,120	2,447	47,753	10,650	5,320	752,290
Leased	4,748	881	0	0	5,629	0	0	0	0	5,629
PFI	22,560	0	44,167	0	66,727	0	0	0	0	66,727
	379,417	**26,402**	**342,626**	**10,031**	**758,476**	**2,447**	**47,753**	**10,650**	**5,320**	**824,646**

Comparative (adjusted) movements for 2014/15 were as follows:

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	Land & Buildings £'000	Vehicles, plant, furniture & equipment £'000	Infrastructure assets £'000	Community assets £'000	Total operational assets £'000	Intangible assets £'000	Assets under construction £'000	Surplus assets £'000	Assets held for sale £'000	Total property, plant & equipment £'000
Restated net book value as at 31 March 2014	380,675	27,286	334,249	9,639	751,849	2,845	25,331	16,518	6,837	803,380
Additions	5,529	7,224	23,371	386	36,510	61	17,211	0	0	53,782
Disposals	(36,326)	(6,978)	0	(1)	(43,305)	(409)	0	0	(5,726)	(49,441)
Revaluations	23,889	0	0	0	23,889	0	0	(733)	(525)	22,632
Transfers	1,853	435	6,215	0	8,503	978	(13,770)	2,591	1,698	0
Depreciation	(10,720)	(6,898)	(15,959)	0	(33,577)	(1,262)	0	(407)	0	(35,246)
Depreciation on assets sold	4,918	5,001	0	0	9,919	409	0	0	1,405	11,733
Impairment (non enhancing expenditure)	0	0	0	0	0	0	0	0	0	0
Impairment (fall in market value)	1,779	0	0	0	1,779	0	0	(567)	(12)	1,200
Net book value as at 31 March 2015 restated	371,597	26,070	347,876	10,024	755,567	2,622	28,772	17,402	3,677	808,040
Asset Financing										
Owned	345,658	24,682	304,058	10,024	684,422	2,622	28,772	17,402	3,677	736,895
Leased	4,972	1,388	0	0	6,360	0	0	0	0	6,360
PFI	20,967	0	43,818	0	64,785	0	0	0	0	64,785
	371,597	26,070	347,876	10,024	755,567	2,622	28,772	17,402	3,677	808,040

22. Minimum Revenue Provision

This is a memorandum account, operated in accordance with the Local Government Act 2003 and the policy agreed by Members at the budget setting meeting, which requires an annual Minimum Revenue Provision of the previous year's Underlying Borrowing Requirement to be set aside. This summary of transactions within the Capital Adjustment Account is shown for information. DCC used a rate of 4% until 2010/11 and 2.5% since to make its provision except for leases, where MRP is charged over the actual period of the lease.

2014/15 £'000		**2015/16 £'000**
10,728	Minimum Revenue Provision	**5,741**
4,431	PFI Schemes	**4,379**
1,318	Finance Leases	**710**
987	DWP Financed Assets	**1,193**

23. Retirement benefits

The County Council participates in four different pension schemes that meet the needs of employees in particular services. Three are defined benefit schemes providing members with benefits related to pay and length of service, and one is a defined contribution scheme providing members with benefits related to the investment returns on contributions. The schemes are as follows: -

(i) The Local Government Pension Scheme for employees other than teachers, is administered by the County Council. This is a funded scheme, meaning that the council and the employees pay contributions into a fund, calculated at a level intended to balance over time the pension liabilities with investment assets.

The cost of retirement benefits is recognised in the Net Cost of Services when they are earned by employees, rather than when they are eventually paid as pensions. However, the charge against council tax has to be based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Statement of Movement Reserves (General Fund Balance).

Service costs are included within the 'Net Cost of Services'. The net interest on the defined liability and administration expenses are included in 'Net Operating Expenditure' in the Comprehensive Income and Expenditure Statement. Remeasurement gains and losses arising are recognised in the Statement of Movements in Reserves. The independent actuary has determined these amounts in accordance with IFRS and Government regulations.

2014/15 £'000		**2015/16 £'000**
30,736	Service Cost	**34,155**
20,704	Net interest on the defined liability (asset)	**20,507**
478	Administration expenses	**497**
(21,482)	Movement on Pensions Reserve	**(25,889)**
	Actual amount charged against council tax for pensions in the year	
(2,842)	Unfunded Pension Payments	**(2,796)**
(27,594)	Employer's contributions payable	**(26,474)**

The costs of 'added years' awarded to ex-staff are charged centrally as non-distributed costs.

The underlying assets and liabilities for retirement benefits attributable to the County Council as at 31 March are shown in the following table, which also shows the distribution of assets by proportion of the total and the expected long-term return. The assets are valued at fair value, principally market value for investments, and consist of the following categories: -

%Assets	2014/15 £'000		**% Assets**	**2015/16 £'000**
57%	403,704	Equities	**56%**	**381,599**
12%	83,226	Gilts	**10%**	**65,951**
3%	18,060	Cash	**4%**	**28,115**
12%	87,406	Other Bonds	**13%**	**85,164**
5%	34,339	Diversified Growth Fund	**5%**	**32,292**
10%	67,084	Property	**11%**	**74,717**
1%	7,703	Infrastructure	**1%**	**8,876**
0%	2,711	Hedge Fund	**0%**	**584**
	704,233	Estimated Assets in County Council Fund		**677,298**
	1,316,713	Present value of scheme liabilities		**1,251,935**
	26,528	Present value of unfunded liabilities		**24,191**
	1,343,241	Total value of liabilities		**1,276,126**
	(639,008)	Net Pensions Asset / (Liability)		**(598,828)**

Liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Estimates are based on the latest full valuation of the scheme as at 31 March 2013, as updated for changes in numbers of staff and pensioners. The next full valuation will be carried out by the Actuary as at 31 March 2016.

The main assumptions used in their calculations are: -

2014/15 % p.a.	2014/15 Real		**2015/16 % p.a.**	**2015/16 Real**
3.2%	0.0%	RPI inflation	**3.3%**	**0.0%**
2.4%	-0.8%	CPI inflation	**2.4%**	**-0.9%**
3.9%	0.7%	Rate of increase in salaries	**3.9%**	**0.6%**
2.4%	-0.8%	Rate of increase in pensions	**2.4%**	**-0.9%**
3.3%	0.1%	Rate for discounting scheme liabilities	**3.7%**	**0.4%**

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have assumed that 50% of employees retiring after 6 April 2006 will take advantage of this change to the pension scheme.

The assumed life expectations from age 65 are as follows: -

2014/15			2015/16	
Male	Female	Years	**Male**	**Female**
22.80	25.20	Retiring today	**22.90**	**25.30**
25.10	27.60	Retiring in 20 years	**25.20**	**27.70**

The Authority is required to provide the reconciliation of opening and closing balances of the present value of the defined benefit obligation:

2014/15 £'000		**2015/16 £'000**
1,099,561	Opening defined benefit obligation	**1,343,241**
35,517	Current service cost	**36,162**
49,088	Interest cost	**43,394**
180,199	Change in financial assumptions	**(96,326)**
(3,810)	Experience loss/(gain) on defined benefit obligation	**741**
(12,128)	Liabilities assumed/(extinguished) on settlements	**(7,247)**
(12,835)	Estimated benefits paid (net of transfers in)	**(53,786)**
2,171	Past service costs including curtailments	**2,530**
8,320	Contributions by scheme participants	**10,213**
(2,842)	Unfunded pension payments	**(2,796)**
1,343,241	Closing defined benefit obligation	**1,276,126**

The Authority is also required to provide a reconciliation between the opening and closing balances of the fair value of the scheme assets:

2014/15 £'000		**2015/16 £'000**
622,080	Opening fair value of scheme assets	**704,233**
28,384	Interest on assets	**22,887**
36,344	Return on assets less interest	**(29,516)**
(478)	Administration expenses	**(497)**
30,436	Contributions by employer (including unfunded)	**29,270**
8,320	Contributions by scheme participants	**10,213**
(15,677)	Estimated benefits paid (net of transfers in and including unfunded)	**(56,582)**
(5,176)	Settlement prices received/(paid)	**(2,710)**
704,233	Fair value of scheme assets at end of period	**677,298**

Analysis of the attributable movements in the surplus / (deficit) in the scheme during the year:

2014/15 £'000		**2015/16 £'000**
(477,481)	Surplus / (Deficit) brought forward	**(639,008)**
(30,736)	Service Cost	**(34,155)**
30,436	Employer contributions	**29,270**
(478)	Administration expenses	**(497)**
(20,704)	Net interest on the defined liability (asset)	**(20,507)**
(140,045)	Actuarial Gain / (Loss)	**66,069**
(639,008)	Surplus / (Deficit) as at 31 March	**(598,828)**

The estimated employer contribution to the scheme for the period 1 April 2016 to 31 March 2017 is £23.505M. This excludes the capitalised cost of any early retirements or augmentations which may occur after 31 March 2016.

(ii) Teachers are members of the Teachers' Pension Scheme, administered by the Teachers' Pension Agency (TPA). The County Council contributes towards the costs by making contributions based on a percentage of members pensionable salaries.

In 2015/16 the County Council paid £12m to the TPA (14.1% of pensionable pay April 2015 to August 2015, and 16.48% of pensionable pay September 2015 to March 2016). The figures for 2014/15 were £12.59m at 14.1%. The cost of added years payments to ex-staff was £1.5m (£1.494m in 2014/15). There were no contributions remaining payable at the year end.

The Teachers' Pension Scheme is a defined benefit scheme, which is unfunded. The Teachers' Pension Agency uses a notional fund as the basis for calculating the employers' contribution rate paid by Local Authorities. It is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted for on the same basis as a defined contribution scheme.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the Teachers' scheme. The benefits are fully accrued in the pensions liability detailed above.

(iii) Public Health professionals who have transferred employment from the National Health Service (NHS) to Local Authorities may retain membership of the NHS Pension Scheme (NHSPS). The NHSPS is a defined benefit scheme, which is unfunded. Local Authorities contribute towards the costs by making contributions based on a percentage of members pensionable salaries.The NHSPS uses a notional fund as the basis for calculating the employers' contribution rate paid by Local Authorities. It is not possible for a Local Authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. In 2015/16 the County Council paid contributions of £174k to the NHSPS, 14.3% of pensionable pay.

(iv) Employees can also opt to become members of the National Employment Savings Trust (NEST), the pension scheme set up by the government and run by its trustee, NEST Corporation. NEST is a defined contribution scheme. Local Authorities contribute by making contributions based on a percentage of members pensionable salaries. In 2015/16 the County Council paid contributions of £2k to NEST, 1.0% of pensionable pay.

DCC Group

The Local Government Pension Scheme (LGPS) for Tricuro staff, is administered by Dorset County Council. This is a funded scheme, meaning that the Tricuro and the employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

The scheme is only open to employees that transferred from Dorset County Council, Bournemouth Borough Council and Poole Borough Council. A new scheme has been introduced from 2016/17 for employees not eligible to join the LGPS. The assets and liabilities in relation to the staff that transferred on a fully funded basis on 1 July 2015. The company is responsible for all pension costs incurred post transfer and the three local authorities are responsible for all assets and liabilities in respect of pensionable service before that date.

24. Pooled Budget Scheme

The County Council is in a partnership scheme with NHS Dorset CCG, Bournemouth Borough Council and the Borough of Poole under Section 75 of the Health Service Act 2006. The partnership commenced on the 1 April 2015 and Bournemouth Borough Council hosts the arrangement. The aim of the partnership is to provide a responsive equipment service including the support of intermediate care and reablement services. Prior to the 1 April 2015 the County Council was in partnership with the NHS and hosted an Equipment Service covering the Dorset only area. Details are shown in the following table: -

2014/15 £'000		**2015/16 £'000**
5,755	Expenditure	**1,455**
(4,045)	Income	**-**
1,710	Net DCC Contribution	**1,455**

25. Summary of capital expenditure and financing

2014/15 £'000	2014/15 £'000		**2015/16 £'000**	**2015/16 £'000**
		Adult & Community Services		
451		Major & Minor Schemes	**267**	
229		R&M	**381**	
47		REFCUS	**7**	
	727			**655**
		Corporate Resources		
59		Major & Minor Schemes	**187**	
494		R&M	**414**	
3,895		IT	**5,325**	
5,198		REFCUS	**11,386**	
	9,646			**17,312**
		Cabinet		
97		Major & Minor Schemes	**1,033**	
-		IT	**14**	
94		REFCUS	**319**	
	191			**1,366**
		Children's Services		
7,188		Major & Minor Schemes	**10,267**	
1,413		R&M	**2,140**	
109		IT	**142**	
17,328		REFCUS	**10,060**	
	26,038			**22,609**
		Environment		
32,518		Major & Minor Schemes	**38,242**	
60		R&M	**12**	
24		IT	**1**	
4,113		REFCUS	**1,139**	
	36,715			**39,394**
		Dorset Waste Partnership		
1,803		Major & Minor Schemes	**899**	
3,838		Vehicles	**2,664**	
362		REFCUS	**(3)**	
	6,003			**3,560**
	1,454	**Vehicles**		**3,062**
	80,774	**Total Capital Expenditure**		**87,958**
		Sources of Finance		
21,489		Borrowing (internal & external)	**-**	
44,419		Grants	**72,050**	
6,003		Other Contributions	**1,497**	
1,653		PFI and leases	**1,775**	
2,311		RCCO	**4,942**	
4,899		Use of Capital Receipts	**6,083**	
-		Use of Reserves and Balances	**1,611**	
	80,774	**Total Financing**		**87,958**

This table gives details of capital spending by service, and how that spending was financed. The table includes expenditure referred to as Revenue Expenditure Funded from Capital Under Statute (REFCUS) set out in note 15.

Legislation requires REFCUS expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried in the Balance Sheet as a non-current asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on Council Tax Payers. These items are generally expenditure on property not owned by the Authority. The capital financing requirement note below, includes provision for this expenditure.

26. Capital financing requirement

The total amount of capital expenditure incurred during the year is shown in note 25, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital Financing requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed as:

2014/15 £000s		2015/16 £000s
804,363	Property Plant & Equipment	819,326
3,677	Assets held for sale	5,320
808,040	Total Assets to be funded	824,646
99,497	Revaluation Reserve	107,134
373,682	Capital Adjustment Reserve	391,266
334,861	**Capital Financing Requirement 31 March**	326,246
(34,999)	Less Long Term PFI Liability	(32,612)
(7,017)	Less Obligations under Finance Leases	(6,321)
292,845	**Underlying Borrowing Requirement 31 March**	287,313

2014/15 £'000		2015/16 £'000
13,797	Effect on the underlying need to borrow	(5,532)
13,797		(5,532)

27. Future capital commitments

The Council has entered into contracts for a number of capital projects in 2015/16 and earlier years, which were not completed by 31 March 2016. Details of further expenditure on such major schemes which will be incurred in later years are set out below.

Figures quoted for the previous year are the commitments on incomplete schemes as at that balance sheet date and not an analysis of cumulative expenditure against those projects at that date.

2014/15 £'000		2015/16 £'000
	Children's Services	
1,555	Pimperne Primary School replacement	655
328	Leeson House DDA works	150
2,671	Lulworth Primary	358
2,734	Manor Park	782
525	Damers replacement enabling works	-
1,510	Chickerell Academy	-
895	Burton phase 1	-
723	Christchurch TIS	-
1,964	Yewstock	199
-	Bere Regis Primary replacement	3,806
-	Damers replacement	7,201
-	Highcliffe St Marks extension	1,928
	Whole Authority	
28,342	Superfast Broadband	15,081
	Environment Directorate	
6,631	Weymouth Relief Road	4,532
3,744	Dorchester Transport & Environment Plan	3,485
4,242	Bridport Household recycling Centre	100
3,625	Dinah's Hollow	300
21,178	A338 Major Maintenance	7,005

28. Asset register

The following table analyses the numbers and values of major non-current assets owned by the Authority.

2014/15 No	2014/15 £'000		2015/16 No	2015/16 £'000	2015/16 £'000
28	2,622	**Intangible Assets**	**31**		**2,447**
		Operational Assets			
272	108,189	Land	**267**	**106,399**	
191	224,836	Buildings	**181**	**233,201**	
52	6,986	Farms - Land	**52**	**6,833**	
47	5,647	Farms - Buildings	**45**	**5,676**	
4	4,972	Leased buildings	**4**	**4,748**	
1	4,990	PFI Land	**1**	**5,140**	
1	15,977	PFI buildings	**1**	**17,420**	
					379,417
453	11,616	Vehicles	**527**	**14,483**	
38	1,388	Leased vehicles	**32**	**867**	
11	132	Plant	**11**	**98**	
289	749	Furniture & Fittings	**290**	**680**	
65	12,185	Equipment	**79**	**10,274**	
					26,402
1	347,876	**Infrastructure Assets**	**2**		**342,626**
28	10,024	**Community Assets**	**28**		**10,031**
		Non-Operational Assets			
307	28,772	Assets under construction	**454**	**47,753**	
35	17,402	Surplus Assets	**35**	**10,650**	
6	3,677	Assets held for sale (current assets)	**6**	**5,320**	
					63,723
1,829	808,040		**2,046**		**824,646**

The Balance Sheet does not include schools where ownership rests with the Diocese, or Foundation Schools and other schools that have subsequently transferred to Foundation status, as the premises remain under the control of each Foundation.

In addition to the above, the Council owns a number of sites which are held pending development or disposal. It is also responsible for the following infrastructure assets. Unclassified Roads no longer include unpaved roads or green lanes.

2014/15 Km		2015/16 Km
396	Principal Roads	**396**
1,533	Classified Roads	**1,535**
2,102	Unclassified Roads	**2,089**
4,031		**4,020**

29. Components

As noted elsewhere in this document, component accounting has been applied prospectively from 1 April 2010. A policy for assessing the Authority's assets for componentisation was developed with the Valuations & Estates Team and approved by the Auditors in 2010/11. This looks at componentising over a six year period.

During 2015/16, 13 property assets were componentised (2014/15 = 22). The depreciation included in the Comprehensive Income & Expenditure Statement on account of these components is £331k. Had these components not been created, the depreciation charge on the non-componentised assets would have been £134k (2014/15 = £429k compared with £229k).

30. Heritage Assets

Dorset History Centre (DHC) is the home of the Joint Archives Service for Bournemouth Borough Council, Dorset County Council and Borough of Poole. The building is owned and maintained by DCC, but the revenue costs for the service are shared.

DHC holds the corporate archives of the three authorities along with second tier authorities and a wide range of other public bodies and private institutions and individuals. Collection size varies from single items like a letter or title deed to several thousand boxes. In total we estimate the holdings to amount to over 1,070 cubic metres. Ownership of the collections is split between DCC (its own archive but also all 'gifted' collections) and a wide range of corporate bodies and individuals.

The archive collections housed within the repository date back to 965, number over 9,700, and are made up of millions of individual items of paper, parchment, photographic (and other) images, maps, plans, volumes, digital and magnetic storage devices. The vast majority of material held by DHC is unique, i.e. no other copy exists and is therefore irreplaceable.

The three repositories in which the collections are stored meet the requirements of the standard PD5454 (Storage and Exhibition of Archival Material). Temperature and humidity are regulated to tight parameters and a gas-based fire suppressant is installed. The repositories are secured with electronic swipecard access. Only JAS staff and limited numbers of Registration staff can access them.

Placing a value on the collections is very difficult. In financial terms there are certainly items held here which would fetch many thousands, if not hundreds of thousands of pounds. However, the informational value and legal proof of millions of transactions is also huge e.g. DCC's corporate memory. Quantifying a monetary value would be extremely hard to do (and would come at a significant cost to the Authority).

There is no insurance held for the archive collections. This is quite standard for archive services where the security and integrity of the building itself, is the de facto insurance. Our Terms of Deposit state that the DHC does not insure collections and that insurance is the responsibility, if desired, of the owner of the records.

In addition to these archives, the Authority owns only one other heritage asset; a painting by Lady Butler, which was presented to the Council in 1926 and is currently on loan at the County Museum Dorchester. The painting was valued before being loaned to the museum but its value is not considered to be material.

31. Investments

The Council has adopted the Code of Practice for Treasury Management in Local Authorities that, amongst other things, governs the way in which surplus cash is invested. The total amount of investments with individual institutions and sectors is strictly controlled and regularly reviewed. The short-term (i.e. less than one year) investment of surplus funds at 31 March 2016 amounted to £0 million (£45 million at 31 March 2015).

32. Long-term debtors

An analysis of amounts due to the Council at 31 March 2016, repayable over a period of more than 12 months, is shown below. The amount for Other Local Authorities relates to the Home Office system of capital financing for Police expenditure prior to 1990, and is repayable by Dorset Police in annual instalments. The majority of the remainder relates to similar capital financing arrangement for colleges, deferred debt for residents in care homes and private street works, with no prepayment into the Pension Fund during 2015/16, whereas £8.6m was prepaid in 2014/15

2014/15 £'000		**2015/16 £'000**
902	Other Local Authorities	**833**
66	Interest in Finance Leases	**-**
299	Interest in Operating Leases	**297**
11,999	Other	**3,461**
13,266		**4,591**

33. Inventories

The Council holds a number of stocks and stores. Stock levels are regularly reviewed to ensure that only necessary stocks are held.
Equipment for disabled people issued under the pooled budget arrangement (detailed in Note 24 earlier in this document) has been included.

2014/15 £'000	**Stocks**	**2015/16 £'000**
441	Highways and Transportation	**524**
63	Fuel Scheme	**46**
179	DWP Inventories	**179**
-	Community Equipment Store	**199**
10	Misc small stock items	**2**
693		**950**

34. Debtors and payments in advance

An analysis of amounts due to the Council or paid in advance at 31 March 2016 is shown below.

2014/15			**2015/16**	
Debtors £'000	Payments £'000		**Debtors £'000**	**Payments £'000**
12,900	5	Central Government Departments	**9,535**	**-**
15,658	57	Other Local Authorities	**19,242**	**66**
859	-	Health	**646**	**-**
12,097	14,780	Other	**20,629**	**15,403**
41,514	14,842		**50,052**	**15,469**

35. Contingent Assets

In addition to the amounts included above, further sums estimated to amount to £52.7m may fall due from the District Councils in Dorset in respect of Section 106 (of the Town and Country Planning Act 1990) planning agreements.
These amounts are not due, yet, but will accrue in future in line with the progress made on the developments covered by individual agreements.

36. Assets held for sale

As set out in the Accounting Policies section of this document, assets that meet the criteria are required to be accounted for and reported as being held for sale. Dorset County Council had the following properties which met these criteria at the Balance Sheet date:

Property	**Use/Business Segment**	2014/15 £'000	**2015/16 £'000**
Sherborne House & Gardens	Children's Services	1,802	**1,500**
Damers Road Store	Surplus	345	**380**
North Dorset Business Park	Surplus	760	**810**
Rolls Mill	Surplus	30	**30**
Christchurch Adult Learning Centre	Adult & Community Services	740	**2,600**
		3,677	**5,320**

Dorset County Council and North Dorset District Council underwrote a loan of £560,000 from the Growing Places fund for the North Dorset Business Park. This loan becomes repayable late 2017.

37. Cash (and cash equivalents) and bank balances

Cash in hand includes £0.4m held in interest earning accounts as an alternative to temporary investments. A bank overdrawn figure includes outstanding cheques drawn shortly before the end of the financial year, which were unpresented as at 31 March 2016. The actual bank balance is managed on a daily basis and kept to very modest limits, usually less than £100,000.

At 31 March 2016 the balance sheet shows the net cash position being in overdraft. This is because the County Council manages its balances with those of the Dorset Local Enterprose Partnership (LEP) and these accounts show the Dorset County Council element only.

38. Borrowing

An analysis of the Council's outstanding debt as at 31 March 2016 is shown below, analysed between the government's Public Works Loans Board (PWLB) and other lenders. The increase in outstanding debt is a consequence of the Council's decision to borrow, historically to fully utilise the credit approvals (borrowing permissions) granted by the Government, and within the limits set by the County Council to borrow under the Prudential Code for capital finance in local authorities.

2014/15			2015/16	
PWLB	Other		**PWLB**	**Other**
£'000	£'000	**Analysis of Loans by maturity**	**£'000**	**£'000**
10,783	20,000	**Short Term Borrowing** (less than 1 year)	**820**	**-**
820	-	Between 1 and 2 years	859	800
2,701	800	Between 2 and 5 years	22,829	**-**
33,104	-	Between 5 and 10 years	12,117	**-**
10,000	19,500	Between 10 and 15 years	10,000	19,500
-	-	Between 30 and 35 years	8,816	**-**
41,816	-	Between 35 and 40 years	33,000	**-**
-	40,000	Between 40 and 45 years	-	40,000
-	35,600	More than 45 years	-	35,600
88,441	95,900	**Long Term Borrowing**	**87,621**	**95,900**
130,086	135,596	**Fair Value of Market Loans**	**120,278**	**155,575**
3.65%	3.41%	Average rate of interest	**3.98%**	**3.99%**

Actual borrowing shown here is less than the Capital Financing Requirement because of unfinanced capital expenditure carried forward, shown in Note 25, or decisions when to take out borrowing to finance the capital programme. These decisions are taken in consultation with advisers, taking into account interest rate movements and other factors.

Financial liabilities and financial assets represented by loans and receivables are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments. For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures.

39. Creditors and receipts in advance

An analysis of amounts owed by the Council or received in advance at 31 March 2016 is shown below. Receipts in advance do not include grants or contributions held in respect of future spending where conditions attached to the grant have been met.

2014/15			2015/16	
Creditors	Receipts		**Creditors**	**Receipts**
£'000	£'000		**£'000**	**£'000**
3,316	290	Central Government Departments	**1,867**	**659**
4,438	1,882	Other Local Authorities	**4,463**	**7,264**
50,389	3,373	Other	**45,887**	**567**
58,143	5,545		**52,217**	**8,490**

40. Provisions

The Council self-insures most of its insurance claims, funding these internally. Interest is earned on the balances held until they are required. The insurance provision also covers potential liabilities arising from the performance of building and civil engineering contracts in excess of £750,000. Balances for specific provisions at 31 March 2016 are as follows:

	Balance 1 April 2015	Income	Payments and / or Transfers	**Balance 31 March 2016**
	£'000	£'000	£'000	**£'000**
Misc Provisions	107	302	**300**	**109**
Schools Reorganisations	1,083	369	**705**	**747**
General Insurance Provision	3,338	(79)	**840**	**2,419**
	4,528	**592**	**1,845**	**3,275**

Triggering of the Scheme of Arrangement for MMI

Municipal Mutual Insurance (MMI) is an insurance company limited by guarantee and not having a share capital, which was established by a group of local authorities and incorporated under the Companies Acts 1862 to 1900 on 13 March 1903. The Company suffered substantial losses between 1990 and 1992. These losses reduced MMI's net assets to a level below the minimum regulatory solvency requirement. In September 1992 MMI ceased to write new, or to renew, general insurance business.

Since going into run-off in September 1992 numerous business and corporate disposals have taken place including the right to seek renewal of the larger part of MMI's direct personal and commercial lines insurance business to Zurich Insurance Company along with a number of MMI's assets and many members of its staff.

The Company is subject to a contingent Scheme of Arrangement under section 425 of the Companies Act 1985 (now 899 of the Companies Act 2006) which became effective on 21 January 1994. On 13 November 2012, the directors of the Company concluded that the terms of the Scheme of Arrangement should be triggered and served notice on the Scheme Administrator and the Company to that effect. As a result, the Scheme of Arrangement was triggered and the Scheme Administrator, Gareth Hughes, has taken over the management of the business of the Company. Any queries in relation to the Scheme of Arrangement should be referred in the first instance to the Company at its registered office.

Following the triggering of the scheme, the Scheme Administrator conducted a financial review of the Company and concluded that a 15% levy would be necessary. For Dorset County Council, this is around £405k. Dorset County Council has met the initial levy request of £405k. In May 2016 notification was received that the levy has been raised to 25% and a further demand of £272k was received. Dorset County Council has sufficient funds to meet this further payment in its earmarked reserves and thus no further provision is required.

41. Contingent Liabilities

Provision has been made in the accounts for known claims against the Council at the level of the Council's own estimation. There are potential claims against the Council, which are at this stage unquantifiable and no provision has been made for these. There are various other minor claims against the Council, where the validity is disputed, and the Council has made no provision for these in the accounts.

42. Other long term liabilities

The Salix Fund was established with money advanced by a government agency, match-funded by DCC, to pay for carbon reduction measures in buildings. The fund is replenished from savings in energy costs in the early years of each project (after which, savings accrue to revenue budgets). The fund is available for ongoing reinvestment. However, should there be, at some stage, insufficient compliant schemes in which to invest, Government may require its advance to be repaid.

2014/15 £'000		**2015/16 £'000**
26	SALIX	**74**
26		**74**

43. Trust funds and bequests

The County Council administers a number of funds which have been established by gift or bequest. Some are bequests for the benefit of certain Social Care or Library service users; others are for school pupils, for the purchase of books, as prizes, or occasionally to provide scholarships. These funds are held by the County Council as trustees and are summarised below.

	Balance 1 April 2015 £'000	Income £'000	Expenditure £'000	**Balance 31 March 2016 £'000**	Capital 31 March 2016 £'000
Bequests (Social Care & Library)	2	1	1	**2**	189
Francis Ramage Prize Fund (Now Closed)	1	50	51	**0**	-
Dixon Galpin Scholarship Fund (Now Closed)	27	102	129	**-**	-
Other Trust Funds (Now Closed)	16	80	96	**0**	-
	46	**233**	**277**	**2**	**189**

44. Capital Adjustment Account

This account provides a balancing mechanism between the different rates at which assets are depreciated and are financed through the capital control system.

2014/15 £'000		**2015/16 £'000**
390,087	Balance brought forward	**373,682**
(31,333)	Depreciation & Impairment	**(45,687)**
(27,142)	REFCUS	**(22,908)**
(5,002)	Net gains/(losses) on disposal of non-current assets	**(3,009)**
(23,796)	Net gains/(losses) on disposal of Academy assets	**(7,521)**
17,464	Minimum Revenue Provision	**12,023**
2,311	Capital Expenditure Charged to the General Fund	**4,942**
46,195	Release of Government Grant	**72,050**
4,899	Use of Capital Receipts	**6,083**
-	Transfer from revenue to fund capital expenditure	**1,611**
373,682	Balance carried forward	**391,266**

45. Collection Fund Adjustment Accounts

The Council Tax Collection Fund Adjustment Account holds the movement between the Council Tax income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund. This is included as a reconciling item in the Statement of Movement in Reserves. This is an unusable reserve for the Authority.

2014/15 £'000		**2015/16 £'000**
3,493	Balance brought forward	**5,501**
2,008	Movement in year	**1,179**
5,501	Balance carried forward	**6,680**

The Non-Domestic Rates (NDR) Collection Fund Adjustment Account holds the movement between the NDR income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund. This is included as a reconciling item in the Statement of Movement in Reserves. This is an unusable reserve for the Authority.

2014/15 £'000		**2015/16 £'000**
(362)	Balance brought forward	**114**
476	Movement in year	**(969)**
114	Balance carried forward	**(855)**

46. Accumulated Absences Account

The IFRS-based Code requires Local Authorities to account for benefits payable during employment in accordance with IAS 19 (Employee Benefits). One aspect of this is that accruals must be made at 31 March for any "accumulating, compensated absences", or untaken leave, time-off-in-lieu etc.

The balance on this account at the end of the year is mirrored by a creditor in the Balance Sheet. As with other changes in creditors, the change in the balance between the start and the end of the year is charged in the Comprehensive Income and Expenditure Statement within individual costs of services.

2014/15 £'000			**2015/16 £'000**	
	(5,432)	Opening balance		**(4,473)**
5,432		Reverse previous year provision	**4,473**	
(4,473)		Current year provision	**(3,435)**	
	959	(Charge)/credit to I&E		**1,038**
	(4,473)	Closing balance		**(3,435)**

47. Capital Grants Unapplied Account

Where the acquisition of a non-current asset is financed wholly or partly by a capital grant or other contribution, the amount of the grant is credited initially to a capital grants unapplied account. Once the appropriate expenditure has been incurred, the funding is transferred from the capital grant unapplied account to the Capital Adjustment Account.

2014/15 £'000		**2015/16 £'000**
22,426	Balance brought forward	**24,515**
45,411	Receipts	**62,251**
93	Notional Interest	**20**
(46,195)	Transferred to Capital Adjustment Account	**(72,050)**
2,781	Adjusted to revenue reserves	**2,670**
24,515	Balance carried forward	**17,406**

48. Revaluation Reserve

This account records the net gain, (if any), from revaluations made after 1 April 2007 from holding non-current assets.

2014/15 £'000		**2015/16 £'000**
88,581	Balance brought forward	**99,497**
22,632	Revaluation gains on property, plant & equipment	**13,637**
(3,206)	Charges for depreciation & Impairment of non-current assets	**(3,319)**
(636)	Net (gains)/losses on disposal of non-current assets	**(621)**
(7,873)	Net (gains)/losses on disposal of Academies	**(2,060)**
99,497	Balance carried forward	**107,134**

49. Financial Instrument Adjustment Account

Financial instruments arise from various types of loan contract or agreements. These activities give rise to a number of risks, including credit risk (debts might not be repaid); liquidity risk (having funds available to meet commitments); re-financing risk (disadvantageous timing for renewal); and market risk (interest rate movements). These topics are addressed in the annual Treasury Management report to the Cabinet.

2014/15 £'000		**2015/16 £'000**
1,530	Balance brought forward	**1,509**
(21)	Soft Loan Interest Adjustment	**41**
1,509	Balance carried forward	**1,550**

50. Usable Capital Receipts Reserve

Capital Receipts from the sale of surplus assets are used to finance the capital expenditure programme. The credit balance reflects 2016/17 receipts being used to finance the programme.

2014/15 £'000		**2015/16 £'000**
5,028	Balance brought forward	**2,968**
2,919	Net (gains)/losses on disposal of non-current assets	**4,036**
(63)	Usable Capital Receipts funding revenue income from finance leases	**(66)**
(4,899)	Use of Capital Receipts to finance new capital expenditure	**(6,083)**
(17)	Reclassifications between balances and Reserves	**(881)**
2,968	Balance carried forward	**(26)**

As well as these reserves, additional capital receipts of £330k have been deferred. These receipts relate to the sale of properties through the Dorset Development Partnership where the cash is being used to provide liquidity to the partnership.

51. Earmarked Reserves

The Council has established a number of reserves, earmarked for capital and revenue purposes as follows: -

For revenue purposes	Balance 1 April 2015 £'000	Income and / or Transfers £'000	Payments and / or Transfers £'000	**Balance 31 March 2016 £'000**
(a) Capital Financing	417	-	(11)	**406**
(b) PFI Reserves	8,895	286	(1,063)	**8,118**
(c) Medium Term Strategy	7,200	9,618	(4,808)	**12,010**
(d) Insurance Reserve	9,817	1,867	(3,000)	**8,684**
(e) Trading Account Reserves	1,640	4,349	(4,966)	**1,023**
(f) Innovation/transformation Fund	1,470	-	(717)	**753**
(g) Other Reserves	4,230	2,110	(1,864)	**4,476**
(h) Repairs & maintenance	750	-	(750)	**-**
(i) Reserves from IFRS transition	28,162	6,871	(14,418)	**20,615**
Total Revenue Reserves	62,581	25,101	(31,597)	56,085

(a) Capital Financing

Specific reserves have been established to fund future capital schemes where funding for individual projects is dependent upon specific earmarked contributions.

(b) PFI Reserve

This reserve is a sinking fund held for replacement furniture & equipment, and to cover additional costs of any future legislative changes.

(c) Medium Term Financial Strategy

This reserve is maintained to provide a mechanism to help balance the medium term financial plan (MTFP) over the three year planning period. The prospects for Local Govt finance over the next three to five years are extremely challenging and the reserve has benefitted from review and consolidation of other reserves during the year to ensure we make the best planning choices about our future budgets and plans.

(d) Insurance Reserve

This is in addition to the provision referred to above, to cater for any claims not covered by the provision.

(e) Trading Account Reserves
The balance held in this reserve incorporates the amount unapplied on the internal trading undertakings appropriation accounts.

(f) Innovation Fund
This reserve was set up to fund one-off expenditure that would deliver future savings.

(g) Other Reserves
Various reserves have been created, the main purposes of which are the replacement or purchase of items of plant or equipment, or to smooth the cost of building repair and maintenance across financial years.

(h) Repairs & maintenance
This reserve was established from rationalisation of other reserves during 2013/14 and was used to provide short-term support as the revenue budget for repairs and maintenance was reduced.

(i) Reserves from IFRS transition
Various reserves were created as a result of transition to IFRS. This was because new treatment was required for grant/contribution income which was not yet spent, but for which the conditions of receiving the grant had been fulfilled. These reserves continue to be shown separately as they are purely for accounting requirements rather than reserves which the Authority has designated for specific purposes.

52. Movement in balances
Total balances decreased by £4m during the year to £27.9m. There was a net underspend of £3.1m on revenue budgets subject to cost centre management arrangements. This is included within the general balances figures in this analysis.

2014/15		2015/16				
		General	**LMS***	**Retained Schools**	**Capital**	**Total**
£'000		**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
40,058	Brought forward	11,987	6,106	5,571	8,237	**31,901**
(16,751)	Use in year	5,805	(6,106)	(5,571)	(5,611)	**(11,483)**
8,595	Additions/outturn	(3,082)	7,912	2,609	-	**7,439**
31,901	Carried Forward	14,710	7,912	2,609	2,626	**27,857**

* LMS - balances held on behalf of schools under the scheme for Local Management of Schools.

53. Movement on the General Fund Balance
The Comprehensive Income and Expenditure Account is shown on pages 34 and 35. Amounts charged in the Comprehensive Income and Expenditure Statement now use essentially the same accounting conventions as private companies; ie International Financial Reporting Standards. The surplus or deficit on the Comprehensive Income and Expenditure Statement is the IFRS measure of a body's financial performance.

However, in determining a Local Authority's budget requirement and movement on the General Fund (and hence the level of Council Tax), there are other items which must be taken into account in accordance with statutory or non-statutory proper practices.

Amounts included in the Comprehensive Income and Expenditure Statement in accordance with IFRS, but which are excluded when determining the Movement on the General Fund are depreciation and impairment of non-current assets, deferred charges, the net gain or loss on the sale of non-current assets and adjustment to pensions costs in accordance with IAS19.

Amounts not included in the Comprehensive Income and Expenditure Statement, but which are required to be included when determining the Movement on the General Fund are the statutory provision for the repayment of debt, capital expenditure charged to the General Fund and any transfer to or from earmarked reserves. These additional amounts are detailed in the Statement of Movement In Reserves shown on page 35.

Notes to the Cash Flow Statement

54. Movement in cash and cash equivalents
This table reconciles the net revenue account surplus or deficit to the net increase or decrease in cash.

2014/15			2015/16	
£'000	£'000		**£'000**	**£'000**
	(8,157)	**Net surplus/(deficit) to General Fund**		**(4,044)**
		Movement in accruals items:-		
(9,461)		Long Term Debtors	**8,675**	
78		Stocks	**(257)**	
(14,359)		Debtors	**(9,165)**	
3,845		Creditors	**(2,981)**	
468		Provisions	**(1,253)**	
	(19,429)			**(4,981)**
		Movement in non-cash items :-		
(4,308)		Capital Accounts	**2,795**	
(2,484)		Collection Fund Adjustment Account	**(210)**	
4,649		Earmarked Reserves	**(6,286)**	
(2,060)		Capital Receipts Reserve	**(2,994)**	
	(4,203)			**(6,695)**
		Movement in financing items:-		
10,036		Short Term Borrowing	**(29,963)**	
(12,405)		Long Term Borrowing	**(3,855)**	
5,000		Short Term Lending	**45,000**	
19,963		Long Term Lending	**-**	
	22,594			**11,182**
	(9,196)	**Increase/(Decrease) in Cash**		**(4,538)**

55. Movement in net funds

Net funds are cash and other liquid resources (e.g. temporary investments), less borrowings.

	Balance 2014/15 £'000	Movement in year £'000	**Balance 2015/16 £'000**
Cash in hand and at bank	114	(4,538)	**(4,424)**
Temporary investments and borrowing	14,217	(15,037)	**(820)**
Leases, PFIs & Other	(42,042)	3,035	**(39,007)**
Long Term Investments	38	-	**38**
Long Term Borrowing	(184,341)	820	**(183,521)**
	(212,014)	**(15,720)**	**(227,734)**

56. Movement in liquid resources

Liquid resources are current assets that are readily convertible into known amounts of cash.

2014/15 £'000		**2015/16 £'000**
50,000	Temporary Investments as at 1 April	**45,000**
19,962	Transfer (to)/from long term investments	**-**
(24,962)	Increase / (Decrease) in Loans in the Period	**(45,000)**
45,000	Temporary Investments as at 31 March	**-**

57. Critical accounting judgements

In applying the accounting policies set out in this document, the Authority has made judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Financial Statement are:

(i) Asset classifications, valuations and useful lives

The County Council has made judgements on whether assets are classified as investment property; property, plant and equipment or assets held for sale. These judgements are based on the main reason that the Council holds the asset. If the asset is used in the delivery of services or is occupied by third parties who are subsidised by the Council they are deemed to be property, plant and equipment assets. If there is no subsidy and/or full market rent is being charged, or the property is held purely for capital appreciation purposes, this would indicate that the asset is an investment property. Where assets are held only because they have not yet been sold, but an active disposal process is in place, the property is deemed to be an asset held for sale. The classification determines the valuation and depreciation method used and drives the useful economic life.

(ii) Lease classifications

The accounting treatment for operating and finance leases is significantly different and could have a material effect on the accounts. The Authority has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee.

Continuing development of IAS17, the international accounting standard for leases, means that at some point the County Council is likely to be required to reclassify many of its leases from operating to finance leases. This is likely to have a material impact on the value of assets reported on the Authority's balance sheet.

(iii) Providing for potential liabilities

The County Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. This includes legal claims that could eventually result in the payment of compensation or other settlement. The judgements are based on the degree of certainty around the results of pending legal actions based on experience in previous years or in other local authorities.

(iv) The DCC Group Boundary

The County Council applies a series of tests, on an annual basis, in order to assess whether collaborative arrangements it is involved in give rise to a group accounting situation and the requirement for production of consolidated accounts. Disclosure note 6, group accounts, shows details of arrangements with organisations for which it is not deemed to be material to consolidate their financial results and instead to disclose those results and the Council's interests in them. It has, however, been agreed with the external auditor to treat Tricuro as a joint venture, on the basis that the Council has joint control due to equal voting rights on reserved matters, with a 70% beneficial interest and to consolidate the financial results into DCC Group Accounts.

(v) Annual impairment assessment - DCC Group

Under the requirements of paragraph 58 of IAS 39, an investor must assess at each year-end whether there is any objective evidence that its interests in the (associate or) joint venture are impaired. The loss event giving rise to this evidence must have occurred after the interest was recognised and impact the expected future cash flows from the (associate or) joint venture in respect of that interest to the investor. Loss events that have not yet occurred are ignored, however likely. Such events would be taken into account in future periods. Where evidence of impairment is found, the rules in IAS 36 Impairment of Assets are applied to the entire carrying amount of the entity in determining the amount of the impairment loss. Further guidance on the impairment of financial instruments is provided in module 7 of the Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners – 2014/2015 Accounts.

The assessment for the 2015/16 Accounts is that there is not a requirement for the Council to recognise any impairment in its interest in Tricuro Support Limited.

58. Assumptions about future funding

There is a continuing high degree of uncertainty about future levels of funding for Local Government. While the general fund balance and earmarked reserves can provide a small buffer and/or a fund for invest to save measures for a range of efficiency initiatives, there is still no guarantee that Council Services can continue to be provided at their current levels.

During 2014/15 the Council set aside £7.2m in a special reserve to balance it's budget over the Medium Term Financial Plan (MTFP) period. This reserve has been increased to £12m during 15/16, this funding is available to support the balancing of the 2016/17 budget and the £5m one-off funding required to support the transformation work to reduce the numbers of children in care during 16/17.

The Government provisional finance settlement in December 2015 included a radical departure from previous methods of calculating funding and left Dorset with a grant reduction of £17.8m (£7.3m more than had been planned for), following lobbying to government some transitional funding was applied at the final settlement but just over £2m were required from the MTFP reserve to balance the budget.

59. Sources of estimation uncertainty

The Financial Statements contain some estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates made.

There is one item in the Council's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year and that is the pension liability. Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.
The effects on the net pensions liability of changes in individual assumptions can be measured; however, the assumptions interact in complex ways and the Authority discloses information about the fund elsewhere in this document.

60. POOLED BUDGETS FOR HEALTH AND SOCIAL CARE

The Better Care Fund (BCF) is the biggest ever financial incentive for the integration of health and social care. It requires Clinical Commissioning Groups and local authorities in every area of England to pool or align budgets and to agree an integrated spending plan for how they will use their Better Care Fund allocation.

The Council is a partner in the pan Dorset Better Care Fund which is owned by two Health and Wellbeing Boards:
- Dorset
- Bournemouth and Poole

Other partners are:
- NHS Dorset Clinical Commissioning Group,
- Bournemouth Borough Council, and
- Borough of Poole

The gross income of the pan Dorset BCF for the year was £61.270m with expenditure of £61.062m.

The Council's contribution to the BCF was £4.496m.

FUND ACCOUNT

2014/15 £'000	2014/15 £'000		Note	2015/16 £'000	2015/16 £'000
		Contributions	*5 & 10*		
76,140		Employers, normal		**77,413**	
2,858		Employers, other		**2,582**	
26,333	105,331	Employees, normal		**26,677**	**106,672**
	5,874	**Transfers from other schemes**			**4,728**
	111,205	**Total Income**			**111,400**
		Benefits	*10*		
79,096		Pensions		**83,924**	
18,202		Commutations & Retirement Grants		**17,831**	
2,724	100,022	Death Benefits		**2,402**	**104,157**
		Payments to and on account of leavers			
143		Refunds of Contributions		**234**	
17	160	State Scheme Premiums		**48**	**282**
	37,125	**Transfers to other schemes**			**3,158**
	(26,102)	**Net additions / (withdrawals) - dealings with members**			**3,803**
	10,294	**Management Expenses**	*6*		**11,108**
		Returns on Investments *			
21,723		Dividends from equities		**23,364**	
12,460		Rents from properties		**13,560**	
457		Interest		**356**	
221		Other investment income	*14*	**191**	
		Change in market value of investments			
35,798		Profits realised and reinvested		**208,238**	
175,042		Variation in valuation account		**(273,090)**	
	245,701	**Net Return on Investments**			**(27,381)**
	209,305	**Net increase / (decrease) in fund during the year**			**(34,686)**
	2,091,827	**Opening net assets 1 April**			**2,301,132**
	2,301,132	**Closing Net Assets 31 March**			**2,266,446**

* The absence of fixed interest income is a result of all of the Fund's fixed interest holdings in this category of investment being held in Pooled Investment Vehicles. These vehicles retain income within their structure and consequently are not separately identified in the financial statements but are reflected in the valuation of the units in that pooled investment.

NET ASSETS STATEMENT

31 March 2015 £'000	31 March 2015 £'000		Note	31 March 2016 £'000	31 March 2016 £'000
		Investments at market value			
401,418		UK equities - Quoted		**365,654**	
464,090		Overseas equities - Quoted		**560,389**	
1,115,335		Pooled Investment Vehicles		**971,428**	
4,817		Absolute Return (Hedge) Funds		**10**	
59,156		Private Equity		**65,432**	
204,700		Property		**221,125**	
5,000		Temporary investments		**31,600**	
3,590		Other Investment Asset Balances		**1,680**	
		Investments liabilities			
(3,835)		Other Investment Liability Balances		**(2,625)**	
	2,254,271		*7*		**2,214,693**
5,790		**Long Term Debtor**		**4,825**	
(17,828)		**Long Term Deferred Income**	*5*	**-**	
		Current Assets			
10,250		Trade & other receivables		**9,447**	
70,524		Cash deposits		**60,226**	
		Current Liabilities			
(5,288)		Trade & other payables		**(4,891)**	
(16,587)		Deferred Income	*5*	**(17,854)**	
	46,861				**51,753**
	2,301,132	**Net Assets as at 31 March**			**2,266,446**

The above Fund Account and Net Assets Statement, and the following Notes, form part of the financial statements. These financial statements summarise the Fund's transactions during the year and the position as at 31 March 2016.
The Net Asset Statement does not reflect any obligations to meet pension and benefit costs beyond the end of the 2015-16 financial year. However, under the requirements of the IFRS accounting standard and in compliance with IAS26 this liability for future benefits is shown in an appendix to the accounts and notes in the form of the disclosure report produced by the Fund's Actuary, Barnett Waddingham. This report forms part of the accounts.

1. GENERAL
The Dorset County Pension Fund is a Local Government Pension Scheme (LGPS) governed by statute. The County Council administers the Fund on behalf of its own full time and part-time staff and employees of other local authorities and similar bodies within the County (known as scheduled bodies), including the Unitary, District and Borough Councils, School Academies and Police and Fire non-uniformed staff. The uniformed police and fire services and teachers are not included as they are members of their own unfunded schemes.

In addition to the scheduled bodies, there are a number of 'admitted' bodies. These are mainly charities and external employers who have taken over certain functions of the administering or scheduled bodies and the relevant staff employed on those functions.

As the administering body the County Council has responsibilities which include the collection of contributions, investment of surplus funds, payment of pension benefits, managing the fund valuation, monitoring all aspects of performance and managing communications with employers, members and pensioners. These activities are governed by the Public Services Pensions Act 2013, the LGPS Regulations 2013 (as amended), the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009 (as amended).

The above responsibilities are carried out by a committee comprising elected members of the County Council and other local authorities together with a scheme member representative (nominated by the unions). Day to day administration of the fund's activities is carried out by several teams of officers headed by the Fund Administrator. More detailed information on the above can be found in the Fund's Annual Report.

2. BASIS OF PREPARATION & ACCOUNTING POLICIES
The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK 2015-16 ("the Code"), section 6.5 Accounting and Reporting by Pension Funds.

Contributions : Contributions have been accounted for on an accrual basis based on the date of deductions from pay. This includes employers' normal and deficit amounts and employee normal contributions including additional voluntary payments. "Employers' other " contributions for early retirement costs are accrued for based on the date of retirement.

Transfer Values: Transfer values both in and out are accounted for on a cash basis as the date of payment or receipt is deemed to be the time at which any liability is accepted or discharged.

Investment income: UK and Overseas dividends are accrued on an ex dividend basis. Interest on cash balances with custodians are however dealt with on a cash basis due to the lack of availability of timely detailed information.

Transaction Costs: Transaction costs on the acquisition and disposal of investments held in segregated portfolios are included under "Management Expenses" in the Fund Account.

Investments: Investments with a stock exchange listing are valued at bid prices as at the date of the Net Asset Statement. Pooled Investment Vehicles are stated at bid price for funds with bid / offer spreads, or single price where there are no bid / offer spreads, as provided by the fund manager.

Unquoted securities are included at an estimated fair value based on advice from the investment manager.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date. There were no open Forward foreign exchange contracts as at 31 March 2016.

All foreign currencies are translated at the rate ruling at the net assets statement date.
Where investments with a bid price is available this has been used as a basis for valuation.

Direct Holdings of Property were valued by professionally qualified staff of BNP Paribas as at 31 March 2016. This was carried out on the basis of Open Market Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. CBRE Global Investors is the appointed Fund Manager and BNP Paribas are the independently appointed valuers. A copy of the valuation is available for inspection on request.

3. ACTUARIAL POSITION
An Actuarial Valuation was carried out as at 31 March 2013 by the Fund’s Actuary, Barnett Waddingham, and changes in contribution rates as a result of that valuation took effect from 1 April 2014 with contribution rates being set then for the three years to 31 March 2017.
A summary of the 2010 and 2013 Valuation is shown below.

2010 Valuation
The 2010 valuation resulted in an average contribution rate of 18.5% of payroll to be paid by each employing body participating in the Dorset County Pension Fund comprising of a "Future Service Contribution Rate" of 13.8% and a "Deficit Recovery (25 years) Rate" of 4.7%. Each employing body pays an individual rate of contributions to reflect its own particular circumstances and funding position within the Fund.

2013 Valuation
The 2013 Actuarial Valuation due as at 31 March 2013 has been completed and came into effect as of 1 April 2014. The 2013 valuation resulted in an average contribution rate of 18.6% of payroll to be paid by each employing body participating in the Dorset County Pension Fund. The future service cost element amounts to 13.3% and the past service deficit 5.3%. The past service deficit payment is fixed for each employer as a cash amount for the three years of the valuation period to reflect the general reduction in workforce that is taking place at a majority of employers.

Contribution Rates
The contribution rates paid by each employer, in addition to those paid by members of the scheme, are set to be sufficient to meet the liabilities that build up each year within the Fund in respect of the benefits earned by each employer's active members of the Fund during the year plus an amount to reflect each participating employer's share of the value of the Fund's assets compared with the liabilities that have already accrued at the valuation date.

The contribution rates were calculated using the Projected Unit Method taking account of market conditions at the valuation date.

Asset Value and Funding Level
The smoothed market value of the Fund's assets as at 31 March 2013 was £1,936m which represented 82% (2010 valuation 79%) of the Fund's accrued liabilities at that date allowing for future increases in pay and pensions in payment.

Financial Assumptions
For the purposes of the 2015/16 Financial Year the financial assumptions applied by the actuary were set at the 2013 valuation. The assumptions for both the 2010 and 2013 valuations are summarised below. To be consistent with the market value of assets, the liabilities were valued allowing for expected future investment returns and increases to

	2010 Valuation	**2013 Valuation**	
Rate of return on investments	6.90%	6.00%	per annum
Rate of increases in pay (short term)	4.70%	2.70%	per annum
Rate of increases in pay (long term)	4.70%	4.20%	per annum
Rate of increases to pensions in payment	3.00%	2.70%	per annum

4. MEMBERSHIP
Under the new LGPS scheme effective 1 April 2014 membership of the Fund is automatic for staff with a contract of employment of more than three months. Those with a contract of less than three months can opt to join by request.

Employees of Scheduled bodies have the right to join the scheme and membership is automatic. Membership for employees of Designating bodies is also automatic but subject to the employer having opted for employees in general to be eligible to join the scheme. Admitted bodies' employees will have separate individual arrangements on admission depending on their employer's agreement in place. All employees can opt out of the scheme at any time.

Membership of the new LGPS scheme is offered to teachers where membership of their normal scheme is not available to them.

2014/15		**2015/16**
	Contributors	
9,492	Dorset County Council	**8,483**
15,168	Scheduled Bodies	**18,568**
1,037	Admitted Bodies	**1,156**
25,697		**28,207**
	Pensioners	
7,049	Dorset County Council	**6,793**
9,508	Scheduled Bodies	**9,844**
1,026	Admitted Bodies	**967**
17,583		**17,604**

In addition there are 21,802 deferred members (21,084 in 2014-15) who have entitlement to a benefit at some time in the future.

5. EMPLOYER CONTRIBUTIONS

The normal contributions made by employers consist of two elements. One to fund pensions on future service and the other to meet deficits existing on past service costs. The triennial valuation of the fund sets a combined total contribution rate for individual employers and for various pooled groups of employers.

The average contribution rates for the years 2014-15, 2015-16 and 2016-17 set by the 2013 valuation were 13.3% for future service and 5.3% for deficit funding. These rates reflect funding levels at the valuation date of 82% and assumes full deficit recovery over a period not exceeding 25 years depending on each employer's circumstances.

Set out below is an analysis of the employers normal contributions : -

2014/15		**2015/16**
£'000		**£'000**
53,495	Contributions re Future Service Costs	**55,234**
21,317	Contributions re Past Service Costs	**22,011**
1,328	Employer's Voluntary Additional Contributions	**168**
76,140	Total Contributions	**77,413**

" Other Employers " contributions shown in the Fund Account (£2,858k) are amounts paid by employers to the Fund to meet the capital costs of early retirements.
The 2013 Actuarial Valuation set a fixed annual deficit contribution for employers for each of the three years of the valuation period. Employers were given the option to pay all these amounts in advance in 2014 at a discount. The "Deferred Income" amounts in the Net Aset Statement are these payments in advance made by employers taking up the option (£16.587m re 2015-16 and £17.828m re 2016-17)

6.MANAGEMENT EXPENSES

Set out below is an analysis of the Management Expenses: -

2014/15		**2015/16**
£'000		**£'000**
1,509	Administration Expenses	**1,337**
502	Oversight and Governance	**497**
8,283	Investment Management Expenses	**9,274**
10,294	Total Expenses	**11,108**

Investment Management Expenses are shown on the face of the accounts and in the above analysis in accordance with the CIPFA guidance "Accounting for LGPS Management Costs". Investment Mangement Expenses for 2015/16 consist of management fees of £6.8M, performance related fees of £0.5M, transaction costs of £0.4M, custody fees of £0.1M, direct operating expenses relating to investment properties of £1.3M and other fees and costs of £0.2M.

7. RECONCILIATION OF INVESTMENTS HELD AT BEGINNING AND END OF YEAR

The following table gives details of purchases, sales and changes in the market valuation of investments in the fund during the year.

	Value 1 April 2015 £'000	Purch's & Derivative payments £'000	Sales & Derivative receipts £'000	Change in market value £'000	**Value 31 March 2016 £'000**
UK equities - Quoted	401,418	12,160	15,519	(32,405)	**365,654**
Overseas equities - Quoted	464,090	551,942	444,088	(11,555)	**560,389**
Pooled Investment Vehicles	1,115,335	13,653	107,421	(50,139)	**971,428**
Absolute Return (Hedge) Funds	4,817	-	4,679	(128)	**10**
Private Equity	59,156	13,921	19,766	12,121	**65,432**
Property	204,700	4,233	3,166	15,358	**221,125**
Forward Foreign Exchange	-	20,583	16,322	(4,261)	**-**
	2,249,516	616,492	610,961	(71,009)	**2,184,038**
Temporary investments	5,000	31,600	5,000	-	**31,600**
Cash Deposits	70,524	267,758	278,056	-	**60,226**
	2,325,040				**2,275,864**

The transaction costs associated with Pooled Investment Vehicles are taken into account in calculating the bid/offer spread of these investments and are therefore embedded within the purchase and sales costs and not separately identifiable. All other transaction costs have been charged to the Pension Fund Account.

8. CONTINGENT ASSETS AND LIABILITIES

The Pension Fund is continuing the process required to recover withholding tax from various EU investments following rulings requiring equal treatment for all EU investors. These claims will be retrospective and will cover a varying number of years depending on the domicile. Neither the amount nor the expected time of settlement are known so consequently the financial statements as at 31 March do not reflect any potential recovery of tax.

9. FINANCIAL RISK MANAGEMENT

The activities of Dorset County Pension Fund are exposed to a variety of financial risks; market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk.

The Fund's investments are managed on behalf of scheme members by the Investment Managers. During the year ended 31 March 2016, investments were held by Pictet et Cie Banquiers and HSBC Global Investor Services, who acted as custodians on behalf of the Dorset Fund. Each investment manager is required to invest the assets managed by them in accordance with the terms of a written investment mandate or duly authorised prospectus.

The Dorset County Pension Fund's Pension Fund Committee has determined that appointment of these managers is appropriate for the Fund and is in accordance with its investment strategy.

The Dorset County Pension Fund Committee obtains regular reports from each investment manager and from its Independent Adviser on the nature of the investments made and associated risks.

The Fund is exposed to interest rate risk, currency risk and other price risk due to its underlying assets and liabilities. The analysis below is provided to meet the disclosure requirements of IFRS 7 Financial Instruments: Disclosures, and should not be used for any other purpose. The analysis is not intended to constitute advice and is not guaranteed.

(a) Market Risk

Market risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Fund is exposed, particularly through its equity portfolio, to market risk influencing investment valuations. In addition to the effects of movements in interest rates, the Fund is exposed to currency risk and other price risk. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of exposure to different markets through different Investment Managers. Risk of exposure to specific markets is limited by applying strategic targets to asset allocation, which are monitored by the Pension Fund Committee.

(a) (i) Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments in the market.

The Fund is exposed to price risk which arises from investments for which the prices in the future are uncertain. All securities investments present a risk of loss of capital, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Investment Managers mitigate this risk through diversification in line with their own investment strategies.

(a) (i) Other Price Risk - Sensitivity Analysis

Following analysis of data from HSBC Performance Measurement and Risk Services, it has been determined that the following movements in market price risk were reasonably possible for the 2015/16 reporting period:

Internally Managed UK Equities	15.00%
Axa Framlington UK Equities	15.00%
Schroders UK Equities	15.00%
Standard Life UK Equities	20.00%
Allianz Global Equity	15.00%
Investec Global Equity	15.00%
Wellington Global Equity	15.00%
HarbourVest Private Equity	15.00%
Standard Life Private Equity	20.00%
Royal London Bonds	10.00%
Insight Investments	n/a
Gottex Hedge Funds	5.00%
IAM Hedge Funds	10.00%
Pioneer Hedge Funds	10.00%
CBRE Property	10.00%
JP Morgan Emerging Markets Equity	25.00%
Baring Asset Management	5.00%
Hermes Infrastructure Fund	10.00%
Temporary Investments	0.00%

A price change disclosed above is broadly consistent with a one-standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign currency exchange rates, and interest rates remain constant.
The increase or decrease in the market price against the investments of the Fund at 31 March would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown below.

As at 31 March 2016	Value £'000	Percentage Change	Increase £'000	Decrease £'000
Internally Managed UK Equities	365,654	15.00%	54,848	(54,848)
Axa Framlington UK Equities	107,992	15.00%	16,199	(16,199)
Schroders UK Equities	38,612	15.00%	5,792	(5,792)
Standard Life UK Equities	71,935	20.00%	14,387	(14,387)
Allianz Global Equity	227,083	15.00%	34,062	(34,062)
Investec Global Equity	166,965	15.00%	25,045	(25,045)
Wellington Global Equity	166,341	15.00%	24,951	(24,951)
HarbourVest Private Equity	38,337	15.00%	5,751	(5,751)
Standard Life Private Equity	27,095	20.00%	5,419	(5,419)
Royal London Bonds	286,117	10.00%	28,612	(28,612)
Insight Investments	237,991	n/a		-
Gottex Hedge Funds	956	5.00%	48	(48)
IAM Hedge Funds	10	10.00%	1	(1)
Pioneer Hedge Funds	815	10.00%	82	(82)
CBREi Property	246,330	10.00%	24,633	(24,633)
JP Morgan Emerging Markets Equity	65,186	25.00%	16,297	(16,297)
Barings Asset Management	107,588	5.00%	5,379	(5,379)
Hermes Infrastructure Fund	29,030	10.00%	2,903	(2,903)
Temporary Investments (inc. Cash)	91,826	0.00%	-	-
Total	**2,275,863**		**264,408**	**(264,408)**

As at 31 March 2015	Value £'000	Percentage Change	Increase £'000	Decrease £'000
Internally Managed UK Equities	401,418	15.00%	60,213	(60,213)
Axa Framlington UK Equities	108,713	15.00%	16,307	(16,307)
Schroders UK Equities	34,872	15.00%	5,231	(5,231)
Standard Life UK Equities	78,504	20.00%	15,701	(15,701)
Pictet Global ex UK Equity	412,313	15.00%	61,847	(61,847)
Janus Intech US Equity	145,244	15.00%	21,787	(21,787)
HarbourVest Private Equity	34,571	15.00%	5,186	(5,186)
Standard Life Private Equity	24,585	20.00%	4,917	(4,917)
Royal London Bonds	286,133	10.00%	28,613	(28,613)
Insight Investments	276,460	n/a		
Gottex Hedge Funds	1,961	5.00%	98	(98)
IAM Hedge Funds	4,817	10.00%	482	(482)
Pioneer Hedge Funds	1,549	10.00%	155	(155)
CBREi Property	228,774	10.00%	22,877	(22,877)
JP Morgan Emerging Markets Equity	71,205	25.00%	17,801	(17,801)
Barings Asset Management	111,640	5.00%	5,582	(5,582)
Hermes Infrastructure Fund	26,757	10.00%	2,676	(2,676)
Temporary Investments (inc. Cash)	75,524	0.00%	-	-
Total	**2,325,040**		**269,472**	**(269,472)**

(a) (ii) Interest Rate Risk
The Fund invests in financial assets for the primary purpose of obtaining a return on investments on behalf of scheme members. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's exposure to interest rate movements on those investments at 31 March 2016 and 2015 are provided below. These disclosures present interest rate risk based on underlying financial assets (at fair value).

	31/03/2016	31/03/2015
	£'000	£'000
Cash and Cash Equivalents	60,226	70,524
Fixed Interest	524,108	562,593
Loans	31,600	5,000
Total	615,934	638,117

(a) (ii) Interest Rate Risk - Sensitivity Analysis

Interest rates vary and can impact the value of the net assets available to pay benefits to scheme members. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2015.

An increase or decrease of 1% (100 basis points) in interest rates at the reporting date would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown below.

As at 31 March 2016	Value £'000	Change for the year in net assets available to pay	
		+1%	-1%
Cash and Cash Equivalents	60,226	602	(602)
Fixed Interest	524,108	5,241	(5,241)
Loans	31,600	316	(316)
Total	**615,934**	**6,159**	**(6,159)**

As at 31 March 2015	Value £'000	Change for the year in net assets available to pay	
		+1%	-1%
Cash and Cash Equivalents	70,524	705	(705)
Fixed Interest	562,593	5,626	(5,626)
Loans	5,000	50	(50)
Total	**638,117**	**6,381**	**(6,381)**

(a) (iii) Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in a currency other than the functional currency (Great British Pound) of the Fund. The Fund holds both monetary and non-monetary assets denominated in currencies other than Pounds Sterling.

Included within the Fund's Investment Strategy is a strategic decision to hedge 50% of the currency risk in relation to Overseas Equities. The below exposures are net of this 50% hedge. The Fund also hedges 100% of it's exposure to the US Dollar generated by the holding in the IAM Hedge Fund, which is denominated in US Dollars.

The following tables summarise the Fund's exposure at 31 March 2016 to currency exchange rate movements on its investments.

	Net Currency Exposure as at 31/03/2016	Net Currency Exposure as at 31/03/2015
	£'000	£'000
US Dollar	220,525	253,392
Euro	60,247	39,591
Japanese Yen	22,461	42,450
Canadian Dollar	21,016	6,792
Swiss Franc	6,379	11,588
Australian Dollar	6,190	0
Swedish Krona	3,156	1,099
Israeli Shekel	2,920	0
Danish Krone	2,066	1,531
Norwegian Krone	1,846	0
Hong Kong Dollar	1,770	0
Singapore Dollar	1,127	184
	349,703	**356,627**

(a) (iii) Currency Risk - Sensitivity Analysis

Following analysis of historical data, it is considered that likely volatility associated with foreign currency rate movements (as measured by one standard deviation) are set out below.

These changes in the currencies are considered to be reasonable based on historical movements in exchange rates over the past three years. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2015.

To mitigate the affect of movements in foreign exchange rates against its overseas equities investments, the Fund has in place a 50% passive currency hedge against the three major currencies - the US Dollar, the Euro and the Japanese Yen.

A strengthening or weakening of the GBP against the various currencies by one standard deviation (measured in percentages below) at 31 March 2016 would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown below:

As at 31 March 2016	Percentage Change	Change for the year in net assets available to pay benefits	
		+ 1 Standard Deviation	- 1 Standard Deviation
		£'000	£'000
US Dollar	2.40%	5,293	(5,293)
Euro	2.21%	1,331	(1,331)
Japanese Yen	2.78%	624	(624)
Canadian Dollar	2.21%	464	(464)
Swiss Franc	1.74%	111	(111)
Australian Dollar	2.69%	167	(167)
Swedish Krona	0.33%	10	(10)
Israeli Shekel	0.39%	11	(11)
Danish Krone	0.30%	6	(6)
Norwegian Krone	0.46%	8	(8)
Hong Kong Dollar	0.30%	5	(5)
Singapore Dollar	1.40%	16	(16)
Total		**8,048**	**(8,048)**

As at 31 March 2015	Change	Change for the year in	
		+ 1 Standard	- 1 Standard Deviation
		£'000	£'000
US Dollar	2.10%	5,321	(5,321)
Euro	3.10%	863	(863)
Japanese Yen	2.18%	1,316	(1,316)
Canadian Dollar	1.56%	124	(124)
Swiss Franc	1.82%	181	(181)
Australian Dollar	0.29%	-	-
Swedish Krona	0.36%	4	(4)
Israeli Shekel	0.44%	-	-
Danish Krone	0.27%	4	(4)
Norwegian Krone	2.50%	-	-
Hong Kong Dollar	1.31%	-	-
Singapore Dollar	0.47%	2	(2)
Total		**7,815**	**(7,815)**

(b) Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Pension Fund to incur a financial loss. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of the financial assets and liabilities as they are marked to market.

The net market value of financial assets represents the Fund's exposure to credit risk in relation to those assets.

The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur though the failure to settle transactions in a timely manner. The Fund's exposure to concentrations of credit risk to individual counterparties comprises of Temporary Investments and Bonds held in Pooled Investment Vehicles. The contractual credit risk is represented by the net payment or receipt that remains outstanding.

Deposits are not made with banks and financial institutions unless they conform with the Pension Fund's investment criteria. The Fund also sets limits as to the maximum percentage of deposits placed with any one individual institution. In addition, to enable diversification, the Fund is able to invest in Money Market Funds, all of which have a AAA rating from the leading credit rating agencies.

The Fund's exposure to credit risk at 31 March 2016 is the carrying amount of the financial assets.

	31/03/2016 £'000	31/03/2015 £'000
Temporary Investments	31,600	5,000
Bank Account Deposits	2,426	13,133
Cash held as part of Overseas Equities portfolio	0	42,391
Money Market Funds	57,800	15,000
Bonds held in Pooled Investment Vehicles	524,109	562,593
	615,935	638,117

An analysis of the Fair Value of bonds held as at 31 March 2016 and 2015 by credit grading within the credit risk is shown below.

	31/03/2016		31/03/2015	
Bond Rating:	Percentage	£'M	Percentage	£'M
Government bonds	45.4%	238	49.0%	276
Corporate bonds:				
AAA	5.0%	26	4.3%	24
AA	5.9%	31	4.8%	27
A	15.5%	81	16.5%	93
BBB	20.6%	108	17.6%	99
BB or less	2.7%	14	2.8%	16
Unrated	5.0%	26	5.0%	28
Total		524		563

(c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. In assessing each individual investment, a key consideration is to ensure that the liability of the Fund is limited to the amount of the investment in the asset.

The liquidity risks associated with the need to pay members' benefits are mitigated by maintaining a detailed cashflow model that ensures there is a constant pool of liquid cash available to meet on going liabilities as they arise.

The following table analyses the Fund's financial liabilities, grouped into relevant maturity dates.

	Carrying Amount £'000	Less than 12 Months £'000	Greater than 12 Months £'000
Creditors and Receipts in Advance	7,516	7,516	-

(d) Fair Value Hierarchy

The Code requires the Fund to classify fair value measurements using a hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

• Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

• Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability;

• Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable).

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement. Observable data is considered to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2016.

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	
UK Equities - Quoted	365,654			365,654
Overseas Equities - Quoted	560,389			560,389
Pooled Investment Vehicles	868,692	102,736		971,428
Absolute Return (Hedge) Funds		10		10
Private Equity			65,432	65,432
Property		221,125		221,125
Temporary Investments	31,600			31,600
Sub Total	1,826,335	323,871	65,432	2,215,638
Cash in hand	60,226			60,226
	1,886,561	323,871	65,432	2,275,864

Investments whose values are based on quoted market prices in active markets, are therefore classified within level 1.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. As level 2 investments include positions that are not traded in active markets and / or are subject to transfer restrictions, valuation may be adjusted to reflect illiquidity and / or non - transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. As observable prices are not available for these securities, the responsible entity has used valuation techniques to derive fair value.

During the year ended 31 March 2016 there were no transfers between levels 1, 2 or 3 of the fair value hierarchy .

Derivative Activity

The Fund does not engage in any direct derivative activity other than Forward Foreign Exchange contracts disclosed above. Pooled Investment Vehicles in which the Fund has investments do have a mandate to undertake other derivative activity but these are not reported in detail.

10. ANALYSIS OF CONTRIBUTIONS AND BENEFITS

The following table shows the total contributions receivable and benefits payable, analysed between the administering authority (Dorset County Council), scheduled bodies and admitted bodies.

2014/15			**2015/16**	
Contributions	Benefits		**Contributions**	**Benefits**
£'000	£'000		**£'000**	**£'000**
36,267	36,431	Dorset County Council	**33,447**	**36,246**
63,265	57,658	Scheduled Bodies	**67,490**	**61,452**
5,799	5,933	Admitted Bodies	**5,735**	**6,459**
105,331	100,022		**106,672**	**104,157**

11. ADDITIONAL VOLUNTARY CONTRIBUTIONS

The County Council administers an In-House AVC Scheme with two designated providers. The amounts contributed to AVC plans by employees who are members of the pension scheme do not form any part of, and are not included in, the Pension Fund Accounts.

Each employer in the Pension Fund is responsible for collecting from their own employees and paying to the AVC provider those contributions due on AVC plans. Dorset County Council as employer deducted and paid to the AVC providers a total of £352,080 in 2015-16 (£414,863 in 2014-15).

12. REVIEW OF INVESTMENT PERFORMANCE

The investment performance of the Fund for the year to 31 March 2016 showed a total return of +ve 0.08% against a benchmark of -ve 0.92%. Over the last three years performance had an annualised return of 6.48% per annum against a benchmark of 5.53%, and over the last 5 years performance was 8.24% per annum compared to a benchmark of 7.83%. Over the three and five year periods the Fund's return is ahead of the Actuary's long term target return at the last valuation of 6.10%.

The Pension Fund Committee receives quarterly reports on the overall performance of the Fund and the underlying investment managers. These reports consider the quarterly, annual, 3 year and 5 year performance, with comparisons against the Fund's bespoke benchmark and the LGPS average. Whilst the quarterly data is of interest the Committee focus is on the longer term performance analysis and assessment of trends.

13. INVESTMENTS

The principal powers to invest are contained within the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Details of these Regulations and all aspects relating to the investment of the Fund can be found in the Dorset County Pension Fund Annual Report & Accounts 2014-15, copies of which are available from the Chief Financial Officer, Dorset County Council, County Hall, Colliton Park, Dorchester, Dorset, DT1 1XJ

14. STOCK LENDING

The fund continues to lend UK and overseas equity stock held in the portfolio. All benefits as a stockholder are retained except for the voting rights. The income from stock lending was £191,041 comprising £145,351 from UK equities and £45,690 from overseas, net of charges. The value of stock on loan as at 31 March 2016 was £277.5M, comprised of £270.7M in the UK and £6.8M overseas. This is secured by collateral worth £291.4M.

15. STATEMENT OF INVESTMENT PRINCIPLES

The Statement of Investment Principles was originally approved by the Investment Advisory Panel on 4 July 2000, and was most recently revised at the Committee meeting on 25 June 2015. A copy of the full statement can be found in the Pension Fund Annual Report 2014-15.

16. RELATED PARTIES

Related party issues arise primarily around the fact that the County Council is the Administering Authority for the Pension Fund. The County Council has various operational, contractual and financial dealings with a number of Scheduled and Admitted Bodies of the Pension Fund. These activities, however, do not relate to the County Council's role as Administering Authority.
The County Council remits contributions to the Fund monthly (£1.8M re the March contributions were outstanding as at the 31 March 2016) and management and administration costs are incurred by the County and recharged to the Fund on an actual basis. This was £1.5m for 2015-16 and was due to DCC on 31 March 2016.
In addition to normal debtor / creditor amounts as above at any given time there may be amounts which have been paid or received by both the County And the Pension Fund where indebtedness arises between the two. These can arise due to operational necessity or where single transactions have elements relating to both the County and the Pension Fund. These are settled on a regular basis.

Senior officers of the Pension Fund are members of the Fund as employee contributors. As at 31 March 2016, three members of the Pension Fund Committee were contributing members of the Fund and one member of the Pension Fund Committee was a deferred member of the Fund.

17. MANAGEMENT ARRANGEMENTS AND POOLED INVESTMENTS ANALYSIS

Responsibility for the investment policy of the Fund rests with the Pension Committee, made up of County, Unitary and District councillors and a scheme member representative.

Day to day investment decisions are taken by the Chief Financial Officer (acting in this regard as 'Fund Administrator') in consultation with the external managers who advise on and are responsible for the portfolios detailed below.

2014/15 %	2014/15 Market Value £'000	Portfolio	Manager	Type of Pooled Vehicle	**2015/16 Market Value £'000**	**2015/16 %**
		Segregated Investments				
17.80%	401,418	UK equities - Quoted			**365,654**	**16.50%**
		Chief Executive's Department				
20.50%	464,090	Overseas equities - Quoted			**560,389**	**25.30%**
		Allianz, Investec, Wellington				
0.20%	4,817	Absolute Return (Hedge) Funds			**10**	**0.00%**
		International Asset Management				
2.60%	59,156	Private Equity			**65,432**	**3.00%**
		HarbourVest, Standard Life				
9.10%	204,700	Property Portfolio			**221,125**	**10.00%**
		CBRE Global Investors				
0.10%	5,000	Temporary investments			**31,600**	**1.40%**
		Chief Executive's Department				
		Pooled Investments				
25.00%	562,593	Fixed Interest			**524,109**	**23.70%**
		RLAM		Unit Linked Inv Fund - Life Policy		
		Insight		LDI Active 16 Fund		
6.40%	143,585	U.K. Equities - Listed			**146,604**	**6.60%**
		Axa Framlington		Unit Trust		
		Schroders		Unit Trust		
3.50%	78,504	U.K. Equities - Unlisted			**71,935**	**3.20%**
		Standard Life		Trustee Inv Plan		
4.10%	93,467	Overseas Equity Portfolio - Unlisted			**-**	**0.00%**
3.20%	71,205	Overseas Equity Portfolio - Listed			**65,186**	**2.90%**
		JP Morgan		Unit Trust		
0.20%	3,510	Absolute Return Funds			**1,771**	**0.10%**
		Gottex Fund Management		Open Ended Fund		
		Pioneer Alternative Inv.		Mutual Fund		
1.10%	24,074	Property			**25,205**	**1.10%**
		Lend Lease Retail Partnership				
		Standard Life UK Shopping Centre Trust				
5.00%	111,640	Diversified Growth Funds			**107,588**	**4.90%**
		Barings Asset Managemen		Non UCITS (PIF)		
1.20%	26,757	Infrastructure			**29,030**	**1.30%**
		Hermes GPE Infrastructure		Non UCITS (PIF)		
100.0%	2,254,516				**2,215,638**	**100.0%**

ACADEMY	An academy is a school that is directly funded by central government (specifically, the Department for Education) and which is independent of control by a Local Authority.
ACCOUNTING DATE	The date to which an organisation makes up its Financial Statements. Like all Local Authorities, DCC's accounting date is 31 March.
ACCOUNTING PERIOD	The period of time covered by the accounts, which for this Authority means a period of twelve months commencing on 1 April through to the following 31 March.
ACCOUNTING POLICIES	The principles, conventions, rules and practices that specify how the effects of transactions and other events are recognised, measured and presented in the financial statements.
ACCRUAL	Sums included in the final accounts to cover income and expenditure attributable to the accounting period but for which payment has not been made or received by 31 March.
ACTUARIAL GAINS AND LOSSES	For a defined benefit pension scheme, the changes in actuarial deficits or surpluses where events have not coincided with actuarial assumptions or actuarial assumptions have changed.
ACTUARIAL VALUATION	An independent report on the financial status of the Pension Fund, which determines its ability to meet future payments.
AGENCY SERVICES	The provision of services by one body (the agent) on behalf of and generally with reimbursement from the responsible body.
AMORTISATION	Amortisation is the equivalent of depreciation for intangible assets (see below).
ASSET	Something of worth that can be measured in monetary terms and which has an economic value that spans more than one financial year. Assets can be tangible (e.g. land and buildings) or intangible (e.g. computer software).
ASSETS HELD FOR SALE	Assets which are no longer intended for operational use in the Authority and which are being actively marketed with likely sale within 12 months.
BALANCES	The accumulated surplus of income over expenditure.
BUDGET	A statement of the Council's plans expressed in financial terms.
CALL TO ACCOUNT	The Audit & Scrutiny Committee may 'call to account' members of the Cabinet and senior officers to explain any particular decision they have made and, the extent to which actions taken implement Council policy and to account for their performance.
CAPITAL CHARGE	A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services. This equates to depreciation and impairment charges under the IFRS based Code.
CAPITAL EXPENDITURE	Expenditure on the acquisition, construction or enhancement of significant assets (e.g. land and buildings, vehicles and equipment) which have a long term value to the Authority (also referred to as capital spending or capital payments).
CAPITAL RECEIPTS	Income from the sale of capital assets (land, buildings, etc.).
CARRYING AMOUNT	The amount at which an asset or liability is shown in the balance sheet at a specified date; for example, the cost of a vehicle, less the accumulated depreciation.

COLLECTION FUND	A fund maintained by District, Unitary and Borough councils for the collection and distribution of council tax receipts. County, District, Unitary and Parish Council precepts are met from these funds. Surpluses or deficits are carried forward and included in the following year's council tax calculation.
COMMUNITY ASSETS	Assets that an Authority holds, that have no determinable useful life and may have restrictions on their disposal. An examples would be a country park.
COMPONENT ACCOUNTING	Component accounting is the separate recognition of two or more significant components of an asset for depreciation purposes (i.e. as if each component were a separate asset in its own right) where the useful life is substantially different.
CONSISTENCY	The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.
CONTINGENCY	A sum of money set aside to meet unforeseen expenditure.
CONTINGENT LIABILITY	A possible obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.
CORPORATE & DEMOCRATIC CORE	Those activities which local authorities engage in specifically because they are elected, multi-purpose authorities. There is no basis for apportioning these costs to services.
COST CENTRE	A specific area of activity where control of certain budgets has been delegated.
COUNCIL TAX	A property based tax, with discounts for those living alone, which is administered by District, Borough and Unitary Councils.
CREDITORS	Amounts owed by the Authority for work done, goods received or services rendered but for which payment has not been made by the end of the accounting period.
CURRENT ASSETS	Current assets are those which can either be converted to cash or used to pay current liabilities within 12 months.
CURRENT LIABILITIES	Amounts owed by the Local Authority which are due to be settled within 12 months.
CURRENT SERVICE COST	The increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period.
CURTAILMENT	For a defined benefit pension scheme, an event that reduces expected future years' service or accrual of benefits. Examples include redundancies from discontinuing an activity or amendment of scheme terms.
DEBTORS	Amounts due to the Authority but unpaid by the end of the accounting period.
DEPRECIATION	The measure of the use or consumption of a fixed asset during the accounting period.
DONATED ASSET	An asset which is acquired by the Authority for no cost. Not the same as assets which are transferred to the Authority as part of the "machinery of Government".
EMOLUMENTS	All sums paid to an employee, including any allowances chargeable to UK income tax, but excluding pension contributions payable by either employer or employee.
ESTIMATION TECHNIQUES	The methods adopted to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves. These implement the measurement aspects of the accounting policies, and include selecting methods of depreciation and making provision for bad debts.

FINANCIAL ASSET	Financial assets are cash and cash equivalents, plus any other assets that can be converted into cash in a reasonably short period of time.
FINANCIAL INSTRUMENT	Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term financial instrument covers both financial assets and financial liabilities.
FINANCIAL LIABILITY	Financial liabilities are liabilities that are contractual obligations to deliver cash or other financial assets to another entity.
FORMULA SPENDING SHARE (FSS)	The Government's assessment of each Authority's spending needs, used as the mechanism to distribute government grants (RSG and NNDR).
FULL TIME EQUIVALENT (FTE)	In terms of staffing time, a full time equivalent is 37 hours per week. So if two staff are employed working 18.5 hours per week each, they can be said to constitute one FTE.
HERITAGE ASSET	A heritage asset is one with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.
IAS	International Accounting Standards are statements of standard accounting practice issued by the International Accounting Standards Committee and with which all Local Authorities are now required to comply.
IFRS	International Financial Reporting Standards are statements of standard accounting practice issued by the International Accounting Standards Board and with which all Local Authorities are now required to comply.
IMPAIRMENT	A reduction in the value of a fixed asset or financial instrument below its carrying amount, arising from physical damage such as a major fire or a significant reduction in market value, or a situation where capital spending on an asset has no effect on the value of the asset.
INFRASTRUCTURE ASSETS	Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples are highways and footpaths.
INVENTORIES	The amount of unused or unconsumed stock held for future use. Examples include consumable stores and services in intermediate stages of completion.
INVESTMENT PROPERTY	Investment property is property (land or a buildings) held by the Authority to earn rental income or for capital appreciation or both.
LEASE (EMBEDDED LEASE)	While it does not necessarily take the form of a lease, an embedded lease is an arrangement that conveys the right to use an asset in return for payment.
LEASE (FINANCE LEASE)	A finance lease is an arrangement where substantially all of the risks and rewards of ownership of the leased asset pass to the lessee, regardless of whether the lease arrangement provides for actual transfer of ownership.
LEASE (OPERATING LEASE)	Any lease which is not a finance lease.
LOCAL MANAGEMENT IN SCHOOLS (LMS)	Control of a significant proportion of school budgets is devolved to schools for them to manage under the LMS scheme. Balances held by schools under this scheme are ringfenced and are not available to the remainder of the County Council.
MEASUREMENT	Measurement is the process of determining the monetary amounts at which the elements of financial statements are to be recognized and carried in the balance sheet and comprehensive income and expenditure statement. Measurement bases include historical cost, current cost, present value and depreciated replacement cost.

MEDIUM TERM FINANCIAL PLAN (MTFP)	The Council's three-year, rolling, financial plan.
NATIONAL NON-DOMESTIC RATES (NNDR)	District Councils collect this tax locally and pay it to the Government. It is then redistributed to County, Unitary, Borough and District councils, and Police and Fire Authorities on the basis of the resident population.
NON-CURRENT ASSETS	Assets that provide benefits to the Authority and the services it provides, for a period of more than one year.
NON-DISTRIBUTED COSTS (NDC)	Overheads for which no user benefits, and therefore not apportioned over services.
NON-OPERATIONAL ASSETS	Fixed assets that are not occupied or used in the delivery of services. Examples are investment properties and assets surplus to requirements, pending sale.
OPERATING SEGMENTS	Local Authorities are required to present information on reportable segments within the notes to the Financial Statements. Reportable segments must be based on an Authority's internal management reporting, for example departments, directorates or portfolios. DCC has chosen Directorates as its operating segments.
OTHER OPERATING INCOME AND EXPENDITURE	Items that are required to be shown in the Authority's Comprehensive Income and Expenditure Statement but which should not be charged to specific services.
PAST SERVICE COST	For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.
PRECEPT	A levy requiring the District and Borough Councils to collect income from council taxpayers on behalf of the County Council. Sums collected are held in the Collection Fund (see above) and paid to the preceptor in ten instalments.
PROVISIONS	Amounts set aside to meet liabilities or losses which arise in the accounting period and which are likely to be incurred, but where the actual sum and timing are uncertain.
RELATED PARTY	A related party is a person or entity that is related to the reporting entity. There are different rules and definitions for public and private sector bodies. An entity can be regarded as a related party to DCC if, for example, a person employed by DCC has significant influence over the entity or is a member of the key management personnel of that entity.
REFCUS	Revenue Expenditure Funded from Capital Under Statute. This is principally capital expenditure on properties which the County Council does not own and which are not included in its asset register. This expenditure is reported in the Comprehensive Income and Expenditure Statement in the year it is incurred with the necessary appropriations in the Statement of Movement in Reserves between the General Fund and the Capital Adjustment Account to reflect that although financing is from a capital source, it funds revenue expenditure in the Authority's accounts.
RESERVES	Sums set aside and earmarked to meet the cost of specific future expenditure.
RESIDUAL VALUE	The amount at which an asset will be carried in the Authority's accounts after it has been depreciated.

REVALUATION RESERVE	Revaluation reserves (or, more precisely, revaluation surplus reserves) arise when the value of an asset becomes greater than the value at which it was previously carried in the Balance Sheet. When accounting rules allow/require the Authority to revalue the amount at which the asset is carried in the Authority's Balance Sheet, there is an increase in the Authority's net worth.
REVENUE EXPENDITURE	The day to day costs (pay, premises, transport, supplies and services, etc.) incurred by the Authority in providing services.
REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE	Expenditure of a capital nature, which does not result in the acquisition or enhancement of a fixed asset owned by the Authority. Such expenditure is written out of the accounts in the year it is incurred, but is financed by a capital stream.
REVENUE SUPPORT GRANT (RSG)	A general central government grant paid to the Council in support of its day to day expenditure and distributed on a formula basis.
RUNNING COSTS	Expenditure incurred on the use of premises, transport and equipment, together with other general expenditure necessary to enable the service to be provided.
SEGMENTAL ANALYSIS	A breakdown of the Authority's income and expenditure by major business segment (Service Area).
SERVICE CONCESSION	Service concessions are arrangements whereby a government or other body grants contracts for the supply of public services (such as roads, energy distribution, prisons or hospitals) to private operators.
SOFT LOAN	A loan with an interest rate below market rates.
SPECIFIC GRANTS	Grants paid by government, government agencies and similar bodies, to local authorities in support of particular services. These are often in return for past or future compliance with certain conditions relating to the activities of the Authority.
SUBSEQUENT EXPENDITURE	Expenditure which is incurred on an asset after it has begun its useful economic life.
SURPLUS ASSETS	Non-current assets which are surplus to service needs, but which do not meet the criteria required to be classified as Investment Property, or Assets Held For Sale.
THIRD PARTY PAYMENTS	The cost of specialist or support services purchased by the County Council from outside contractors or other bodies.
TOTAL COST	The total cost of a service includes all revenue expenditure (see above) and support services, overheads and capital charges.
TRADING UNDERTAKING	A workforce employed by the authority to carry out work in competition with the private sector. These were formerly called Direct Service Organisations (DSOs) or Direct Labour Organisations (DLOs).
TRUST FUNDS	Funds administered by the Authority for such purposes as prizes, charities and special projects.
UNUSABLE RESERVES	Those that cannot be applied to fund expenditure or reduce local taxation as they are required for statutory purposes.
USABLE RESERVES	Those that can be applied to fund expenditure or reduce local taxation.

Annual Governance Statement 2015/16

1. Scope of responsibility

1.1 Dorset County Council is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, that public money is safeguarded and properly accounted for and that funding is used economically, efficiently and effectively. Dorset County Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

1.2 In discharging this overall responsibility Dorset County Council is responsible for putting in place suitable arrangements for the governance of its affairs, which facilitate the effective exercise of its functions and include arrangements for the management of risk.

1.3 Dorset County Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE *Delivering Good Governance in Local Government* framework. These include the additional requirements as recommended by CIPFA in March 2010. A report on the code and the latest assessment of compliance with it was published with the Audit and Governance Committee papers for 8 June 2016 or can be obtained from the County Council Offices, County Hall, Colliton Park, Dorchester, Dorset, DT1 1XJ. This statement explains how Dorset County Council has complied with the code. It also meets the requirements of the Accounts and Audit Regulations (England) 2015 in relation to consideration of the findings of a review of the system of internal control and approval and publication of an annual governance statement.

2. The purpose of the governance framework

2.1 The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled, together with the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to meet the targets in our policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Dorset County Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.3 The governance framework has been in place at Dorset County Council for the year ended 31 March 2016 and up to the date of approval of the annual statement of accounts.

3. The governance framework

3.1 Some of the key features of the governance framework are set out in the following paragraphs.

3.2 The corporate plan sets out the contribution we will make to enabling communities in working together for a successful Dorset.

3.3 Delivery of the County Council's corporate plan is supported by service plans, team plans and individual performance development reviews. These all include targets and, where appropriate, service standards against which service quality and improvement can be judged.

3.4 The Constitution of Dorset County Council establishes the roles and responsibilities for members of the executive (the Cabinet), Overview, Scrutiny, Regulatory and Standards Committees, together with officer functions. It includes details of delegation arrangements, codes of conduct and protocols for member/officer relations. The Constitution is kept under review to ensure that it continues to be fit for purpose. Proposed changes to the Constitution are overseen by the Standards and Governance Committee (and under the revised arrangements from 2016 will pass to the Audit and Governance Committee). Its views on the suitability of any changes are reported when they are presented to the full County Council for approval.

3.5 The Constitution also contains procedure rules, standing orders and financial regulations that define clearly how decisions are taken and where authority lies for decisions. The statutory roles of Head of Paid Service, Monitoring Officer and Chief Financial Officer are described together with their contributions to provide robust assurance on governance and that expenditure is lawful and in line with approved budgets and procedures. The influence and oversight exerted by these posts is backed by the post-holders' membership of or attendance at the Corporate Leadership Team.

3.6 The primary counterbalance to the Cabinet is the Audit and Scrutiny Committee (and under the revised arrangements from 2016 will pass to the Audit and Governance Committee). The Committee provides a robust challenge to the Executive. The Committee did not identify a need to exercise its 'call in' or call to account powers during 2015/16.

3.7 The County Council has reviewed the placement of its scrutiny function and has approved changes to its Committee structures, including separating out of 'audit' and 'scrutiny' functions. The future committee structure will be based on the outcomes defined in the Corporate Plan with Overview and Scrutiny Committees for Economic Growth, People and Communities and Safeguarding, with each of them having responsibility for monitoring a number of specified objectives within it. The Dorset Health Scrutiny Committee also continues in its role.

3.8 A complaints procedure and a whistle-blowing policy and procedure are maintained and kept under review, providing the opportunity for members of the public and staff to raise issues when they believe that appropriate standards have not been met. An annual report analysing complaints received and their resolution is presented to the Audit and Scrutiny Committee and the Standards and Governance Committee. The Standards and Governance Committee has responsibility for overseeing the investigation of complaints against members.

3.9 The County Council has a strong risk management function. The risk management policy and strategy are reviewed annually. The Risk Management Group draws together lead officers from across the authority to ensure that issues and concerns are shared and that a consistent approach is adopted throughout the organisation. Those risks contained in the councils Corporate Risk Register which have been assessed as high have informed the list of significant governance issues later in this statement.

3.10 Appraisal and review processes are the general means of identifying the training needs of members and officers. Appropriate training is made available to staff to ensure that individuals are able to undertake their present role effectively and that they have the opportunity to develop to meet their and the County Council's needs. An extensive member induction programme is put in place after the County Council elections to ensure that newly elected members can quickly make an effective contribution to the work of the authority. Focussed training will support the new committee arrangements in 2016.

3.11 The County Council is committed to partnership working. The Dorset Compact sets out a framework for voluntary and public sector relationships in Dorset. Guidance on best practice in partnership governance, together with the development of an alternative service delivery model governance and due diligence checklist that has been adopted to ensure that partnership arrangements are as productive and secure as possible.

4. Review of effectiveness

4.1 Dorset County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by the findings and reports issued by the external auditors and other review agencies and inspectorates.

4.2 The Chief Executive has responsibility for:
- overseeing the implementation and monitoring the operation of the Code of Corporate Governance;
- maintaining and updating the Code in the light of latest guidance on best practice;
- reporting annually to the Corporate Leadership Team and to Members on compliance with the Code and any changes that may be necessary to maintain it and ensure its effectiveness in practice.

4.3 The Chief Financial Officer has responsibility for the proper administration of the County Council's financial affairs. This includes responsibility for maintaining and reviewing Financial Regulations to ensure they remain fit for purpose, and submitting any additions or changes necessary to the full Council for approval. The Chief Financial Officer is also responsible for reporting, where appropriate, breaches of the Regulations to the Cabinet and/or the County Council.

4.4 The statutory role of Monitoring Officer is held by the Head of Legal and Democratic Services. The Monitoring Officer is responsible for ensuring that the Council acts within and through the law. Parallel to the responsibilities of the Chief Financial Officer the Monitoring Officer has a duty to report to the Cabinet where it appears to him that any action or intended action by the Council is unlawful or amounts to maladministration. The Monitoring Officer also has responsibilities in relation to the Council's constitution and in relation to councillor conduct.

4.5 Dorset County Council's Internal Audit Service, via a specific responsibility assigned to the Head of Internal Audit (the Group Manager, Governance and Assurance), is required to provide an annual independent and objective opinion to the Authority on its risk management, governance and control environment. Since April 2010, internal audit work has been carried out under contract by the South West Audit Partnership (SWAP).

4.6 The review of compliance with the governance framework has involved:
- review of the latest position on the core principles by lead officers, including cross-challenge by other leads;
- an assessment of the draft compliance assessment and significant governance issues by Corporate Leadership Team;
- review of the draft compliance assessment and Annual Governance Statement by the Audit and Governance Committee and the Cabinet;

4.7 Plans to address weaknesses and ensure continuous improvement of the system are recorded in the annual compliance assessment.

5. Significant governance issues

5.1 Governance issues can be put into two groups:

(i) elements of the governance framework for which the compliance assessment has identified that some improvement is necessary to provide full assurance;

(ii) issues that the governance framework has identified and which require action to mitigate the exposure of the County Council.

5.2 In the first group, there were no elements of the framework for which the judgement is that the County Council is non-compliant. There are however six areas where a judgement of partial compliance has been identified and where improvement is considered necessary.

5.3 Actions needed to achieve full compliance are largely covered by existing improvement plans. The issues and actions can be summarised as follows:
(NB: - Further detail is provided against the respective core principles in the compliance assessment. References have been provided at the start of each area for ease of reference):

1g. Decide how value for money is to be measured and make sure that the authority or partnership has the information needed to review value for money and performance effectively. Agreed Action:- A new performance management framework using Outcomes Based Accountability is currently being developed to underpin and monitor the Corporate Plan. This will be used for quarterly performance monitoring and will be regularly reviewed by Cabinet, Audit and Governance Committee and the Overview and Scrutiny Committees. The pilot work undertaken within Childrens Services should be rolled out more fully across the Authority. Value for money assessment will feature as a strand of internal audit reports.
2j. Ensure that effective mechanisms exist to monitor service delivery. Agreed Action:- A new approach to performance monitoring of the Corporate Plan is being developed. This will enable more effective monitoring of service delivery outcomes, including widening out the obsessions tracker for monitoring effective service delivery that is being piloted within Childrens Services. The new Committee Structure will become operative early 2016. The Audit and Scrutiny functions are separated and the future committee structure should be based on the Corporate Plan with Overview and Scrutiny Committees for Economic Growth, People and Communities and Safeguarding, with each of them having responsibility for monitoring a number of specified corporate outcomes. The changes are to be reviewed for effectiveness. Risks identified during implementation will be regularly reviewed and responded to.
5d. Develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed. Agreed Action:- The review of overview and scrutiny arrangements in the council has identified the need for very specific training and skills development as part of implementing new arrangements. The people plan sets out how we will be working differently to help achieve our vision of 'working together for a strong and successful Dorset'
7b. Ensure that the authority maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary

Agreed Action:- Rollout of outcomes based accountability will improve accountability of budget managers. However this will need to be supported by executive functions exercising "call to account" to challenge any areas of overspend
7i. Ensure that appropriate management accounting systems, functions and controls are in place so that finances are kept under regular review. Agreed Action:- Enable more effective engagement for DES and other systems development with the business through the proposed new Corporate Working Group structure. Consider rolling out model adopted by Environment & Economy wider across Council services.
7o. Ensure the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the authority. Agreed Action:- Further work is to be undertaken to engage with the business as to whether the reports provided meet all of their needs. Consider rolling out model adopted by Environment & Economy wider across Council services.

5.4 The second group are issues that represent a significant risk to the County Council and, as such, are assessed as high risks on the Corporate Risk Register in accordance with the councils approved risk criteria.

5.5 A prime purpose of the governance framework is to minimise the occurrence of such risks and ensure that any which do arise are highlighted so that appropriate mitigating action can be taken. These issues are largely substantial challenges to be managed over the long term. A summary of theses 'significant' issues are outlined below, together with the council's response and actions to deal with these issues:

Corporate Risk	Causes	Council Response
01) Inadequate finance to meet legislative, political and public expectations	Overspend to the Adult & Community Services Directorate Budget and meet the structural deficit	Pathways to Independence Programme includes a transformation of the whole Directorate which will increase independence and reduce the need for long term Adult Social Care; this includes review of the whole system, and a focus on early help and prevention while meeting the requirements of the Care Act
	Failure to achieve Better Care targets across the Dorset public / community sector	There is a significant risk that the agreed plans do not achieve the savings in line with local government funding reductions. Performance on admissions and delayed transfer of care continues to be challenging, which will impact on performance related funding. Performance indicators are largely based on health performance and therefore whilst the local authority can influence this risk, it cannot control it.
	Failure to ensure that learning disability services are sustainable and cost-effective	Ongoing management focus on this area of overspend. Work commenced in 2015/16 to look at transition planning between children and adults. Further work is also under way on developing new models of care for supported living for people with disability.

Corporate Risk	Causes	Council Response
	General balances are depleted to a level below operating range	The current year's anticipated overspend will reduce the general balances to a level just above the lower end of the operating range. Should we fall below the lower end (£10m) it would be raised as a matter for concern by our auditors, KPMG.
	Ineffective and / or non-compliant financial management	Accountants are integrating better into services to enable early identification and effective escalation. A successful series of budget management training sessions have been delivered to services to raise awareness. DES training is also being widely rolled-out and we are currently consulting on our restructure project following a budget holder survey.
	Additional savings cannot be identified to bridge the unfunded gap	The largest risk to the programme currently is that even with the identified major transformation programmes there remains a need to deliver a substantial savings target from the years 2016/17 onwards. This will be responded to via the 2020 masterplan.
	Failure to have in place an equal and legally compliant pay & grading structure	A paper was taken to the Staffing Committee in July 2015 to determine the options associated with undertaking an equal pay audit and the associated resource implications. It was agreed by the committee that the review would be postponed until April 2017 at the earliest.
02) Failure to protect the vulnerable children and young people from abuse or neglect in situations that could have been predicted and prevented	Failure to manage the demands led budget for children in care	The Children's Services Leadership Team continue to monitor performance and impact of budget reductions. South West Audit Partnership undertook a review of high cost areas of provision, including monitoring the pathways of individual cases. A task and finish "Prevention & Partnership Strategy Group" has been established to respond to the action plan from this review. Consultation on restructuring commenced early 2016, including a renewed focus on prevention within the Care and Support Team.
04) Failure to ensure the health and wellbeing of staff, service users and the public	Health and safety risks associated with occupation of premises	The majority of sites now have a nominated Premises Responsible Person. However, restructuring of services has reduced the understanding of the Directorate Duty Holder Strategy. The strategy will be ratified.

Corporate Risk	Causes	Council Response
05) Inability of the Council or a key partner to effectively respond to an incident or event	Loss of ICT service or data through a cyber attack	Other national incidents identify local authorities as a target. The Council has a ICT Continuity Management Group that maintains and manages a specific risk register.
07) Failure to sustain effective relationships across key partnerships	Failure to sustain an effective relationship across the Dorset Waste Partnership	Internal Interim Director appointed. Action Plan largely complete and the final three (of 37 items) are being progressed as separate projects. Progress continues to be reported to Joint Committee at each meeting and SWAP (South West Audit Partnership) are reviewing relevant actions as part of their annual Audit Plan.
09) Inadequate infrastructure to meet Council priorities	Inability to maintain the highways infrastructure to an acceptable standard in the face of changing circumstances (eg budget reductions; climate change)	The highway maintenance block allocation increased by 15 % from 2015/16. Further annual business cases will be produced for additional capital investment in highway maintenance.
	Unable to provide sufficient school places (Basic Need)	Programme of delivery of Basic Need Schools in accordance with agreed timescales/costs is being monitored through relevant groups. Whilst the framework has been agreed, we are developing a clear strategy around sufficient school places, which will need to be signed up to by members and partners.
10) Failure to deliver service transformation and necessary savings through the Forward Together programme	Projects do not take a consistent business-like approach to calculating benefits leading to inconsistent assessments, unrealistic savings targets and the need to find additional savings	The masterplan and commissioning model will respond to concerns raised over benefits realisation and adequate baseline measures as part of the business case. Guidance and tools are incorporated within the supporting project management toolkit.

Corporate Risk	Causes	Council Response
	Capacity of staff to deliver transformation programme as well as maintain focus on day to day business (including across support services)	The Chief Executives Department was restructured during 2015 and included addressing capacity to support projects. A prioritisation tool has been developed by the programme office. Savings targets are being rebased, which may result in a readjustment of programme priorities.
	Failure to address cultural issues that may impact on the success of the transformation programme	Work is ongoing to communicate the Forward Together message. A further staff survey is planned June/July.
	Unable to achieve service transformation and savings across DCC support services	The key risks which are driving this assessment are the financial and reputational risks. The main risks are non-delivery of financial savings and service improvements (both in the support services and in other parts of the Council) due to insufficient capacity and skills shortages in the support services. The reputational risk is that if savings are made without addressing the fundamental issues identified in the strategic outline case, the service delivery will be impacted which will have an impact on customers both internal and external
12) Failure to develop services based on evidence and need	Inadequate assessment of the long term impacts/risks (threats/opportunities) of proposals	Modelling of future demand to clearly highlight pressure points.
13) Inadequate ICT infrastructure to meet corporate service priorities	Current technology within DCC is insufficient and / or inflexible to meet the anticipated needs of the transformation programme (on a technical or contractual basis)	The Smarter Computing programme has been re-planned, to reflect the issues encountered with the performance of the underlying platform, issues encountered with key business software such as RAISE (Children's social care system) and the supply of Surface Pro 3 tablet devices. Smarter Computing is now deployed across most service areas with a plan to complete desktop deployment in July 2016 and Surface Pro 4 mobile device deployment planned to be complete in September. We are changing the way we deliver core services (WAN, telephony, email, calendar, document sharing and collaboration) which will introduce greater flexibility to collaborate, share and access information with colleagues and partners and improving our service continuity capabilities.

Corporate Risk	Causes	Council Response
14) Failure to develop, recruit or retain suitably competent/ qualified staff compromises service Delivery	Inability to attract and retain suitably qualified specialist safeguarding staff within Childrens Services	Work is underway with Bournemouth University to deliver a programme for social work/children's services
17) Failure to implement a local government structure to deliver the best possible outcomes for Dorset residents	Lack of agreement across partner organisations	Discussions are ongoing at Leader/Chief Executive meetings. A full risk register is in development.

5.6 We are satisfied that this statement provides a substantial level of assurance that good governance is in place in Dorset County Council and that appropriate arrangements are in place to address improvements identified in our review of compliance. Progress on these improvements and on addressing and mitigating the risks set out in section 5.5 will be monitored through the year by senior officers and the Audit and Governance Committee.

	
Debbie Ward **Chief Executive** **June 2016**	**Robert Gould** **Leader** **June 2016**

APPENDIX B

Dorset County Pension Fund

Pension accounting disclosure as at 31 March 2016
Prepared in accordance with IAS26

Barnett Waddingham
Public Sector Consulting

27 May 2016

Barnett Waddingham
a true partnership approach

Contents

1. Introduction

We have been instructed by Dorset County Council, the administering authority to the Dorset County Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to members of the Fund as at 31 March 2016.

This report is addressed to the administering authority and its advisers; in particular, this report is likely to be of relevance to the Fund's auditor.

These figures are prepared in accordance with our understanding of IAS26. In calculating the disclosed numbers we have adopted methods and assumptions that are consistent with IAS19.

This advice complies with all Generic Technical Actuarial Standards (TASs) and the Pensions TAS.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013, is contracted out of the State Second Pension until 6 April 2016 and currently provides benefits based on career average revalued salary and length of service on retirement.

2. Valuation data

Data sources

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from Dorset County Council:

- The results of the valuation as at 31 March 2013 which was carried out for funding purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2016;
- •Estimated Fund returns based on Fund asset statements provided (or estimated where necessary) as at 31 March 2016 and
- Details of any new early retirements for the period to 31 March 2016 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data.

Employer membership statistics

The table below summarises the membership data, as at 31 March 2013, the date of the last full valuation

Member data summary	Number	Salaries/Pensions £000s	Average age
Actives	23,369	382,852	46
Deferred pensioners	24,453	25,809	45
Pensioners	16,745	75,667	71

Early retirements

We requested data on any early retirements in respect of the Employer from the administering authority for the year ending 31 March 2016.

We have been notified of 125 new early retirements during the year which were not allowed for at the previous accounting date. The total annual pension that came into payment was £968,900.

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2016 is estimated to be 0%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for Dorset County Pension Fund as at 31 March 2016 is as follows:

Employer asset share - bid value	31 Mar 2016		31 Mar 2015	
	£000s	%	£000s	%
Equities	1,275,200	56%	1,311,425	57%
Gilts	237,991	11%	276,460	12%
Cash	82,409	4%	51,569	2%
Other Bonds	286,117	13%	286,133	12%
Diversified Growth Fund	107,588	5%	111,640	5%
Property	246,330	11%	228,774	10%
Infrastructure	29,030	1%	26,757	1%
Hedge Fund	1,781	0%	4,817	0%
Total	**2,266,446**	**100%**	**2,301,085**	**100%**

We have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2016 is likely to be different from that shown due to estimation techniques.

Unfunded benefits

We have excluded any unfunded benefits as these are liabilities of employers rather than the Fund.

3. Actuarial methods and assumptions

Valuation approach

To assess the value of the Fund's liabilities at 31 March 2016, we have rolled forward the value of Fund's liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2016 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2016 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

Demographic/Statistical assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2013. The post retirement mortality tables adopted are the S1PA tables. These base tables are then projected using the CMI 2012 Model, allowing for a long-term rate of improvement of 1.5% p.a.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)		31 Mar 2016	31 Mar 2015
Retiring today			
	Males	22.9	22.8
	Females	25.3	25.2
Retiring in 20 years			
	Males	25.2	25.1
	Females	27.7	27.6

We have also assumed that:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- 10% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

Financial assumptions

The financial assumptions used to calculate the results in Section 4 and the Appendices are as follows:

Assumptions as at	31 Mar 2016		31 Mar 2015		31 Mar 2014	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI increases	3.3%	-	3.2%	-	3.6%	-
CPI increases	2.4%	-0.9%	2.4%	-0.8%	2.8%	-0.8%
Salary increases	3.9%	0.6%	3.9%	0.7%	4.3%	0.7%
Pension increases	2.4%	-0.9%	2.4%	-0.8%	2.8%	-0.8%
Discount rate	3.7%	0.4%	3.3%	0.1%	4.5%	0.9%

These assumptions are set with reference to market conditions at 31 March 2016.

Our estimate of the duration of the Fund's liabilities is 19 years.

The discount rate is the annualised yield at the 19 year point on the Merrill Lynch AA-rated corporate bond yield curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund's liabilities. This is consistent with the approach used at the last accounting date.

The Retail Prices Index (RPI) increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England (BoE), specifically the 19 year point on the BoE market implied inflation curve. The RPI assumption is therefore 3.3% p.a. This is consistent with the approach used at the last accounting date.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.9% p.a. below RPI i.e. 2.4% p.a. This is a slightly higher differential than last year. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts.

Salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale.

Curtailments

We have calculated the cost of curtailments arising as a result of the payment of unreduced pensions on early retirement. The Employer may also have to account for non-pension related costs (e.g. lump sum payments on redundancy) but for the avoidance of doubt, we have only calculated the cost of curtailments which affect the Employer's LGPS pension liabilities.

We calculate the cost of curtailments at the point of exit, with interest applied to the accounting date accounted for separately.

Over the year, we understand that 125 former employees became entitled to unreduced early retirement benefits.

4. Results and disclosures

We estimate that the net liability as at 31 March 2016 is a liability of £1,535,637,000.

The results of our calculations for the year ended 31 March 2016 are set out in the appendices below:

- Appendix 1 sets out the Statement of financial position as at 31 March 2016; and
- Appendix 2 details a reconciliation of assets and liabilities during the year.

The figures presented in this report are prepared only for the purposes of IAS19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

We would be pleased to answer any questions arising from this report.

Graeme D Muir FFA
Partner

Appendix 1 Statement of financial position as at 31 March 2016

Net pension asset as at	31 Mar 2016 £000s	31 Mar 2015 £000s	31 Mar 2014 £000s
Present value of the defined benefit obligation	3,802,083	3,904,470	3,246,251
Fair value of Fund assets (bid value)	2,266,446	2,301,085	2,092,439
Net liability in balance sheet	**1,535,637**	**1,603,385**	**1,153,812**

*Present value of funded obligation consists of £3,673,903,000 in respect of vested obligation and £128,180,000 in respect of non-vested obligation.

Appendix 2 Asset and benefit obligation reconciliation for the year to 31 March 2016

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to 31 Mar 2016 £000s	Year to 31 Mar 2015 £000s
Opening defined benefit obligation	**3,904,470**	**3,246,251**
Current service cost	134,427	105,849
Interest cost	127,655	143,352
Change in financial assumptions	(292,671)	530,470
Change in demographic assumptions	-	-
Experience loss/(gain) on defined benefit obligation	-	-
Liabilities assumed / (extinguished) on settlements	-	(54,884)
Estimated benefits paid net of transfers in	(103,315)	(97,408)
Past service costs, including curtailments	4,693	4,507
Contributions by Scheme participants	26,824	26,333
Unfunded pension payments	-	-
Closing defined benefit obligation	**3,802,083**	**3,904,470**

Reconciliation of opening & closing balances of the fair value of Fund assets	Year to 31 Mar 2016 £000s	Year to 31 Mar 2015 £000s
Opening fair value of Fund assets	**2,301,085**	**2,092,439**
Interest on assets	76,002	93,551
Return on assets less interest	(113,056)	142,798
Other actuarial gains/(losses)	-	-
Administration expenses	(1,600)	(1,600)
Contributions by employer including unfunded	80,506	78,998
Contributions by Scheme participants	26,824	26,333
Estimated benefits paid plus unfunded net of transfers in	(103,315)	(97,408)
Settlement prices received / (paid)	-	(34,026)
Closing Fair value of Fund assets	**2,266,446**	**2,301,085**

Appendix 3 Sensitivity Analysis

Sensitivity analysis	£000s	£000s	£000s
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	3,732,854	3,802,083	3,872,664
Projected service cost	117,654	120,400	123,213
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	3,811,073	3,802,083	3,793,150
Projected service cost	120,458	120,400	120,342
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	3,864,508	3,802,083	3,740,849
Projected service cost	123,189	120,400	117,674
Adjustment to life expectancy assumptions	+1 Year	None	- 1 Year
Present value of total obligation	3,916,240	3,802,083	3,691,358
Projected service cost	123,473	120,400	117,404

External Audit Report 2015/16

Dorset County Council

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September 2016

Agenda Item 7

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Harry Mears, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for both the Authority and its pension fund; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Dorset County Council ('the Authority') in relation to the Authority's 2015/16 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in June 2016, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during June and July 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Section two: Headlines

Headlines

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

Page 138

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007. We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.
Audit adjustments	Our audit has identified audit adjustments in relation to debtors of £1.6 million (net) and a pension adjustment in relation to the treatment of the transfer of employees to Tricuro. The debtors adjustment is a balance sheet reclassification and therefore has no impact on the overall position. We have included a full list of significant audit adjustments at Appendix two.
Key financial statements audit risk	We review risks to the financial statements on an ongoing basis. We identified the following key financial statements audit risk in our 15/16 External audit plan issued in June 2016. — The Valuation of PPE We have worked with officers throughout the year to discuss this key risk and our detail findings are reported in section 3 of this report.

Headlines (cont.)

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

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This table summarises the headline messages. The remainder of this report provides further details on each area.

Accounts production and audit process	We received complete draft accounts by 6 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2014/15* relating to the financial statements. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. As in previous years, we have had a debrief with the Closedown team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particularly we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.
VFM conclusion and risk areas	We did not identify any significant VFM risks in our External audit plan 2015/16 issued in June 2016. We followed up on the prior year VFM risk "The Oversight of partnerships" that was identified as part of our VFM work in the prior period. We found that the Authority took appropriate action during the year to address the issues that were raised in the prior year in relation to the Dorset Waste Partnership. As part of the current year approach, we reviewed the work undertaken by the Internal Audit team and no issues were identified which would impact on the current year financial statement audit. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.

Headlines (cont.)

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

Page 140

This table summarises the headline messages. The remainder of this report provides further details on each area.

Completion	At the date of this report our audit of the financial statements is complete. You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer on 8th September 2016. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

KPMG

Section three: Financial Statements

Proposed opinion and audit differences

Our audit has identified three audit adjustments.

The impact of these adjustments is to reduce reserves by £18.7m and to increase long term liabilities by £18.7m. In addition to this debtors and creditors have decreased by £1.6m.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit & Governance Committee on 20 September 2016.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £5.875 million. Audit differences below £0.294 million are not considered significant.

We identified a material adjustment in relation to the pension liability for Tricuro. We also identified two significant audit adjustments in relation to a balance sheet re-classification and an error in relation to debtors and creditors.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2016.

The net impact on the General Fund as a result of audit adjustments is nil.

Movements on the general fund 2015/16

£m	Pre-audit	Post-audit	*Ref (App.3)*
Deficit on the provision of services	(10,211)	(33,658)	
Adjustments between accounting basis and funding basis under Regulations	65,342	88,789	
Transfers to earmarked reserves	(59,175)	(59,175)	
Decrease in General Fund	(4,044)	(4,044)	

Balance sheet as at 31 March 2016

£m	Pre-audit	Post-audit	*Ref (App.3)*
Property, plant and equipment	819,326	819,326	
Other long term assets	4,629	4,629	
Current assets	92,637	90,992	*1,3*
Current liabilities	(90,072)	(88,427)	*1,3*
Long term liabilities	(802,635)	(821,356)	*2*
Net worth	23,885	5,165	
General Fund	27,857	27,858	*2*
Other usable reserves	73,465	73,465	
Unusable reserves	(77,437)	(96,158)	*2*
Total reserves	23,885	5,165	

Proposed opinion and audit differences (cont.)

We have identified no issues in the course of the audit of the Fund that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

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In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Pension fund audit

Our audit of the Fund also did not identify any material misstatements.

For the audit of the Fund we used materiality level of £24 million. Audit differences below £1.2 million are not considered significant.

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit & Governance Committee on 20 September 2016.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Fund will be addressing these where significant.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

— It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and

— It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Annual report

We have reviewed the Authority's annual report and can confirm it is not inconsistent with the financial information contained in the audited financial statements.

Pension fund annual report

The Pension Fund Annual Report has not been prepared yet and we are yet to confirm that the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

The statutory deadline for publishing the document is 1 December 2016. We will need to complete additional work in respect of subsequent events to cover the period between signing our opinions on the Statement of Accounts and the Pension Fund Annual Report.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

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In our External Audit Plan 2015/16, presented to you in June 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Significant Risk 1

Valuation of Property

The CIPFA Code of Practice on Local Authority Accounting requires that property is re-valued with sufficient frequency to ensure that there is not a material difference between the fair value of the assets and their carrying value, and in any case at a frequency of at least every five years.

Historically, Dorset County Council has performed annual revaluations on a representative sample of a tranche of 20% of the property assets per year. Taking these valuation movements into account, a desktop valuation was applied to the other 80% of property assets. The valuation was performed as at the start of each financial year.

There is a risk therefore that movements in property values during the year could result in a misstatement in the value of Dorset County Council's property portfolio.

Findings

As part of our audit work, we ensured that we were satisfied that the process for valuations was robust and that the valuations were calculated on a reasonable basis. This included determining whether the Authority had considered indicators of property value movements between the date of property valuation and the balance sheet date, looking at the indices used and the basis of valuation as well as a wider discussion with the Authority's valuer to understand their approach to the valuation and the assumptions and judgements that they had applied .

We additionally evaluated the expertise of the preparer of the valuation report to ensure that they were sufficiently skilled and appropriately qualified such that we could rely on them for the provision of audit evidence.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

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In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

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Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Other areas of focus

In our External Audit Plan 2015/16, presented to you in June 2016, we identified one area of audit focus. his is not considered a significant risk but an area of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for this area of audit focus.

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Area of focus 1 - Preparation of Group Accounting

— Area

During the year, Dorset County Council formed a Local Authority Trading Company (LATC) along with Bournemouth Borough Council and Borough of Poole Council to which it transferred its supplier-side Adults' Services. This LATC, Tricuro Support Ltd (TSL), is owned by the controlling authorities, and owns 100% of Tricuro Ltd (TL). Tricuro started trading on 1 July 2015, following the TUPE transfer of all staff involved in delivering the service from the controlling authorities.

From an accounting perspective, Dorset County Council has determined this LATC to be a joint venture in the form of a jointly controlled entity. As Dorset County Council's investment in the joint venture is considered to be material, Dorset County Council will therefore be required under IFRS and the CIPFA Code to prepare group accounts to correctly account for this under the accounting standards.

— Findings

We have been liaising with Dorset County Council's finance team since the early planning stages of this audit around the classification of Tricuro within Dorset County Council's accounts.

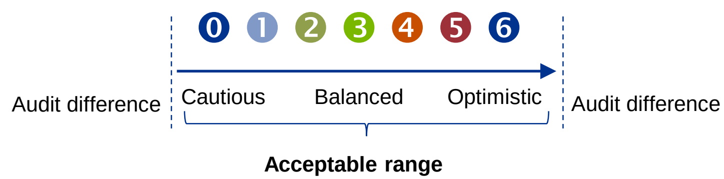
We have reviewed the accounting justification working papers that the finance team drafted to support the proposed accounting treatment, and we have focused our audit work to consider the appropriateness of the presentation and disclosure of Tricuro in Dorset County Council's group and parent accounts.

We identified some issues for consideration around the treatment of the Tricuro pension for employees transferred from Dorset County Council to Tricuro. The Authority subsequently reviewed the treatment of the pension and with the support of the actuary this was adjusted in the Dorset County Council accounts.

We have not identified any issues in relation to the preparation of the Group accounts in the current financial year.

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas				
Asset/liability class	**15/16**	**14/15**	**Balance (£m)**	**KPMG comment**
Provisions	3	3	£3.3 million *(PY: £4.5million)*	The provision balance is calculated on a consistent basis year on year and is deemed to be calculated on a reasonable basis.
Deferred income	3	3	£10 million *(PY: £5.5 million)*	We consider the related disclosures to be proportionate, and deferred income has been calculated on a consistent basis year on year.
Debtors provisioning	3	3	£1.9 million *(PY: £1 million)*	The Authority has calculated its debtors provision consistently year on year and it is deemed to be calculated on a reasonable basis.
Property, Plant and Equipment (valuations / asset lives)	3	3	£405.8 million *(PY: £397.7 million)*	We have reviewed the valuation of PPE and the assumptions behind the valuation and the valuation basis appears reasonable.
Pensions	3	3	£639 million *(PY: £598.8 million)*	We have reviewed the actuarial assumptions for the current financial year and deem them to balanced and within the acceptable range.

Accounts production and audit process

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented the majority of the recommendations in our ISA 260 Report 2014/15.

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Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	We consider that accounting practices in relation to financial reporting are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 6th June 2016. The Authority made amendments after this date in relation to the pension fund and a number of minor presentational adjustments that were identified as part of our audit.
Quality of supporting working papers	Our *Final audit PBC list*, which we issued on 26th May 2016 and discussed with Richard Ironside, set out our working paper requirements for the audit. The quality of working papers provided was as per the standards specified in our PBC list.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time. We experienced some delays relating to our queries on the valuation of PPE from the Authority's valuer.

Element	Commentary
Group audit	To gain assurance over the Authority's group accounts, we placed reliance on work completed by the KPMG audit team on the financial statements of Tricuro. There are no specific matters to report pertaining to the group audit.
Pension Fund Audit	The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Additional findings in respect of the control environment for key financial systems

We noted that in some cases bank reconciliations were not being reviewed on a timely basis and we have raised a recommendation in relation to this.

As part of our data analytics work on accounts payable we identified some cases where there were invoices and goods received notes pre-dating the PO.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2014/15*. There are still some improvements to be made around the IT environment, however, we have noted through liaison with internal audit that there have been improvements in this area.

Appendix one provides further details.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

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Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Dorset County Council and Dorset County Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Dorset County Council and Dorset County Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix four in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Finance manager for presentation to the Audit & Governance Committee . We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

Section four: Value for Money

VFM Conclusion

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

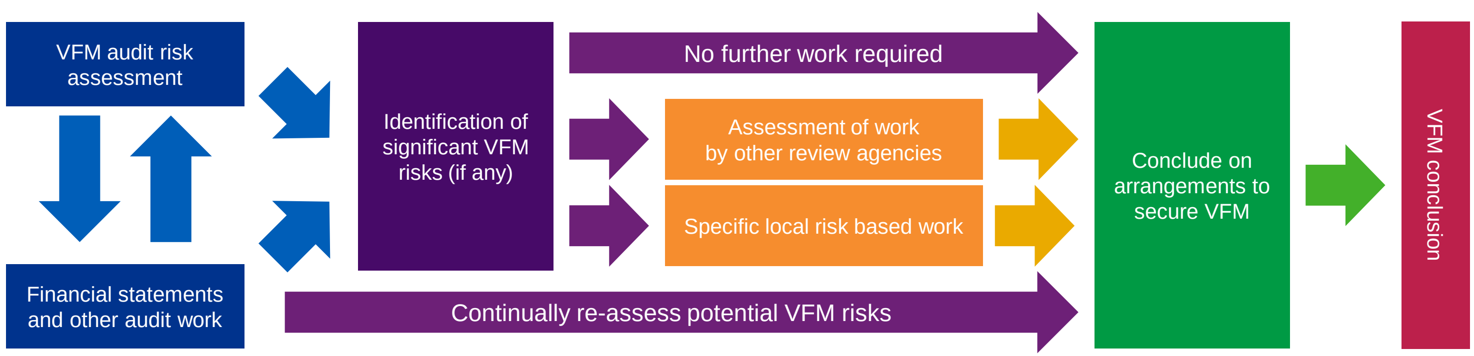
Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making	Sustainable resource deployment	Working with partners and third parties
✓	✓	✓
Met	**Met**	**Met**



Specific VFM Risks

We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas:
- We have considered risks identified in the prior period and we have performed procedures to determine if they represent a risk in the current year.
- We have also considered the financial standing of The Authority as part of our risk assessment process and did not identify significant risks to VFM as result of this work.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority, inspectorates and review agencies in relation to these risk areas.

VFM – 2015/16 outturn

2015/16 outturn

In considering the Authority's arrangements for securing financial resilience, we reviewed the outturn position against original plans, as well as identifying specific one off transactions to identify the normalised position 2015/16. The in-year position was achieved despite variations against planned budget of £3.8 million of unplanned expenditure.

The Authority continued to set itself challenging cost savings during the year in order to support its financial position. The Authority achieved savings of £15.3 million against a £15.3 million plan (100%), a continuation of strong delivery against last year's £8.4 million savings. Total savings equate to 4.6% of operating costs (2.7% in 2014/15). The Authority reported an overall overspend on its net expenditure budget for 2015/16 and there was a significant overspend of £4.8 million in Children's services.

Mitigating actions included further review of reserves and carry forwards, including savings identified through the review of the minimum revenue provision and its reconciliation to the capital financing requirement over an historical period of seven years. The impact of this was the identification of £3.2 million of savings in the current year to mitigate the above overspends.

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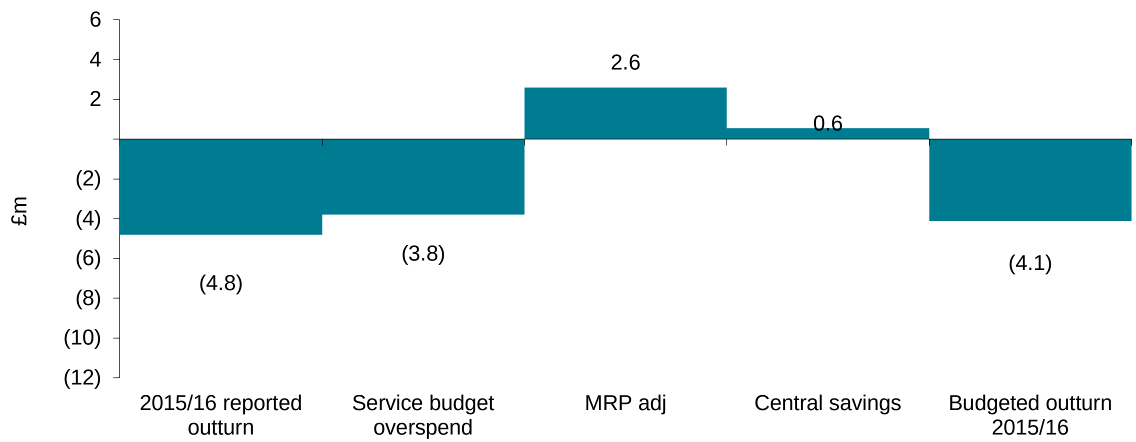
2015-16 Outturn versus budget



Appendices

Appendix 1: Key issues and recommendations

Appendix 2: Audit differences

Appendix 3: Data Analytics

Appendix 4: Independence and objectivity

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

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Priority rating for recommendations					
1	*Priority one*: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	*Priority two*: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3	*Priority three*: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	3	**Review of bank reconciliations** We noted that in some cases bank reconciliations were not reviewed until the month after they had been completed. There is a risk that errors are not identified on a timely basis and that reconciling bank items are not cleared on a timely basis. **Recommendation** It is recommended that The Authority ensures that the review of bank reconciliations is performed promptly to avoid errors and to ensure that outstanding items are cleared on a timely basis.	Agreed. All bank reconciliations are up to date and authorised. There is now more resilience in the authorisation process as more staff are involved. Implemented during 2015/16. **Sarah Baker** **Group Finance Manager, Corporate Finance**
2	2	**PO and GRN prior to invoice date** We noted as part of work on accounts payable data analytics that there were 12,614 cases where a PO was dated after the invoice date and 441 cases where a GRN was dated prior to the PO date. This therefore indicates that goods and services are being ordered/arranged prior to going through the appropriate authorisation process. **Recommendation** It is recommended that training should be provided and staff should be reminded of the importance of obtaining authorisation prior to procuring goods and services.	The current procure-to-pay review will pick up these concerns and develop a model which best fits the need for authorisation and recording of commitments as well as reducing process burden on the business. Due date 2016/17. **In progress, responsible officer to be confirmed.**

Follow up of prior year recommendations

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2014/15*.

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This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	4
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	3

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2016
1	2	**Supporting evidence for starters and leavers to the pension fund** For 7 new members of the pension fund in the year, out of a sample of 25, we were unable to agree that the correct contribution rate had been applied as the supporting documentation was still in the process of being scanned so was not available to review. Some of the documentation had been sent off for scanning several months ago and was still not available. Similarly, for 4 leavers of the scheme, out of a sample of 25, we were unable to agree to member records as the files were still being scanned. **Recommendation** Documents should be scanned onto the system on a timely basis to ensure that the data on the system is supported by evidence.	Documents to be scanned are sent to the external provider every two weeks and are usually returned 2 weeks later. There was a period over year-end where the turnaround from the provider was nearly six weeks. If, however, the team urgently needs any of the documents whilst they are with the external provider a request can be made and a scanned version of the documents is securely sent to the team by the provider by the end of the next day. It is in the Pension Fund business plan to investigate scanning documents within the team, and this will therefore remove any potential for these occurrences in the future. **Anne Weldon** **Pensions Manager**	Not yet implemented It is the intention to ensure that all documents are scanned internally in the 2016/17 year.

Follow up of prior year recommendations (continued)

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2014/15*.

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No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2016
2	❸	**Timeliness of pension fund bank reconciliations** Bank reconciliations are completed on a weekly basis and should be reviewed within a week of the date of preparation. Our testing identified that the year end bank reconciliations had been marked as prepared over a month after year end and reviewed two weeks after that. The delay in preparation and review means any issues will not be identified on a timely basis and may be more difficult to resolve as a result. **Recommendation** Bank reconciliations should be prepared and reviewed on a more timely basis after the date of the reconciliation.	Bank reconciliations are completed on a weekly basis and issues cleared as they arise. However, at year end the issue is that all old year documents must be cleared before the weekly reconciliations can be marked as final. The approval delay was a result of staff absence on long-term sickness along with pressure of other work which is inevitably becoming more common across the Service. **Sarah Baker** **Group Finance Manager (Corporate Finance)**	Implemented. This was due to staff absence and therefore there have been no further issues identified in 2015/16.

Follow up of prior year recommendations (continued)

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2014/15*.

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No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2016
3	❸	**Procurement process procedural checklist** From a review of the procurement process in place within the Authority, it is noted that a formal procedural checklist is not established which outlines the steps/ requirements that should be completed when goods or services are procured. Whilst we acknowledge the need to reduce the administrative burden of staff, the recording and evidencing of compliance with procurement rules will serve as a safeguard to ensure that all steps have been followed and that the procurement process has been conducted in a legal and transparent way. **Recommendation** A formal procedural checklist which outlines the steps/ requirements that are required to be completed when procuring goods or services should be introduced as a mandatory requirement for employees to complete.	An electronic toolkit has been developed, which provides a checklist process for undertaking procurement. This is enhanced by the mandatory use of the e-tendering system which has embedded approval steps. We have had to delay the role out to tie in with the *Smarter Computing* agenda but we are now able to update the web pages and get the communications for this new toolkit and process out to Directorates and formally through the Commissioning and Procurement Board. **Karen Andrews** **Head of Procurement**	Partially implemented. A procurement toolkit was approved in March 2016 and is currently being rolled out across the council.

Follow up of prior year recommendations (continued)

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2014/15*.

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No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2016
4	2	Adequacy of the IT General control environment in place to support the operation of the Dorset Enterprise System (DES). As part of the 2012-13 Internal Audit plan, SWAP undertook a detailed review to assess the adequacy of the key IT controls and procedures in place to support the operation of the Dorset Enterprise System (DES). The findings of the review identified 30 individual recommendations across the key IT controls areas (access to systems and data, system changes and maintenance, development of new systems and applications and computer operations and end-user computing). **It is recommended that the Authority consider the individual recommendations within the Key financial controls (DES) ICT controls internal audit report as a matter of urgency and ensure that an appropriate action plan is established to address the issues identified within an appropriate time frame.**	Audits continue to be prioritised and completed. Of the 9 outstanding actions from the 2014/15 update, disaster recovery and the associated business continuity plans remain the only items to be fully addressed. The latest 2014/15 report indicates 12 new recommendations, three of which are those DR and BCP issues which were carried forward. Of the latest 12 recommendations, 1 is complete, 1 is agreed as being not applicable and the remaining 9 have target dates between September 2015 and June 2016. Disaster Recovery has been progressed significantly by the DES infrastructure refresh project such that we can deliver DES functionality in the event of a DCC data centre failure. However full business testing and an end-to-end business continuity exercise cannot be completed until the Smarter Computing project has finished. **Richard Pascoe Head** **of ICT**	Partially implemented. The report to Audit & Scrutiny Committee in November 2015 indicated 4 risk areas (accounting for multiple individual risks). The internal audit review of these areas indicated that improvements had been made and issues addressed for items 1 to 3. There were no new recommendations for these areas. Risk area 4 (ICT service continuity arrangements for DES) – a significant ICT service continuity test was conducted in July 2016. The test results are reported as a 'success' in proving that 'the DES continuity solution and documentation is fit for purpose'. A number of upgrades are currently being implemented to the DES infrastructure.

Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

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We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit & Governance Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Adjusted audit differences

The following table sets out the adjusted audit differences identified by our audit of Dorset County Council's financial statements for the year ended 31 March 2016.

	Impact					
No.	**Income and expenditure statement**	**Movement in reserves statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1			Cr Government debtors (£2,227,000)	Dr Deferred Income £2,227,000		This relates to an adjustment made for income recognized twice and corrected by The Authority. These entries are in order to correct the adjustment made by The Authority.
2	Dr IAS19 Service Cost £22,399,000 Dr IAS19 Net interest cost £487,000 Dr Contributions £,560,089 Cr Actuarial Gain (£4,726,000)			Cr Net pension liability (£18,721,000)		Pension adjustment in respect of the Tricuro pension treatment and the liability of employees transferred to Tricuro remaining within DCC.
3			Dr Government debtors £582,000	Cr Government creditors (£582,000)		Posting error meaning that receivables and payables were under-stated.
	Dr £18,721,000		**Cr (£1,645,000)**	**Cr (£17,076,000)**		**Total impact of adjusted audit differences**

Materiality and reporting of audit differences

For 2015/16 our materiality is £5.875 million for the Authority's accounts. For the Pension Fund it is £24 million.

We have reported all audit differences over £0.294 million for the Authority's accounts and £1.2 million for the Pension Fund, to the Audit & Governance Committee.

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Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

— Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

— Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

— Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in June, 2016.

Materiality for the Authority's accounts was set at £5.875 million which equates to around 1% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit & Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit & Governance Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.294 million for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit & Governance Committee to assist it in fulfilling its governance responsibilities.

Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £24 million which is approximately 1.9 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £15 million for 2015/16.

Accounts Payable - Data Analytics

Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion.

We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective business intelligence.'

Key Findings

To support our audit approach and to provide insight into the Authority's Non-Pay Expenditure, we have conducted some data analytics work on the Accounts Payable system, for the period 1st April 2015 to 31st March 2016.

We conducted 14 tests, and followed up on particular exceptions with management. Key observations are set out below. We have also made a recommendation that the Authority focuses on departments which are not obtaining appropriate internal approval prior to committing to purchases.

During this period, a total of 88,322 invoices have been recorded with a value of £237,179m. This is an increase from the same period in the prior year of £67,509 m, or 39%. These are invoices that go through the purchase ledger and have corresponding POs and GRNs and not invoices outside of this process.

Accounts Payable - Data Analytics (cont.)

It was noted that there has been an decrease in the value of invoices going through the PO accounts payable process and in addition to this the number of invoices has decreased due to invoice consolidation.

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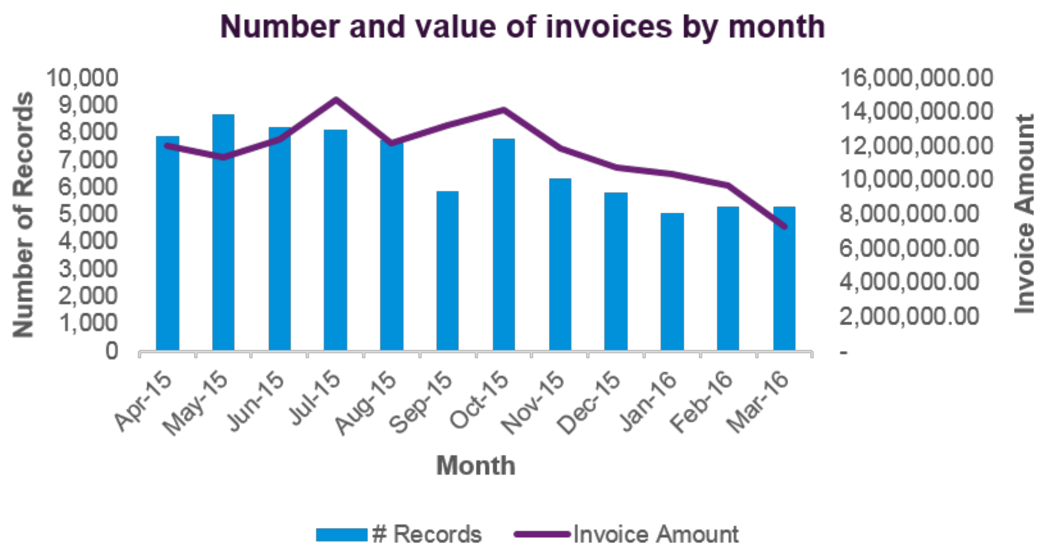
1. Analysis by month



Analysis of results

There has been a general reduction in the number of accounts payable invoices across the year with September being a downwards fluctuation, this is due to seasonal variances and the levels of August holiday meaning that purchasing during that period is reduced. The general downwards trend can be attributed to a reduction in spending in the latter half of the year in order to reduce costs and make savings.

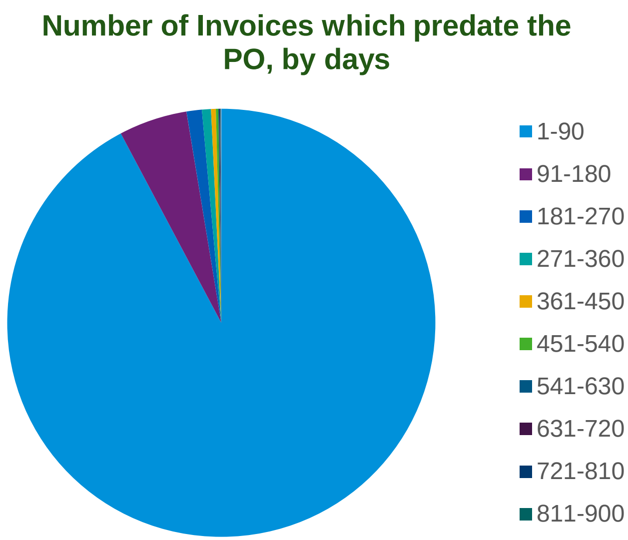
Appendix three

Accounts Payable - Data Analytics (cont.)

We performed testing over invoices where the PO pre-dated the invoice and the GRN pre-dated a PO.

This is linked to our recommendation around ensuring that there is a PO prior to ordering goods or arranging services to ensure that there is appropriate authorisation prior to purchase.

2. Analysis of purchase orders dated after the invoice date



Analysis of results

We noted a total number of 12,614 invoices matched to purchase orders, dated before the date of the purchase order. This is approximately 14% of the invoices recorded in the period, and they have a total value of £23.796m.

The graph shows an analysis of the number of days after the invoice that each purchase order is dated. The longest period after the date of an invoice that a was approved is 900 days.

Those in the higher categories relate to instances where there have been issues in relation to the invoice itself that have taken time to resolve. These also relate to missing invoices where copies were subsequently received.

3. Analysis of purchase orders dated after the goods delivery date

Number of purchase orders dated after the goods delivery date	441

Analysis of results

We noted that there were 441 purchase orders dated after the goods delivery date.

Alongside the results of the previous test over purchase orders dated after the invoice, there is a risk that the Authority is committing itself to costs without obtaining the appropriate approval.

As set out in appendix one it is recommended that the Authority ensures a continued focus on departments with consistent issues in this area, so that such commitments are not made.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

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Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of *Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit & Governance Committee .

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

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General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Dorset County Council and Dorset County Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Dorset County Council and Dorset County Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit Independence

Audit Fees

Our fee for the audit was £74,022 plus VAT in 2015/16, the fee for the audit of the pension fund is £25,146 plus VAT. This fee was in line with that highlighted within our audit plan agreed by the Audit & Governance Committee in June 2016. Our fee for the teacher's pension fund audit was £3,500 plus VAT (£3,500 in 2014/15).

KPMG carried out some work on devolution for Dorset County Council on behalf of the nine councils in the area and the police. The total fees were £55,000, of which £5,500 related to this council. The work was carried out by a team separate from the audit team, and there were no identified conflicts between the audit and the non-audit work.

kpmg.com/uk

Audit and Governance Committee

Dorset County Council

Date of Meeting	20 September 2016
Officer	Chief Executive
Subject of Report	**Internal Audit Quarterly Report**
Executive Summary	This report summarises the work of the Council's Internal Audit Service and provides; i) An overall assurance opinion on the Council's management of risk and the systems of internal control from the review work undertaken by the South West Audit Partnership (SWAP). ii) A schedule of audits completed during the period, detailing their respective assurance opinion rating; the number of recommendations; and the respective rankings of these (Appendix B). iii) Detail of audit reviews which have previously received a "Partial Assurance Opinion" (Appendix D), or where risks have been identified which are considered to represent potential significant corporate risk to the Council (Appendix C).
Impact Assessment:	Equalities Impact Assessment: The Internal Audit Plan and service delivery arrangements have been assessed. These are subject to regular reviews, in accordance with the Council's Equality Impact Assessment process, to ensure appropriate arrangements are in place and that the values that underpin these continue to be promoted.

	Use of Evidence: The quarterly internal audit reports provide a summary of the outcomes of internal audit assignments undertaken during the period.
	Budget: No implications.
	Risk Assessment: 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: Current Risk: LOW Residual Risk LOW *(i.e. reflecting the recommendations in this report and mitigating actions proposed).*
	Other Implications: None.
Recommendation	That the Committee scrutinise the report and; i) Note from the work undertaken by SWAP in Quarter 1. ii) Examine those issues relating to areas of potential significant corporate risk to the Council (Appendix C). iii) Note those audit assignments which have previously been given a "Partial" assurance opinion, but are not considered to present significant risks to the Council's overall operations (Appendix D). iv) Note those audit assignments which have been allocated either a "Reasonable" or "Limited" assurance opinion (Appendix B).
Reason for Recommendation	To contribute to the Council's aim of 'Effective Public Services' by providing assurances, or otherwise, on the Council's systems and procedures that have been subject to Internal Audit reviews undertaken during the period 1 April 2016 to 30 June 2016.
Appendices	<u>Appendix A</u> – SWAP Internal Audit Definitions <u>Appendix B</u> – Internal Audit Work Plan Progress <u>Appendix C</u> – Schedule of Potential Significant Risks <u>Appendix D</u> – Summary of Partial Assurance Opinions

Background Papers	None
Report Originator and Contact	Name: Rupert Bamberger Assistant Director, South West Audit Partnership Tel: 07720 312464 Email: rupert.bamberger@southwestaudit.co.uk Name: Mark Taylor Group Manager – Governance & Assurance Tel: (01305) 224982 Email: m.taylor@dorsetcc.gov.uk

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SWAP
SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

Dorset County Council

Report of Internal Audit Activity

Plan Progress 2016/17 Quarter 1

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

The contacts at SWAP in connection with this report are:

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Rupert Bamberger
Assistant Director
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rupert.bamberger@southwestaudit.co.uk

Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.

Audit Opinion

Overall, based on the work completed to date this financial year, I can report that some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives. However, in other areas risks are generally well managed and the systems of internal control are working effectively.

DCC management respond positively to internal audit suggestions for improvements and corrective action is often taken quickly, wherever this is possible or practical.

Follow up work completed to date this year highlights that recommendations have generally been implemented to mitigate the risks identified.

Our audit activity is split between:

- **Operational Audit**
- **School Themes**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**

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Role of Internal Audit

The Internal Audit service for Dorset County Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 8th June 2016.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Internal Audit Plan Progress 2016/2017

Outturn to Date:

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action

Internal Audit Work Programme

The schedule provided at Appendix B contains a list of all audits in progress as agreed in the Annual Audit Plan 2016/17. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective "assurance opinion" rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit "Audit Framework Definitions" as detailed on pages 9 and 10 of this document.

To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service risks, a summary of the key audit findings that have resulted in them receiving a 'Partial Assurance Opinion' have been summarised in Appendix D.

However, in circumstances where findings have been identified which are considered to represent significant corporate risks to the Council, due to their importance, these issues are separately summarised in Appendix C. These items will remain on this schedule for monitoring by the Committee until the necessary management action is taken and appropriate assurance has been provided that the risks have been mitigated / addressed.

“Added Value”

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.

Added Value

Primarily Internal Audit is an assurance function and will remain as such. However, Members requested that we provide them with examples of where we have “added value” to a particular service or function under review. In response to this we have changed our approach and internal processes and will now formally capture at the end of each audit where we have “added value”. As we complete our operational audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control.

- As part of our Income Generation audit, SWAP carried out an information gathering exercise of other council’s income generating initiatives and reported this back to the Chair of the Commercial Board. Furthermore, SWAP identified some Commercialisation training that was available free of charge through the Local Government Association that DCC could benefit from.
- A part of our Debt Management audit, SWAP carried out a benchmarking exercise across our Partners to provide a comparison of debt collection methods and techniques. SWAP also provided a best-practice debt collection document based on our research.
- As part of our Health & Safety audit, SWAP sought Health & Safety training material from our Partners in order to feed back to DCC any innovative or different delivery methods.
- We have recently made available to the Chief Accountant and Head of Commercial Services a number of IDEA Procurement Scripts that SWAP have access to. These would enable a detailed analysis of purchasing and supplier data
- Similar to previous years, SWAP will shortly be providing a Member training event, covering; the role of the Audit Committee, Culture and Ethics, Brexit- threats and opportunities, and changes to the Annual Governance Statement. This event will be held in October.

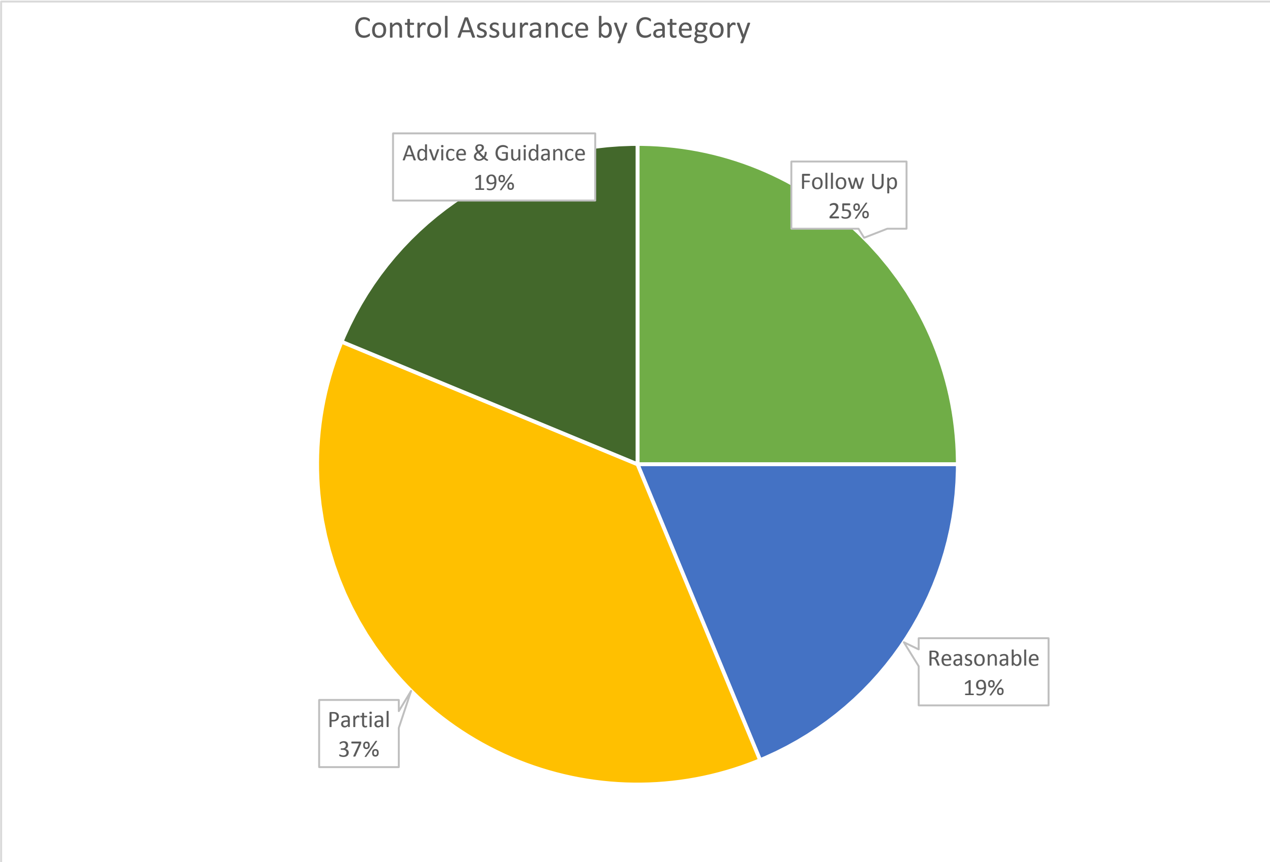
SWAP Performance - Summary of Audit Opinions

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- **Substantial**
- **Reasonable**
- **Partial**
- **None**

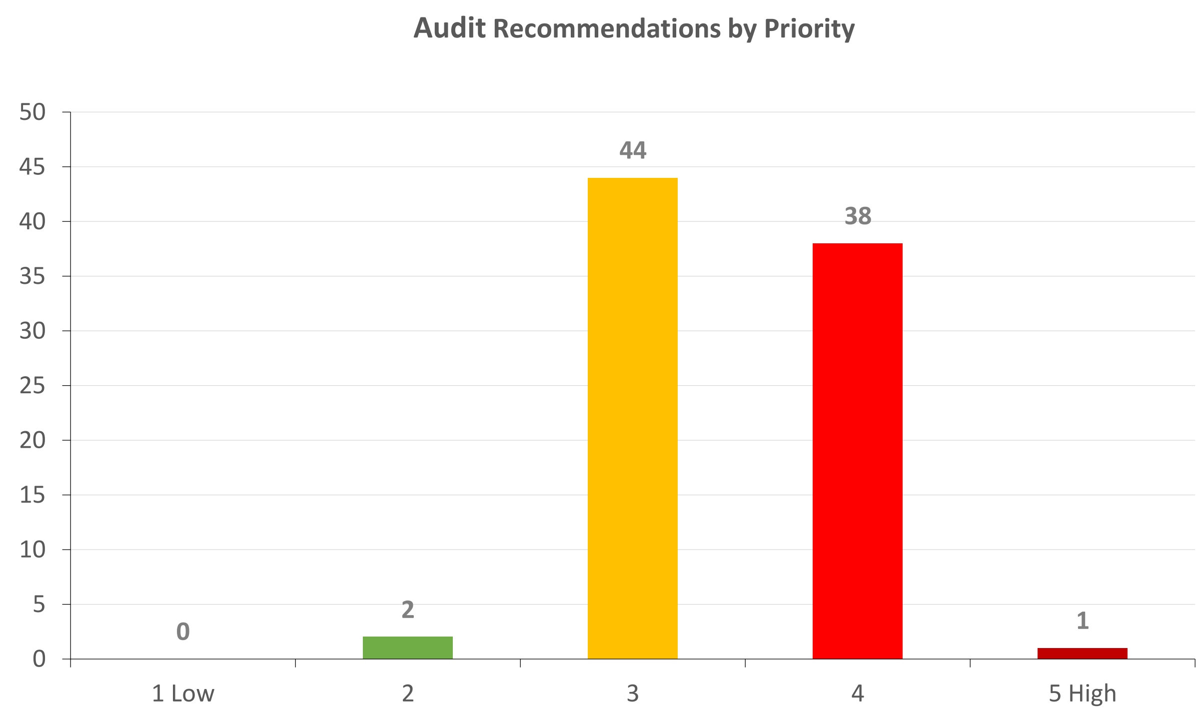
Summary of Control Assurance

As well as our standard audit opinions we have also included our Follow up work along with any Advice & Guidance. It should be noted that there were no 'Substantial' or 'None' Audit Opinions in our work to date.



Summary of Audit Recommendations by Priority

Summary of Recommendations



The Assistant Director of for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.

SWAP Performance

SWAP now provides the Internal Audit service for 14 Councils and also many subsidiary bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for Dorset County Council for the 2016/17 year (as at 1 August 2016) are as follows;

Performance Target	Average Performance
Audit Plan – Percentage Progress Final, Draft and Discussion Fieldwork Completed awaiting report In progress Yet to complete	 15% 4% 34% 47%
Draft Reports Issued within 5 working days Issued within 10 working days	100% 100% (Average Days of 2)
Final Reports Issued within 10 working days of discussion of draft report	80% (Average Days of 6)
Quality of Audit Work Customer Satisfaction Questionnaire	78%

We keep our audit plans under regular review so as to ensure that we auditing the right things at the right time.

Approved Changes to the Audit Plan

Two ICT reviews have been removed from the 2016/17 audit plan at the request of the Head of ICT & Customer Services and replaced with two higher priority ICT reviews. The reviews removed are Information Management and Physical & Environmental Controls. These have been replaced with a review of Cyber Security and 365 for SharePoint.

A deferral has been requested for our review of Partnering & Voluntary Organisations (Community Capacity Build). This is due to the fact that work in this area is not sufficiently developed and the key contacts do not believe an audit at this stage would add value. It has therefore been proposed that this review is carried out in 2017/18.

Two reviews have been added to the 2016/17 audit work plan. These include a review of Concessionary Fares which has recently been completed, and an audit of Establishment Control which is due to commence shortly. These reviews will be resourced from SWAP contingency as part of the 2016/17 internal audit plan.

Given the significant findings identified at Dorchester Learning Centre, we propose to carry out some audit probity work at other DCC Learning Centres later in the year. This work is yet to be scoped.

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- **Substantial**
- **Reasonable**
- **Partial**
- **None**

Audit Framework Definitions

Control Assurance Definitions

Substantial	▲★★★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲★★★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲★★★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲★★★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

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Audit Framework Definitions

- Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major ↔ 1 = Minor Recommendation 5	4	3	2	1
Operational	Dorchester Learning Centre	1	Final	Partial	26	1	12	13	-	-
Governance	Oversight of Schools	1	Final	Partial	7	-	3	4	-	-
Operational	Purchase to Pay Review	1	Final	Advice & Guidance	N/A	-	-	-	-	-
Operational	Country Parks Follow Up	1	Final	Follow Up	N/A	-	-	-	-	-
Operational	Archives Follow Up	1	Final	Follow Up	N/A	-	-	-	-	-
Operational	Dorset Waste Partnership Follow Up	1	Final	Follow Up	N/A	-	-	-	-	-
Operational	Budmouth Technology College	1	Final	Follow Up	N/A	-	-	-	-	-
Operational	Health & Safety	1	Final	Reasonable	9	-	2	7	-	-
Operational	Debt Management	1	Draft	Partial	18	-	6	12	-	-
Operational	Income Generation	1	Final	Partial	6	-	6	-	-	-
Operational	Use of External Advisors	1	Final	Partial	6	-	4	2	-	-
Operational	Safer Recruitment	1	Draft	Partial	8	-	5	3	-	-
Grant Certification	Troubled Families Grant Certification	2	Final	Advice & Guidance	N/A	-	-	-	-	-
Grant Certification	Growth Hub Grant Certification	2	Final	Advice & Guidance	N/A	-	-	-	-	-
Operational	Reporting of Spend over £500	2	Final	Reasonable	2	-	-	-	2	-
Governance	Concessionary Fares	2	Final	Reasonable	3	-	-	3	-	-

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major ⟷ 1 = Minor Recommendation				
						5	4	3	2	1
Work in Progress										
Operational	Budget Management	1	Discussion Document	-	-					
Operational	SEN Decision Making	2	In Progress	-	-					
Operational	Better Care Fund	2	In Progress	-	-					
Operational	Direct Payments	2	In Progress	-	-					
Operational	Adult Demand Management	2	In Progress	-	-					
Operational	Best Practice Contract Reviews	2	Scoping	-	-					
Operational	Contract Management	2	Scoping	-	-					
Operational	Creditors/ Payments	2	In Progress	-	-					
IT Audit	Cyber Security	2	In Progress	-	-					
Grant Certification	Community Channel Grant Certification	2	In Progress	-	-					
Operational	Section 17 Payments	2	In Progress	-	-					
Operational	UK Equity Fund	2	In Progress	-	-					
Operational	Equality Impact Assessments	2	Scoping	-	-					
Governance	Risk Appetite	2	Scoping	-	-					
Operational	Establishment Control	3	Scoping	-	-					

Schedule of potential significant risks identified from Internal Audit work in 2016/2017

Ref	Name of Audit	Risk Identified	Weaknesses Found	Recommendation Action	Managers Agreed Action	Agreed Date of Action
DLC 1	Dorchester Learning Centre	The Governance structure does not provide sufficient strategic overview	Currently the governing body are lacking the structure to be able to provide a strategic overview of the operations within the Centre. In addition, there is a need for the Headteacher to provide more information to the governors to enable them to make appropriate decisions.	A range of recommendations have been made to address the governance. These include training for governors, ongoing review of statutory policies, and greater oversight of the school development plan.	Management at the Centre have agreed to all our recommendations. Progress has been made to address the areas highlighted. Due to changes at the Centre, a follow up has been deferred and will be carried out in the Autumn term.	All actions to be completed by the start of the Autumn term.
DLC 2	Dorchester Learning Centre	The Centre does not comply with appropriate financial and other procedures	There is no assurance that the owner of a company that the centre uses has appropriate insurance cover and arrangements for DBS checking of staff and volunteers. In order to demonstrate transparency in the award of contracts, it is important that the governors and staff with spending decisions complete an annual declaration of interests. A number of potential conflicts exist at the Centre and therefore it is imperative that full disclosure and transparency exists.	A range of recommendations have been made to address the Centre's compliance with the appropriate financial and other procedures. These include formal approval of the Centre's budget, seeking assurance re: the safety of external companies used, and greater transparency in relation to declarations of interest. Recommendations have also been raised in relation to	As above.	All actions to be completed by the start of the Autumn term.

			The Centre does not have all statutory policies in place.	Governors seeking assurance that value for money is being achieved with the activities commissioned by the Centre.		
IG 1	Income Generation	A lack of support and proportionate processes across the organisation prevents staff innovation and the generation of new income	Lack of financial tools to enable effective cost and management accounting. Lack of training and guidance to ensure managers develop commercial awareness. Project management processes are not employed to manage the implementation of the Commercial Board's objectives.	A range of recommendations have been made to support the progress of the Commercial Board objectives. These include the enhancement of management accounting and costing information, communication and training for managers, and adopting project management principles where necessary to ensure areas are taken forward.	Management have agreed to all of our recommendation s, with an action plan in place.	All actions to be completed by end of October 2016.
EA 1	Use of External Advisors	Correct processes for the use of external advisors are not followed leading to poor service quality, potential claims against the council and value for money not being achieved.	There is no strategic oversight of the use of external advisors at a corporate level. Inaccurate coding of external advisor spend; resulting in the figures reported to Members containing potential inaccuracies and/ or overstatements. Officers are unaware of key guidance and best practice principles in relation to the use of external advisors. Consideration of using alternatives to external advisors at the outset of work is not being undertaken (or at least evidenced).	A number of recommendations have been made to enhance the monitoring, oversight and control of the use of external advisors. These include improving the reporting of external advisors and raising awareness amongst staff in terms of best-practice when commissioning in this area.	Management have agreed to all of our recommendation s, with an action plan in place.	All actions to be completed by end of January 2017.

Summary of key points related to previously reported 'Partial Assurance' reviews

Audit Tittle	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Date of programmed follow up
Ethical Governance (Follow Up)	The audit included a review of the embeddedness of ethical governance for both members and staff. Issues were identified regarding the following for staff • Declaration of Interests • Gifts and Hospitality • Training	The follow up findings and an action plan were presented to the Standards and Governance Committee at their meeting on 30th March 2016. The majority of recommendations were expected to be implemented by 31 Dec 2015, with the rest to follow April 2016. A number of implementation dates were subsequently deferred to 1st April 2016 to coincide with the work already started in relation to the revision to the Council's Code of Conduct.	A further audit follow up was undertaken in August 2016. It was found that the vast majority of agreed actions were still outstanding along with the associated risks.	A further follow up will be scheduled for early 2017 to allow the Authority time to revise the Code of Conduct and implement the agreed actions.
Country Parks (Follow Up)	A follow up audit has confirmed that key actions agreed by the service have now been implemented, with the original risks mitigated.			Follow up completed August 2016
Archives (Follow Up)	A follow up audit has confirmed that key actions agreed by the service have now been implemented, with the original risks mitigated.			Follow up completed June 2016
Budmouth Technology College (Follow Up)	A follow up audit has confirmed that key actions agreed by the service have now been implemented, with the original risks mitigated.			Follow up completed May 2016
Dorset Waste Partnership (Follow Up)	A follow up audit has confirmed that key actions agreed by the service have now been implemented, with the original risks mitigated.			Follow up completed May 2016

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Joint Working

Opportunities, Risks and Considerations

August 2016

Working in Partnership to Deliver Audit Excellence

1. Introduction

1.1 The financial crises, demographic changes and central government policy changes are impacting significantly on the services delivered by local government, and the methods by which they are delivered. They will continue to do so for the foreseeable future. The above changes are leading to local authorities reviewing how they commission and deliver local services; with an increasing drive towards joint-working and/ or alternative delivery vehicles.

1.2 Dorset County Council (DCC) has already explored and undertaken a number of joint-working initiatives such as the Joint Archives Service and the Dorset Waste Partnership. The establishment of 'Tricuro' also represents a first for the Council in terms of an Adult Social Care Local Authority Traded Company.

1.3 As requested by the Audit & Governance Committee, South West Audit Partnership (SWAP) have put together a brief summary of the key opportunities, risks and considerations in relation to joint--working. This is intended as a guide for future joint-working decisions and seeks to complement the existing 'Alternative Service Delivery Models - Governance and Due Diligence Checklist' used by the Authority.

2. Opportunities: The benefits of working and collaborating with others

2.1 Joint working can take many different forms and may be seen as a continuum; from informal sharing of knowledge to full mergers that result in the creation of new legal entities. While all forms of collaboration offer the opportunity to find efficiencies, their impact and effectiveness may vary. However, what is clear is that joint working and collaboration opportunities all involve change and that the case for potential benefits from this approach is well proven.

2.2 Our review of joint working has identified the following key benefits[1] that can be generated and realised:

- **Increased overall capacity** - to improve outcomes for beneficiaries - with more effective management, delivery and monitoring of the service
- **Reduced overheads** - lower overheads mean more money for frontline work
- **Economies of scale** - for organisations to replicate on a larger scale a successful service that a single organisation would be unable to scale up alone
- **Improved knowledge** - an increased knowledge pool to contribute to a more effective service
- **Improved cross-sector operation** - the different specialisms of organisations may enable the service to be run smoothly across boundaries e.g. education & health
- **Shared risk** - organisations can share the risk involved in taking on public service delivery
- **Greater negotiating power** - greater negotiating strength where organisations wish to respond to poor funding practice from a particular public body
- **Improved trust** - higher levels of trust where organisations have a common culture which is focused on need and quality of service, rather than being money-led

[1] https://knowhownonprofit.org/organisation/collaboration/working-collaboratively/joint-working-for-publicservice-delivery-ncvo#

3. Risks: the challenges that need addressing for successful joint working

3.1 Whilst the potential benefits for joint working are well defined and understood, the achievement and realisation of these benefits is less certain.

3.2 There are numerous examples of challenges faced by joint projects e.g. not all joint service provisioning arrangements are successful. Cases such as Solihull Care Partnership NHS Trust highlight the potential for cultural clashes between local government and the NHS with significant cost implications for all parties.

3.3 Our review has identified a number of key risks[2] associated with joint working:

- **Unaligned aims and objectives** – The importance of partners understanding the aims and objectives of any joint working initiative is central to its success, but establishing a shared purpose can prove problematic. Without a shared understanding of aims and objectives, partnerships may struggle to develop a sense of purpose at the operational level, and this difficulty is compounded when there is little clarity about the lines of responsibility and authority for decision making. Without consensus about the aims and objectives of an initiative it becomes almost impossible to evaluate progress

- **Lack of clarity of roles and responsibilities** – A number of studies have identified that a lack of understanding about new initiatives or services could lead to a lack of clarity about the roles and responsibilities of the partners and stakeholders involved, as well as the policies and procedures underpinning the new service or way of working

- **Strategic Organisational differences** - At a strategic level, competing 'organisational visions' about the joined-up agenda and a lack of agreement about which organisation should lead which ventures can undermine the success of initiatives aimed at joining up services in a systems-wide approach, as can the absence of a pooled or shared budget

- **Insufficient reporting, accountability and control** - Local government is under increasing pressure to identify savings and efficiencies, in many cases, within short timescales. A repeated failing has been the failure to establish sufficient and appropriate reporting, accountability and control mechanisms at the start of any new project. This has resulted in a lack of awareness and understanding of the risk profile of each delivery model, and the actions being taken to mitigate the risks

- **Poorly constructed and articulated business cases** - The decision to change the way services are delivered or to use a new delivery model must be supported with a thorough options appraisal and fully costed business case. In particular business cases must fully address service and financial risk. Full costs must be considered and it must be recognised that time and money may need to be invested (spend to save) to make sure the taxpayer gets the best value for money

- **Inappropriate trading partnerships and company formation** – Needs to be assessed fully and the appropriate model for trading selected given that authorities take risks with the public purse. Proper and full due diligence needs to be undertaken. Where new companies are established, they also need to overcome the hurdles of staff consultations and terms and conditions, and the identification of hidden costs such as contributions to council overheads

- **Poorly informed decision making** – Studies have identified that members often have only limited understanding of the risks associated with joint working and in particular trading or accountable body status

[2] http://www.scie.org.uk/publications/briefings/files/briefing41.pdf

3.4 The proactive, targeted and focused piece of development work, which was undertaken at the instigation of the County Council's Audit and Scrutiny Committee in 2015, has significantly helped to ensure that such risks are actively considered when looking at any alternative arrangements. The 'Alternative Service Delivery Models - Governance & Due Diligence Checklist'[3] requires a proactive risk informed approach to the assessment of a proposal, which follows a structured assessment of key areas of risk against the 8 themes contained in the healthy organisation model.

4. Considerations: Key principles, initial questions and Member scrutiny

4.1 In order to further assess the potential benefits and risks posed by joint working, we have set out below a number of key principles to consider when undertaking a joint working initiative, as well as fundamental questions to consider when appraising any proposed initiative.

Table 1 - Key Principles for Joint Working[4]

Principle 1 **Recognise and accept the need for joint working**	*The benefits of joint working arrangements include making service users the focus of planning, commissioning and delivering services and better value for money.*
Principle 2 **Develop clarity and realism of purpose**	*Successful joint working arrangements are characterised by a shared vision or purpose, where all parties agree to modify their own activities and resources to achieve the goals within a joint working structure.*
Principle 3 **Ensure commitment and ownership**	*The centre point of joint working is gaining commitment and developing a shared vision, and some ownership of the ideas which are to be put into practice.*
Principle 4 **Develop and maintain trust**	*Trust is an essential foundation for all aspects of participation and joint working. It comes from working together and through that, discovering shared values and ways of doing things.*
Principle 5 **Create clear and robust governance arrangements and risk management processes***	*Parties need to bring clarity to the governance of their collaboration. This requires agreement among them about purpose, membership, accountability and risk management. Parties should be clear whose interests they represent and how they will handle disputes.*
Principle 6 **Monitor, measure and learn**	*Establish a means of reviewing how well joint working arrangements help to achieve statutory and/or corporate objectives and identify what resources are committed to joint working and evaluate the costs and benefits from joint working.*

*****As part of robust governance and risk management arrangements, we would expect consideration to be given to the **internal audit** provision and reporting mechanisms of any new joint working initiative.

[3] https://sharepoint.dorsetcc.gov.uk/iwantto/Pages/Alternative-Service-Delivery-Models---Governance.aspx
[4] https://www.dartford.gov.uk/__data/assets/pdf_file/0020/46091/KeyprinciplesandResponsibilitiesofEffectiveJointWorkingA rrangements.pdf

Table 2 - Questions to consider for any joint working/collaboration projects[5]

- What is the compelling need for change?
- Have similar transformational projects worked elsewhere?
- How will partners measure the success of outcomes?
- Is there a clear vision of how the project will produce cost and quality improvements?
- How are services currently organised and what service configuration are we looking to achieve in future?
- Which organisations will deliver services and in what setting?
- What is the baseline position and what improvement is required, in numbers?
- What services, people and functions will be included in the project?
- Are there any project parameters or constraints, e.g. statutory targets, patient safety?
- What are the risks?
- What are the likely timelines for the project and which financial years will improvements be delivered in?
- Who will lead the project?

Table 3 - Questions for members to consider when scrutinising joint working or trading partnerships[6]

- Have we considered all of the options?
- What are the expected benefits of the new delivery model and how will we measure success?
- Is the new delivery model supported by a robust and comprehensive business plan?
- Has the business plan been subject to appropriate due diligence?
- What are the service and financial risks?
- Does the transferring team have all of the right skills and expertise to run the new organisation?
- Are the right support structures in place to ease transition and ensure service continuity?
- How will services be commissioned from the new entity?
- What happens if the new model fails?
- What arrangements does the council have in place to assess the impact on the management, governance and risk appetite of the delivery model?
- What service and financial reporting mechanisms does the council have in place for each entity?
- Is there a summary report combining the risk profile of the council, its companies, its partnerships and joint ventures

Other Sources Used:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/191515/Managing_risks_with_delivery_pa rtners.pdf

http://www.publicnet.co.uk/features/2009/02/27/joint-working-the-drive-for-change/

[5] http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2014/fire-andrescue-joint-working.pdf
[6] http://www.grant-thornton.co.uk/Documents/Alternative-Delivery-Models-LG.pdf

Audit & Governance Committee

Dorset County Council

Date of Meeting	20 September 2016
Lead Officer Richard Bates – Chief Financial Officer	
Subject of Report	**Budget monitoring report – August 2016 (period 5)**
Executive Summary	This report provides information on the forecast of outturn against the budget for the 2016/17 financial year based on the latest available information from the Directorates. The report also updates Members on progress on measures being developed to achieve a balanced budget for 2016/17 and beyond.
Impact Assessment:	Equalities Impact Assessment: This report does not involve a change in strategy, it is an update on what has happened under current policy.
	Use of Evidence: This report draws on information from the Authority's accounting systems and other financial records and relies on reports and allocations from Government for future funding plans.
	Budget: The report provides information about the Authority's performance against its agreed budget for 2016/17 and a brief update on the budget challenges that lie ahead.
	Risk Assessment: 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:

	Current Risk: High Residual Risk: High
	Other Implications:
Recommendation	Members are asked to consider and comment on the forecast position for 2016/17 and actions being taken through the Forward Together 2020 programme and the Budget Strategy Task & Finish Group.
Reason for Recommendation	To understand the anticipated pressures on the budget for 2016/17 and beyond and to assess whether the strategies in place will successfully address the projected performance during the year.
Appendices	1. CPMI summary August 2016 2. FT dashboard summary August 2016
Background Papers	8th June 2016 draft outturn and financial management report to Audit & Governance Committee
Officer Contact	Name: Jim McManus, Chief Accountant Tel: 01305 221235 Email: j.mcmanus@dorsetcc.gov.uk

1. Background

1.1 Recent changes to Governance arrangements and committee structures mean that the Audit and Governance Committee now receives a consolidated report of the County Council's predicted financial performance for the year.

2. Forecast of outturn – period 5

2.1 The table below sets out the forecast of outturn predicted by the County Council's Directors and Heads of Service at the end of August – an overspend of some £7.8m. This forecast is more than £1.1m worse than was predicted to the Committee in June, due to further deterioration in the predicted performance for Children's Services. More detail is provided in the summary CPMI table at Appendix 1 and there is accompanying narrative on each Directorate's forecast performance, below. Appendix 2 also sets out the position on FT2020 programme savings anticipated for the current year.

Directorate	Net Budget £m	Forecast Outturn £m	Forecast Variance £m
Adult & Community Services	120,659	121,599	(940)
Children's Services	56,848	62,867	(6,019)
Environment & Economy	29,975	31,102	(1,127)
Partnerships	20,911	20,288	622
Chief Executive's Dept	19,014	19,371	(357)
Total Service Budgets	247,407	255,227	(7,821)
Central/Corporate Budgets	(255,010)	(254,989)	(21)
Whole Authority	(7,604)	239	(7,842)

Adult & Community Services

2.2 The Adult Care budget is forecast to overspend by £1.6m. The underlying overspend in these budget areas continues due to fee increases and demographic pressures. These have, in part, been mitigated by additional money received through the Social Care Precept and base budget adjustments.

2.3 The Partnerships & Performance Budget is forecast to be underspent by £75k. Service spend is broadly in line with budget. There have been increases in the estimated costs for properties held by Adult & Community Services and inflationary increases to some of the Service Level Agreements. These have been offset by vacancies within the Administrative teams.

2.4 The Early Help & Communities budget is forecast to overspend by £44k. This can be partly attributed to a reduction in the use of Library buildings by Skills & Learning which has resulted in a lower forecast of income from room hire and lower than anticipated expenditure on Blue Badge scheme within Early Help. On the plus side, we are due to receive additional external income for work already carried out by Trading Standards. Work continues to identify savings to meet Forward Together targets within the Library Service.

2.5 The Director's Office budget is currently forecast to be underspent by £685k. This largely reflects the 'to be allocated budgets' within the overall budget.

Children's Services

2.6 The new Care and Protection service came into operation from 5th September following a restructure of the social work function of the County Council to improve service delivery and respond to the recommendations of the Ofsted inspection report.

2.7 The number and cost of children who are looked after by the County Council continues to be a significant cost pressure this year. The budget process identified an additional budget of £3m a year to address the growth in the numbers of looked after children from around 340 to 400 - broadly what would be expected of an authority of Dorset's size - and reflects the growth in numbers seen nationally as a result of various social work practice changes. The actual number of looked after children when the budget was set was 467 and it was recognised that this figure would probably peak at around 500 during mid to late 2016 before reducing to the anticipated, longer-term level of 400 by autumn 2017. To recognise this, the County Council set aside additional one-off funding of £4m for 2016/17 and £1m for 2017/18.

2.8 At the end of August the number of looked after children (LAC) was 506, slightly higher than the projected peak of 500. However, as part of a Government initiative, a number of unaccompanied asylum seeker children (UASC) have been taken into care by Dorset. These costs are funded by the Government and therefore have limited impact on the budget. The underlying figure therefore stands at 494, and has been at around this level since May, suggesting that numbers might have peaked.

2.9 The costs of looking after children within the County Council can be expensive with some secure residential placements costing almost £6k a week. The standard annual cost of looking after a child is a minimum of £30k a year if placed with an in house foster carer or up to £50k a year with an independent foster agency. With such high marginal costs and the critical nature of child protection, predicting the outturn against these budgets if difficult.

2.10 The current central forecast, based on the current cohort remaining in their current care setting indicates that the budget will be overspent by £5.3m on these placements, although this will be offset by the £4m of one-off budget that has been set aside, resulting a net over spend of £1.3m. This is partly because the cost of placements has been higher than budgeted, predominately because of a shortage of in-house foster care placements. This has meant that children have been placed in more expensive, independent foster care and other residential placements. If the number of LAC reduces in line with the budget assumptions then there will be an overspend of around £4m, which will be covered by the amount of one off funding set aside.

2.11 The legal costs associated with this level of LAC and the court orders required to make children safe has also resulted in a pressure in this area of around £350k.

2.12 There is currently a national shortage of social workers and all local authorities are struggling to recruit and retain experienced staff. This means that agency staff have to be brought in to cover vacancies and ensure that caseloads are kept at safe levels. Whilst the Directorate has been optimistic that there would be a reduction in the need for agency workers, with a lot of energy been spent on developing recruitment and retention strategies, there continues to be pressure on this budget. There are currently over 40 vacancies that are being filled by around 30 agency workers. It is anticipated that this will remain the case for the remainder of the financial year and whilst alternatives are being considered in terms of the type of agency arrangement, the costs are still likely to be significant, with an overspend in this area projected at around £2m.

2.13 The new Prevention and Partnership service also came into effect from September as a result of the departmental reshaping. Within this there are several pressures, specifically in relation to:

- Special Educational Needs and Disabilities (SEND) - the need to accommodate several children in independent, residential placements, which has added pressure of £600k to the Prevention and Partnerships special educational needs budgets. These placement costs are typically shared with Health and Education and these agencies are working together to reduce these costs.

- Family Partnership Zones – a new structure to support and coordinate early help and prevention commenced on the 5th of September. The new targeted Youth workers are part of these new arrangements along with the Children's Centres and the former locality teams in 7 geographical areas. The budget area related to the youth service review will not fully realise the total savings hoped in this financial year. The review will save £1m a year in total, but the Family Partnership Zones budget will be £200k overspent due to this slippage as more time has been required to allow community groups to be facilitated to take on former DCC buildings.

- SEND transport – an optimistic savings target of £1.25m was identified in this area as part of the budget process. However, it is unlikely that all of this will be achieved in 2016/17, partially due to an increase in the volume of children who have become eligible for SEND home to school transport and some complications during the retendering of some of the route contracts. Based on the data from Dorset Travel, following the retender and rearrangement of routes for the start of the academic year, it is likely that there will an overspend against the new budget of £900k. It is felt that this is a delay to the savings rather than an ongoing budget issue.

2.14 Overall therefore, the Children's Services overspend position for 2016/17 is anticipated to be £6m. This could be reduced by around £2m if the numbers of LAC begin to reduce and the position around agency social workers can be resolved.

2.15 The Dedicated Schools Grant budgets are ringfenced to schools, but there have been a number of emerging pressures, specifically in relation to the High Needs element of the funding which is retained and managed by the County Council on behalf of the schools. The Government had recently extended the scope of the High Needs funding, which meant that it had to cover educational costs of children and young people up to the age of 25. This expansion of the age range, coupled by an increase in the number of children who are applying for Education, Health and Care plans is placing unprecedented pressure on both the locally retained budget and schools' own budgets. The pressure in this area is £5m for the financial year.

Environment & Economy

2.16 Economy, Planning & Transport – Most budgets are generally on track. For transport projects the time lag experienced between paying for consultants and getting funds reimbursed from the LEP is expected to right itself and balance by year end. However, planning income is down substantially this year. This is due to volatility in the timing and scale of planning applications made and also as a result of long-term sickness in the fee-earning area of monitoring. Year-end out turn predictions have therefore been revised downwards this month which has resulted in an overspend. Savings targets in relation to the transfer of the Regulation 3 planning application service to the district councils and pre application charging for Highway Authority advice to developers will also not be met in full.

2.17 Dorset Travel – The savings target of £600k from mainstream transport continues to be a risk. Routes with a current value of £1 million have now been retendered, however, cost increases to these routes have negated efficiency savings elsewhere in mainstream. Savings to public transport have been exceeded with a likely underspend of £118k which is currently offsetting overspends in Fleet Operations. It is anticipated that there will be additional income from new public routes that has not yet been forecast.

2.18 Business Support Unit – This budget is now projecting an overspend of £24k due to uncertainty over achieving forward together savings from implementing automated timesheets for highways staff. Where possible, vacancies are being held pending the outcome of the Business Support Unit review.

2.19 Coast & Countryside – The forecast overspend for Coast & Countryside at the end of August is £105k, which is a significant decrease from last month. The decrease reflects a forecast saving of c.£90k from reducing spend on road verge maintenance in line with direction from Cabinet. This is tempered by a modest overspend forecast in the budget for Apprentices as the service takes higher numbers this autumn than predicted, in advance of the Government Apprenticeship Levy in 2017. We expect to be able to forecast the outturn for the Environmental Advice Team at the end of September, and it is likely that deficit will start to reduce, further improving the overall picture for the service.

2.20 Estates & Assets are forecasting an overspend of £166k; the main components are the residual £75k WWW Property savings still to be identified, together with a £98k overspend within county buildings which relates to loss of 'income' from recharges to grant funded, partnerships and traded services, and prudent forecasting surrounding the potential loss of income from the Courts. The above line accommodation charges are currently being reviewed with a view to reducing this gap. However this will not be easy as DCC currently hosts a smaller number of traded services than anticipated. A review of Facilities Management is being undertaken to achieve further savings and tight cost control measures are being implemented to reduce the deficit. There is an additional income target of £48k Way We Work travel related savings which is on course pending the review of staff parking.

2.21 Buildings & Construction is currently forecasting a £77k underspend. Some significant project slippage has been mirrored by staff losses and difficulty in recruiting. A number of vacancies continue to be managed but we are stepping up our recruitment effort as a number of new, significant capital projects are on the horizon. The Repairs and Maintenance team are forecasting a reduction in income on account of:
a) The current emphasis on ‘repair’ rather than ‘replace ’. This approach does impact

on income however it will result in overall cash savings to the authority.
b) The uncertainties around the future of the estate as youth centres are being transferred to the community, schools are converting to academy status and the core property list is being further developed. In saving programmed R&M capital expenditure, there will be a corresponding reduction in fee income.

2.22 Schools Pooled R&M – It is assumed that this service will spend within budget.

2.23 Network Management – The forecast overspend relates to Parking Services which is currently projecting income relating to the rollout of Pay and Display across Dorset towns (£100k) along with £50k relating to visitors and residents parking on the County Hall campus. The visitor parking target is not based upon known visitor numbers and there would need to be an investment of capital, estimated to be in the region of £20k, to create a P & D car park within the County Hall campus. Residents parking is less likely as there seems to be very little demand at present. With regard to pay and display across Dorset towns, £100k is the surplus from a good sized town revenue and would be achievable under certain circumstances. The problem is timescale in that the design, consultation, legal order process and installation is likely to be 12 months before any income is realised. Capital would be needed to implement and public objection is also highly likely. The projected overspend has reduced again this month by £45k, having reviewed the level of income received for on-street parking, particularly in the Weymouth area (since the return of the agency arrangement in July 2016).

2.24 Network Development – There is a projected underspend of £8k. A review of capitalised staff costs and updated figures for August indicate that the risk of overspend is much reduced. There is one vacancy at present and twice the amount of student placements during the summer as one year’s cohort hands over to the 2016 / 2017 intake which are likely contributory factors.

2.25 Network Operations is forecast to be overspent by £52k. There is concern however that the plant hire and fuel budget within the Construction delivery cost centre are over budget and these will need to be closely monitored over the coming months. It is evident that within the plant hire budget there also some miscoding, some of which has been allowed for within this forecast, but it will need investigated in more detail. The winter service element of the construction delivery budget is currently projecting a surplus due the leasing costs on winter service vehicle being bought out early with the money for this coming the corporate capital budget.

2.26 Fleet Services is currently showing an overspend of £15k. This is largely due to a number of very expensive major repairs to a number of front line vehicles, which resulted in above normal levels of parts expenditure. This level of expenditure is not expected to repeat itself so we are optimistic that the budget will return to a balanced positon by the end of Quarter 2.

2.27 Director's Office – The forecast overspend of £214k is mostly the second year effects of the Directorate restructure, after allowing for expected and actual vacancy management savings, which are relatively secure.

2.28 Street Lighting PFI – This is a 25 year contract with a ring-fenced budget and is managed through a sinking fund.

Partnerships

2.29 Dorset Waste Partnership – The budget for 2016/17 has been set at £34,205m, of which the DCC share is 64.32%, resulting in a DCC share of the budget of just over £22m. The forecast is a favourable variance of £971k. The DCC share of this variance would be £625k. The favourable variances arise primarily from reduced prices in relation to a major contract that is being renewed in 2016/17 (£302k), Joint Committee decisions on reduced Household Recycling centre opening hours (£158k), a reassessment of the life of the stock of wheeled containers (£250k) and additional income on trade waste over and above the budget (£200k). Some slippage on capital financing costs relating to infrastructure projects (£40k) and vehicle purchases (£112k) continues to be acknowledged. Early year savings (£131k) are being made on recyclate costs, where the price per tonne is currently lower than the budget assumption of £20 / tonne. The Management and Administration budget is expected to underspend by £28k. Adverse variances involve additional disposal costs (£150k), where waste arising cannot now be transferred to a cheaper outlet as quickly as planned, and additional tonnages of waste arising (£100k).

Chief Executive's Dept

2.30 The Chief Executives Department is forecasting an overspend of £357k at the end of August. The main factors influencing this are:-

2.31 The Chief Executive's Office and Assistant Chief Executive's Office are forecasting underspends due to staff vacancies.

2.32 The Policy and Research department is projecting a £77k overspend largely attributable to increased staff costs in respect of increments and an unachievable vacancy factor of £29.4k.

2.33 Commercial Services is predicting an overspend of £45k. There are several key pressures on the services including a £50k share of the Directorate-wide savings target and a decrease in planned income due to staff vacancies and a delay in a review of the funding of the NEXUS system.

2.34 Legal and Democratic are forecast to overspend by £91k. A proportion of this (£18k) rests around some uncertain income with the balance in the salaries budget where pressures include JE awards and the inability to meet the high vacancy factor.

2.35 ICT overall is projecting a £161k overspend. £130k relates to the core ICT budget which despite undertaking significant work to balance the budget is still under pressure. £60k of the Directorate-wide savings have also been allocated here. The planned changes to the WAN/UC budget have not progressed as quickly as planned and this budget is forecasting a shortfall of £207k. Offsetting these overspends are an underspend in the CSU area of £176k and a one-off saving from the Print Strategy cost centre.

2.36 The HR and Financial Services areas are currently forecasting a balanced year end position. However the Financial Services area has recently undergone a restructure, which will be implemented from October. As the structure is still moving the forecast may change in the next month or so. Both these areas have taken a share of the Directorate's base budget shortfall.

Central/Corporate Budgets

2.37 The combined variance on the Interest payable and receivable budgets is a £21k projected overspend. It is still too early to be clear about the demands on the contingency budget.

3 Forward Together 2020

3.1 Work continues on the Authority's transformation programme, FT2020. Each of the Directors has given a formal update of the transformation programme in their own areas to the Budget Strategy Task & Finish Group. A summary of the progress against savings targets is also set out in Appendix 2.

3.2 Overall, progress against target savings of £10m for 2016/17 shows that nearly £4m has already been achieved, with a further £3.1m on course. £1.8m needs more work to deliver and around £1.1m has been deemed unachievable – mainly SEN transport savings and slippage from Youth Service reconfiguration in Children's Services and mainstream transport savings in the Environment & Economy Directorate.

4 Budget Strategy Task & Finish Group

4.1 The Group continues to meet monthly and as mentioned, has now received full briefings on the transformation work going on in each of the Directorates. The Group has also received savings proposals from Members which are currently being considered for Budget Strategy 2017/18.

4.2 The Cabinet is due to receive an update on the MTFP and the Authority's draft efficiency plan in consideration of the four-year budget offer at the 28th September meeting. This will be on the back of a predicted overspend set out in this report which would potentially claim more than half of our general balances and draw us down below the bottom-end of our operating range.

4.3 It is therefore absolutely imperative that the actions being taken to bring the budget back towards a balanced position, particularly within Children's Services, are understood and owned throughout the organisation, and robustly owned, monitored and implemented by senior management. If the position cannot be turned in the right direction in the next two months then further action will be necessary across the whole of the council to reduce non-essential spend.

Richard Bates
Chief Financial Officer
September 2016

Budget monitoring report

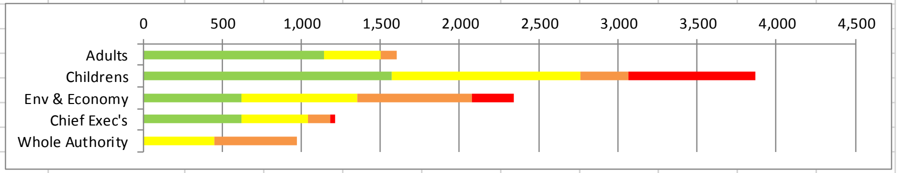
Appendix 1

Cost Centre Management Budget Monitoring Summary	Responsible Officer	Year 2016-17 'Above Line' Net Budget Only £000's	Forecast £000's	June Projected Under/(Over) Spend £000's	July Projected Under/(Over) Spend £000's	August Projected Under/(Over) Spend £000's
Children's Services Directorate						
Non-Schools Budget						
Family Support	Vanessa Glenn	24,425	32,502	(6,316)	(7,491)	(8,077)
Strategy, Partnerships and Performance	Anne Salter	9,389	9,440	(107)	(97)	(51)
Other Services	Sara Tough	1,809	1,832	(13)	(2)	(23)
Learning and Inclusion services	Jay Mercer	21,225	23,093	(1,840)	(2,066)	(1,868)
Application of Contingency	Richard Bates	0	(4,000)	4,000	4,000	4,000
Children's Services (Non DSG) Total		56,848	62,867	(4,277)	(5,656)	(6,019)
Schools Budget						
Learning and Inclusion - High Needs Block (excluding school balances)	Jay Mercer	23,630	29,034	(2,480)	(3,883)	(5,404)
Learning and Inclusion - Early Years Block	Jay Mercer	13,834	13,708	(81)	(81)	126
Strategy, Partnerships and Performance - Schools Central Budgets	Anne Salter	2,423	1,587	76	140	836
Total Net Central Expenditure		39,886	44,329	(2,485)	(3,823)	(4,442)
Dedicated Schools Grant and other funding (Schools Central)		(170,369)	(173,492)	0	0	3,123
Delegated Schools Budgets (including Special Schools and Learning centres)		138,086	140,705	0	1	(2,618)
Schools Budget Total		7,604	11,542	(2,485)	(3,822)	(3,938)
Children's Services Total (excluding Schools)		64,452	74,409	(6,761)	(9,478)	(9,957)
Adult & Community Services Directorate						
Adults Services	Harry Capron	78,916	80,572	(1,860)	(1,658)	(1,656)
Partnerships and Performance	Alison Waller	37,379	37,304	197	48	75
Early Help & Communities	Paul Leivers	7,720	7,764	(99)	(71)	(44)
Director's Office	Helen Coombes	(3,356)	(4,041)	759	686	685
Adult & Community Services total		120,659	121,599	(1,004)	(996)	(940)
Environment and the Economy Directorate						
Economy, Planning & Transport	Maxine Bodell	2,019	2,059	33	44	(40)
Dorset Travel	Andy Shaw	15,746	16,293	(609)	(570)	(547)
Business support Unit	Jan Hill	620	643	(42)	(44)	(24)
Coast & Countryside	Phil Sterling	2,631	2,736	(156)	(183)	(105)
Estates & Assets	Peter Scarlett	(1,587)	(1,422)	(374)	(166)	(166)
Buildings & Construction	David Roe	54	(23)	36	72	77
Pooled R&M	David Roe	78	78	0	0	0
Network Management	Simon Gledhill	1,279	1,330	(98)	(53)	(51)
Network Development	Tim Norman	928	920	(0)	(22)	8
Network Operations	Martin Hill	4,146	4,198	14	26	(52)
Fleet Services	Sean Adams	(141)	(126)	0	(15)	(15)
Director's Office	Mike Harries	378	592	(263)	(214)	(214)
Streetlighting PFI	Tim Norman	3,824	3,824	0	0	0
Environment and the Economy Directorate Total		29,975	31,102	(1,460)	(1,125)	(1,127)
Chief Executives						
Chief Executives Office	Debbie Ward	358	339	(4)	(3)	19
Partnerships	Patrick Myers	245	262	(15)	(19)	(18)
Communications	Patrick Myers	235	236	0	(1)	(1)
Policy and Research	Patrick Myers	422	499	(35)	(69)	(77)
Commercial Services	Karen Andrews	702	748	0	(45)	(45)
Governance and Assurance	Mark Taylor	642	647	4	(5)	(5)
Assistant Chief Executive	Patrick Ellis	241	205	0	0	36
Legal & Democratic Services	Jonathan Mair	2,649	2,741	(50)	(87)	(91)
Financial Services	Richard Bates	1,717	1,717	0	54	0
ICT	Richard Pascoe	6,605	6,765	(70)	(127)	(161)
Emergency Planning	Simon Parker	202	204	(1)	(2)	(2)
Human Resources	Sheralyn Huntingford	2,037	2,037	0	0	0
Directorate Wide	Patrick Ellis	0	0	(341)	0	0
Cabinet		2,959	2,972	(22)	(13)	(13)
Chief Executives Total		19,014	19,371	(534)	(317)	(357)
Partnerships						
Dorset Waste Partnership	Karyn Punchard	20,911	20,288	573	471	622
RIEP		0	0			0
Public Health	David Phillips	0	0	(2)	(2)	0
Partnerships Total		20,911	20,288	571	469	622
Central Finance						
General Funding	Richard Bates	(9,470)	(9,470)	**0**	0	0
Capital Financing	Richard Bates	25,659	25,680	19	26	(21)
R&M	Richard Bates	1,244	1,244	0	0	0
Contingency	Richard Bates	(8,261)	(8,261)	0	0	0
Precepts/Levy	Richard Bates	677	677	0	0	0
Central Finance	Richard Bates	(264,860)	(264,860)	0	0	0
Central Finance Total		(255,010)	(254,989)	19	26	(21)
Total Above Line Budgets		**0**	**11,780**	**(9,169)**	**(11,421)**	**(11,780)**
Excluding Schools Budgets		**(7,604)**	**239**	**(6,684)**	**(7,599)**	**(7,842)**

Budget monitoring report

Appendix 2

2016/17		Assessment of Savings achievement				at >>> 06-Sep-16
Savings measure		Achieved	On course	More Work Needed	Not achievable
	£000's				
Adults	1602	1,140	359	103	0
Childrens	3865	1,575	1,190	300	800
Env & Economy	2346	621	733	722	270
Chief Exec's	1214.3	624	415	140	35
Whole Authority	976	0	451	525	0
Summary - All Savings 2016/17	**10,003**	**3,960**	**3,148**	**1,790**	**1,105**



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Audit and Governance Committee

Dorset County Council

Date of Meeting	20 September 2016
Officer	Chief Financial Officer
Subject of Report	**Treasury Management and Prudential Code Review 2015/16**
Executive Summary	At the meeting of the Cabinet on 11 February 2015 members approved the Treasury Management Strategy Statement and Prudential Indicators for 2015-16. At this meeting, Cabinet approved the adoption of the CIPFA Prudential Code and in turn the adoption of the Treasury Management Code of Practice. In adopting the code, recommended best practice is for Members to receive an annual report on the Treasury Management Strategy and Prudential Indicators, a mid year update on progress against the strategy and a year end review of actual performance against the strategy. This report provides Members with an update on the economic background, its impact on interest rates, performance against the annual investment strategy, an update of any new borrowing, any debt rescheduling, compliance with the prudential Code.
Impact Assessment: *Please refer to the protocol for writing reports.*	Equalities Impact Assessment: N/A
	Use of Evidence:

	CIPFA 2015/16 benchmarking Capita Asset Services Benchmarking 2015/16
	Budget: All treasury management budget implications are reported as part of the Corporate Budget outturn report, alongside the Asset Management reports that include the progress of the capital programme.
	Risk Assessment: This report is for information. However, treasury management is an inherently risky area of activity and a number of controls are embedded in its operation. The key Treasury risks are highlighted as part of the Annual Treasury Management Strategy approved by Cabinet as part of the Budget setting process. This report highlights any variances from this strategy and draws out any specific risks which have arisen. Current Risk: HIGH Residual Risk MEDIUM
	Other Implications:
Recommendation	That the Committee: 1. Note and comment upon the report.
Reason for Recommendation	To better inform members of the Treasury Management process and strategy, in accordance with the corporate priority to ensure money and resources are used wisely.
Appendices	Appendix 1 – Prudential Indicators Appendix 2 – Borrowing as at 31 March 2016 Appendix 3 – Investment Balances as at 31 March 2016
Background Papers	Treasury Management Annual Strategy 2015/16 Capita Treasury Solutions – Independent Economic Analysis Capital Programme Budget and Monitoring report 2015/16
Report Originator and Contact	Name: David Wilkes Tel: 01305 224119 Email: D.Wilkes@dorsetcc.gov.uk

1. Background

1.1. This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2. During 2015/16 the minimum reporting requirements were that the full Council should receive the following reports:

a) An annual treasury strategy in advance of the year (Cabinet 11 February 2015)
b) A mid-year (minimum) treasury update report (Audit and Scrutiny 24 November 2015)
c) An annual review following the end of the year describing the activity compared to the strategy (this report).

1.3. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for 2015/16 for treasury activities, and highlights compliance with the Council's policies previously agreed by members.

1.4. The report provides commentary of the overall performance of the treasury activities of the Council, and all of the prudential indicators are summarised in Appendix 1.

2. The Economy and Interest Rates

2.1. When the Treasury Management Strategy for 2015/16 was agreed in February 2015, market expectations were for the first increase in UK Bank Rate to occur in the second half of 2015. However the rate remained unchanged for the whole financial year as UK growth slowed due to a number of factors including the appreciation of sterling against the Euro, weak growth in the European Union (EU), China and emerging markets, plus the dampening effect of the Government's continuing austerity programme and uncertainty created by the UK referendum on membership of the EU.

2.2. In the US the Federal Reserve agreed its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the referendum vote has caused a re-emergence of caution over the timing and pace of further increases. Markets anticipate that there will now be only one more increase in 2016.

2.3 In the Eurozone, the European Central Bank (ECB) commenced in March 2015 its €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected Eurozone countries. This was intended to run initially to September 2016 but in response to a continuation of weak growth, has been extended to March 2017. At its December 2015 and March 2016 meetings the ECB progressively cut its deposit facility rate to reach 0.4% and its main refinancing rate from 0.05% to zero. It also increased its monthly asset purchases from €60bn to €80bn. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. The ECB is also struggling to get inflation up from near zero towards its target of 2%.

2.4. Shortly after the result of the referendum, the Council's treasury advisor, Capita Asset Services, has provided the following updated interest rate forecast:

	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB rate	1.00%	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.30%	1.30%
10yr PWLB rate	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%	1.80%	1.80%	1.80%	1.90%
25yr PWLB rate	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%
50yr PWLB rate	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%

2.5 In August the Monetary Policy Committee (MPC) agreed to cut the Bank Rate to 0.25% and to renew its programme of quantitative easing. Capita believe that the Bank Rate could even be cut further to 0.1%, or even 0.0%. Thereafter Capita do not expect the MPC to take any further action on the Bank Rate until 2018 as they expect the pace of economic recovery to be weak during a period of great uncertainty as to the final agreement between the UK and the EU on arrangements after the referendum.

3. Capital Expenditure and Financing

3.1. The Council's capital programme can be funded in two main ways:

a) Financed immediately through the application of capital or revenue resources, which includes applying capital receipts from asset sales, capital grants received from central government or direct from revenue budgets, and has no impact on the Council's borrowing need; or

b) If insufficient financing is available, or a decision is made not to apply resources, the capital expenditure will give rise to a borrowing need.

3.2. The Council is only permitted to borrow to finance capital expenditure and cannot borrow to fund on going revenue expenditure.

3.3. Capital expenditure forms one of the Council's prudential indicators and is reported in more detail as part of the quarterly asset management updates to Cabinet. The actual capital spend for 2014/15, the budget for 2015/16 and 2016/17 and outturn for 2015/16 are illustrated in Table 1.

Table 1 Capital Expenditure 2014/15 – 2016/17

Prudential Indictor 1	**2014/15 actual £'000**	**2015/16 budget £'000**	**2015/16 actual £000**	**2016/17 budget £000**
Capital Expenditure	80,774	91,227	87,958	81,756

4. The Council's Overall Borrowing Need

4.1. The unfinanced capital spend element of the capital programme is called the Capital Financing Requirement (CFR) and is made up of the Council's underlying need to borrow in addition to any PFI and finance lease liabilities it may have. The CFR figure is a therefore a gauge of the Council's debt position and results from the Council's capital activity and the resources that have been used to pay for it.

4.2. The Council was debt free until 2002, when the Government changed the way in which it helped councils to fund their capital spend by replacing capital grants with revenue grants to cover the costs of principal repayment and the interest costs of borrowing. This funding was included as part of the revenue support grant (RSG) funding formula, and gave councils little option other than to borrow to fund capital expenditure. As part of the 2010 grant changes this part of the funding formula has been removed.

4.3. Part of the Council's treasury activity is to address the funding requirements for this borrowing need. The treasury team organises the Council's cash position to ensure that there is sufficient cash available to meet the capital plans and the resulting cash flow requirements. Borrowing may be sourced through external bodies, such as the Government through the Public Works Loans Board (PWLB) or the money markets, or by utilising temporary cash resources from within the Council.

4.4. The Council's borrowing need, and therefore the CFR, cannot increase indefinitely, and statutory controls require the Council to make an annual charge to the Income and Expenditure account over the life of the assets that are being financed by the borrowing requirement. This charge is known as the minimum revenue provision (MRP) and is effectively a repayment of the borrowing need.

4.5. It is important to note that the borrowing need or requirement is not the same as the actual amount of borrowing or debt held by the Council. The decisions on the level of debt are taken as part of the treasury management operations of the Council, subject to overriding limits set by Members through agreement of the Annual Treasury Management Strategy.

4.6. The CFR can also be reduced by:

a) The application of additional capital financing resources (such as unapplied capital receipts or government grants); or
b) Charging more than the statutory revenue charge (MRP) each year through a voluntary revenue provision.

4.7. The Council's CFR for the year is shown in Table 2 and is one of the key prudential indicators. It includes the PFI and leasing liabilities, as well as the Council's underlying need to borrow. Table 2 shows the actual CFR for 2014/15 and 2015/16. The CFR ended 2015/16 at £326.2m, £8.7m less than the 2014/15 level of £334.9m

Table 2 CFR Actual 2014/15 and 2015/16

Capital Financing Requirement Prudential Indicator 2	2014/15 Actual £'000	2015/16 Actual £'000
Underlying Borrowing Requirement b/f	**279,121**	**292,845**
Capital Expenditure	80,774	87,958
Revenue Contributions	-2,311	-4,942
Capital Receipts applied	-4,899	-6,083
Grants	-44,419	-72,050
Reserves Applied	0	-1,611
Minimum Revenue Provision	-17,464	-12,023
Other Adjustments	2,043	3,219
Underlying Need to Borrow	**292,845**	**287,313**
Other Long Term Liabilities	42,042	38,933
Capital Financing Requirement	**334,887**	**326,246**

5. Borrowing Outturn for 2015/16

5.1. Actual borrowing activity is constrained by the prudential indicators for net borrowing and the CFR. In order to ensure that borrowing levels are prudent over the medium term, the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council cannot borrow to support its day to day revenue expenditure. Net borrowing should therefore have not exceeded the CFR for 2015/16 plus the expected changes in the CFR for 2016/17 and 2017/18 from financing the capital programme. This indicator therefore allows the Council some flexibility over the timing of the borrowing so, if interest rates are favourable, for example, it can borrow in advance of its immediate cash need.

5.2. Table 3 highlights the Council's gross borrowing, its investment balances and the net borrowing against the CFR and authorised borrowing limit.

Table 3 –Gross and Net Debt – excluding PFI

Gross and Net Debt Prudential Indictor 3	Actual 31/03/2014 £000	Actual 31/03/2015 £000	Actual 31/03/2016 £000
Gross Debt	213,871	215,124	184,341
Investments	87,573	56,620	12,738
Net Debt	126,298	158,504	171,603

Underlying need to Borrow	279,121	292,845	287,313
Under borrowing	65,250	77,721	102,972

Authorised Limit	353,000	353,000	355,000
Operational Boundary	333,000	333,000	335,000
Maximum Gross Debt	213,871	215,124	215,124

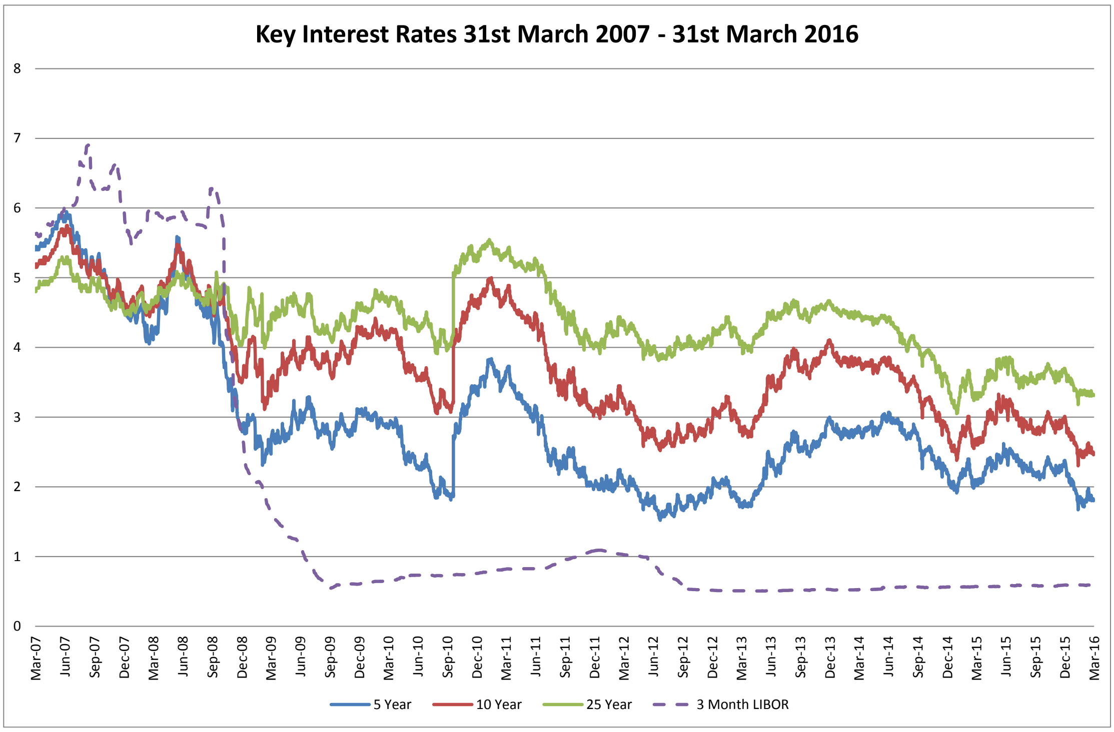
5.3. The gross and net debt positions should be considered in light of the prevailing economic conditions summarised in section 2. The treasury management strategy over the past few years has been to reduce investment balances and delay borrowing. This strategy has been adopted for two main reasons:

a) To reduce counterparty risk on the Council's investments – the lower the level of investment balances the lower the size of any losses if counterparties fail, which has been a major risk during the financial crisis;

b) To reduce the cost of carrying cash balances – shorter term investment interest rates are at historically low levels and the gap between the cost of borrowing and investment returns is at its widest for 20 years.

5.4. Chart 1 illustrates the divergence of long term borrowing rates and short term investment returns, as indicated by the 3 month LIBOR rate, over the past 9 years.

Chart 1



5.5. Prior to September 2008 the 3 month LIBOR rate moved broadly in line with the longer period borrowing rates, and reflected the flat yield curve at that time. This meant that it was possible to take borrowing in advance of need and invest it, temporarily until required, at a similar rate to that it was borrowed at. However, since the financial crisis short term investment rates have reduced significantly, and although the longer term borrowing rates have also reduced, the gap between borrowing costs and investment returns has increased markedly. Borrowing costs over 25 years are currently in the region of 2.2% compared to the 3 month LIBOR rate of about 0.40%. On a typical borrowing tranche of £10m, this difference would amount to a carrying cost of £180k per annum, until it is spent.

5.6. For this reason the Council has adopted a strategy of delaying long term borrowing until cash is actually needed. However, the Council continues to be mindful as to the projections for long term borrowing costs, as projected increases in these costs will result in higher future long term borrowing costs if borrowing is delayed.

5.7. The Council has a target of maintaining an under borrowed position of around £100m, this however has to be matched with assessing the long term costs of borrowing. The under borrowing position as at 31 March 2016 was £103m

5.8. In 2015/16 long term borrowing decreased by £30.8m, with no short term borrowing. There were three loan maturities totalling £30m plus the annual repayments associated with the two PWLB annuity loans held. No new long term borrowing was taken out in 2015/16.

Table 4 - Changes in Borrowing 2015/16

	Loan Type	**Rate**	**£**
Borrowing as at 31/3/15		**3.52%**	**215,123,769**
<u>Repayments</u>			
Loan 25	PWLB Maturity	0.66%	-10,000,000
Loan 39	West Midlands Police	0.485%	-10,000,000
Loan 33	Hampshire CC	0.70%	-10,000,000
Loan 2	PWLB annuity	4.70%	-768,745
Loan 3	PWLB annuity	4.65%	-13,874
Borrowing as at 31/3/16		**3.98%**	**184,341,150**

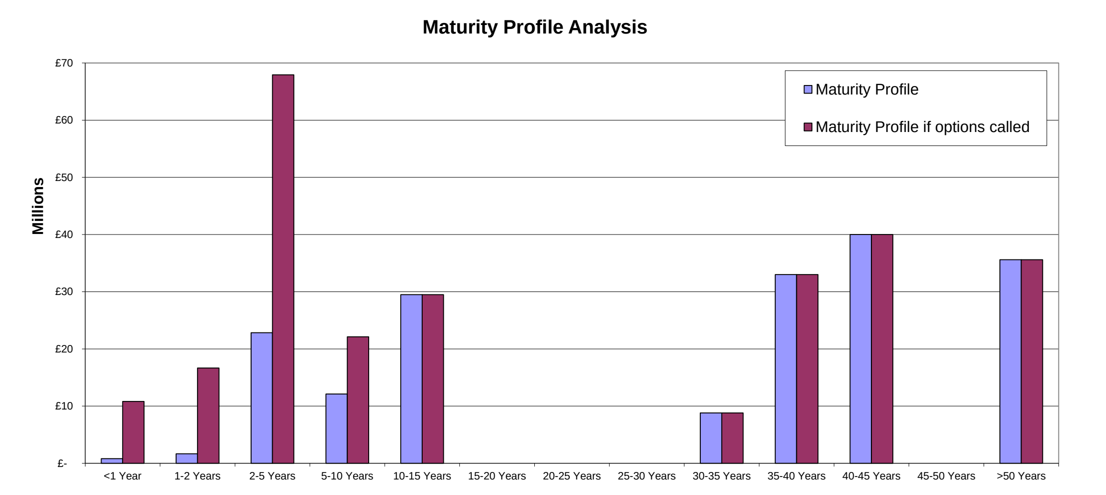
5.9. A schedule of all borrowing at 31 March 2016 is shown in Appendix 2. The Council's borrowing includes £95.1M of 'Lender Option Borrower Option' (LOBO) loans. Generally the interest rate on a LOBO is fixed for an initial period of a number of years, after which the lender has the option to change the rate at contractually defined periods such as six monthly, annually, two yearly etc. If the borrower does not agree to the change in interest rate, then they may repay the loan without penalty.

5.10. The Council has only taken out such loans when the rates offered were significantly lower than the prevailing rate for a loan for the same duration from the PWLB or other market sources. In addition, some of the loans have been taken out on a forward basis ahead of need to mitigate the risk of changes in interest rates without incurring a 'cost of carry' i.e. where borrowed funds are invested ahead of need for very low return. This ability to agree borrowing in advance is not a facility available from the PWLB.

5.11. The main risk of a LOBO loan is that the lender will only exercise their option to increase rates when rates generally available are higher, although the borrower will have benefited from lower rates for a number of years. In order to mitigate the risk of rising interest rates, the Council continually monitors market expectations of interest rate rises and its overall borrowing requirements. In addition the debt portfolio is structured so that not too much debt matures (or hits a lender option date) at the same time.

5.12. The maturity structure of the Council's borrowing remained within the prudential limits for 2015/16. The maturity limits are in place to ensure that the Council is managing its refinancing, liquidity and interest rate risks. If a high proportion of borrowing matures in any one year it may place pressure on the cash flow position of the Council and force it to refinance these loans at unfavourable rates. By spreading the maturity profile of loans the Council can provide for their repayment in an orderly way

Chart 2



6. Investment Outturn for 2015/16

6.1. The Council invests in accordance with the Annual Investment Strategy, which is approved by the Council alongside the Treasury Management Strategy in February each year.

6.2. The cash resources of the Council are made up of revenue and capital resources, as well as cash flow monies. The Council's core cash resources represented in its balance sheet are comprised as follows:

Table 5 – Analysis of Core Cash Resources

	1 April 2015 £000	**31 March 2016 £000**
Balances	31,901	30,248
Earmarked Reserves	62,581	56,085
Provisions	4,528	3,275
Usable Capital Receipts/Grants	27,483	17,380
Amount Available for Investment	**126,493**	**126,493**
Actual Cash Balances	**56,620**	**12,738**
Difference between amount available and cash	-69,873	-94,250
Made up of:		
Internal (Under) Borrowing	-77,721	-102,972
Working Capital	-7,848	8,722

6.3. The Council's cash resources are more than the amount of cash that is currently being invested largely because of the strategy to borrow from internal resources to fund the capital programme. Investment balances do fluctuate throughout the year as part of the day to day operations of the Council. Table 6 shows the investment balances at the start of the year, the maximum, minimum and average balances held during the year and the investment balances at the end of the year for 2014/15 and for 2015/16.

6.4. Interest earned during the year was £0.538m, a reduction of £0.416m on the previous financial year. This was due to a combination of the decrease in balances held and lower rates of interest available in the market, which saw the return fall from 0.91% in 2014/15 to 0.75% in 2015/16. For comparative purposes the 7 day LIBID rate, a widely used benchmark for returns on liquid cash, averaged 0.36% over 2015/16.

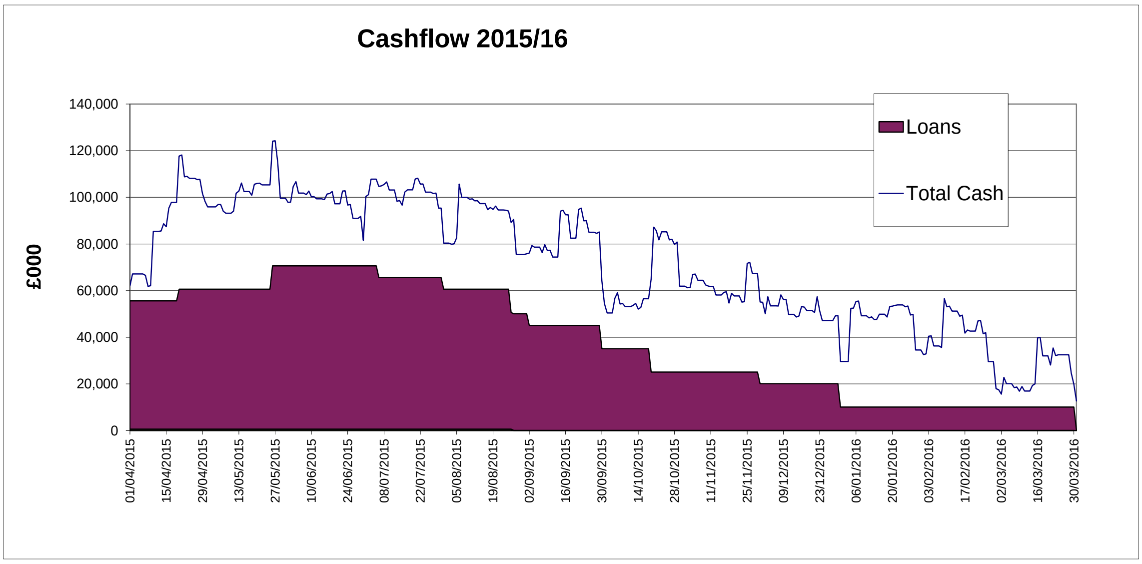
Table 6 – Analysis of Investments

	Actual 2014/15	Actual 2015/16	Difference
	£000	£000	£000
Investments as at 1 April	**87,573**	**56,620**	**30,953**
Maximum cash balance	166,785	124,244	42,541
Minimum cash balance	56,620	12,738	43,882
Average cash balances	104,716	71,492	33,224
Investments as at 31 March	**56,620**	**12,738**	**43,882**
Investment Income	954	538	416
Average Return*	**0.91%**	**0.75%**	**0.26%**

6.5. Cash balances tend to be higher at the start of the financial year as government grants and council tax precepts are received, and reduce as the year goes on. In addition, cash balances have been reducing year on year as a result of changes to funding from central government funding and the Council's strategy to avoid borrowing in advance of need.

6.6. Chart 3 below shows the actual cash and investment balances for the financial year. The coloured blocks show fixed term investments ("loans") and the gap between these blocks and the total cash line show the amount of liquid cash available, which is held in either call accounts or overnight money market funds. Call accounts and money market funds tend to offer lower rates of return than fixed term investments, so the strategy has been to maximise the amount invested in fixed term loans whilst maintaining an adequate level of liquidity to meet the Council's cash-flow needs.

Chart 3



7. Update on Loans to Icelandic Banks

7.1. On 21 May 2015 the administrator of Heritable bank paid the fifteenth interim payment to all unsecured creditors in August 2015. The total amount returned to Dorset County Council to date is £13,011,391 or 98% of the claim for £13,276,929 registered with the administrators. It is anticipated that one further small repayment may be received which would complete 100% of the claim.

8. Treasury Management Performance

8.1. Treasury Management in a large organisation is an inherently risky area, with annual cash turnover generated from its day to day operations at Dorset County Council in the region of £1,500m gross. The treasury management function is therefore highly regulated and subject to scrutiny.

8.2. A measure taken to assess the performance of the treasury management function is to take part in benchmarking with other local authorities. The Council takes part in the annual CIPFA benchmarking exercise, the last one of which involved 42, mainly large local authorities and provides an insight into the relative performance of Dorset County Council's treasury function. This benchmarking exercise covers all aspects of the prudential code as well as information on the rates of return on investments and interest costs on borrowings.

8.3. The headline results of the 2015/16 CIPFA benchmarking exercise were as follows:

a) DCC had above average net budget requirement at £330m (av. £242m);
b) The capital programme was below average at £91m (£103m);
c) The CFR was above average at £326m (£323m);
d) Total borrowing was below average at £184m (£259m)
e) Use of internal financing was above average at £103m (£53m);
f) Investment balances were less than average at £16m (£113m);
g) The interest earned was 0.75% against an average return of 0.87%;
h) Interest paid on borrowing was 3.98% against the average of 4.35%.

9. Risk Management

9.1. Return on investments must be assessed against the level of risk taken by the Council. Since the Icelandic banking crisis, most authorities, including Dorset County Council, have tightened their treasury management policy, and re-emphasised the investment priorities of security of deposits first, liquidity of investments second, and return third.

9.2. The Treasury Management Policy restricts the number of counterparties to those with credit ratings of A- or higher. The only institutions where investments can be made for more than one year are other Local Authorities, the Government and the big four high street banking groups (Barclays Bank Plc, HSBC Bank Plc, Lloyds Banking Group Plc and Royal Bank of Scotland Plc).

9.3. The list of investments held as at 31 March 2016 are highlighted in Appendix 2, alongside the analysis of the investments in terms of counterparty, credit ratings, sovereigns and maturity profiles.

Richard Bates
Chief Financial Officer
September 2016

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Prudential and Treasury Indicators

		2013/14 actual £'000	2014/15 actual £'000	2015/16 budget £'000	2015/16 actual £'000
PI 1	**Capital Expenditure**	**81,232**	**80,774**	**91,227**	**87,958**
	Financed in Year	75,577	60,538	71,822	57,175
	Unfinanced capital spend	5,655	20,236	19,405	30,783
PI 2	**Capital Financing Requirement - made up of**	324,785	334,887	347,359	326,246
	Long Term Borrowing	279,121	292,845	302,359	287,313
	Other Long Term Liabilities	45,664	42,042	45,000	38,933
PI 3	**External Debt**				
	Gross Debt	213,871	215,124	219,875	184,341
	Investments	87,573	56,620	27,000	12,738
	Net Debt	126,298	158,504	192,875	171,603
	Under borrowing	65,250	77,721	82,484	102,972
PI 4	**Ratio of financing costs to net revenue stream**	9.36%	8.02%	8.51%	8.21%
PI 5	**Incremental impact of capital investment decisions**	**£ p**	**£ p**	**£ p**	**£ p**
	Increase in council tax (band D) per annum *	16.05	2.15	2.17	2.09

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		2014/15 limit £'000	2014/15 actual £'000	2015/16 limit £'000	2015/16 actual £'000	2015/16 headroom £'000
PI 6	**Operational Boundary for external debt -**					
	borrowing	333,000	215,124	335,000	184,341	150,659
	other long term liabilities	47,000	42,042	47,000	38,933	8,067
	TOTAL	**380,000**	**257,166**	**382,000**	**223,274**	**158,726**
PI 7	**Authorised Limit for external debt -**					
	borrowing	353,000	215,124	355,000	184,341	170,659
	other long term liabilities	47,000	42,042	47,000	38,933	8,067
	TOTAL	**400,000**	**257,166**	**380,000**	**223,274**	**156,726**
PI 8	**Upper limit for fixed interest rate exposure**					
	Net interest re fixed rate borrowing / investments	11,000	6,634	11,000	7,100	3,900
PI 9	**Upper limit for variable rate exposure**					
	Net interest re variable rate borrowing / investments	2,000	56	2,000	66	1,934

		Limit £'000	Max Reached £'000	Limit £'000	Max Reached £'000	Headroom £'000
PI 10	**Limit for investments > 1 year**	40,000	5,000	30,000	3,000	27,000

PI 11	**Maturity structure of fixed rate borrowing**	**upper limit**	**Actual as at 31/3/15**		**upper limit**	**Actual as at 31/3/16**
	< 12 Months	15%	14%	**< 12 Months**	15%	0%
	1 to 2 Years	15%	0%	**1 to 2 Years**	15%	1%
	2 to 5 Years	25%	2%	**2 to 5 Years**	25%	12%
	5 to 10 Years	35%	15%	**5 to 10 Years**	35%	7%
	10 to 15 Years	35%	14%	**10 to 15 Years**	35%	16%
	15 to 20 Years	35%	0%	**15 to 20 Years**	35%	0%
	20 to 25 Years	45%	0%	**25 to 30 Years**	45%	0%
	25 to 30 Years	45%	0%	**25 to 30 Years**	45%	0%
	30 to 35 Years	45%	0%	**30 to 35 Years**	45%	5%
	35 to 40 Years	45%	19%	**35 to 40 Years**	45%	18%
	40 to 45 Years	45%	19%	**40 to 45 Years**	45%	22%
	45 to 50 Years	45%	0%	**45 to 50 Years**	45%	0%
	>50 Years	75%	17%	**>50 Years**	75%	19%

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Appendix 2

Borrowing as at 31 March 2016

DCC Ref	Lender	Loan Type	Drawdown Date	Term (years)	Maturity Date	Amount Drawdown	Amount Outstanding	Rate
Loan 2	PWLB	Annuity	25/07/2003	20	25/03/2023	14,185,506	6,508,130	4.70%
Loan 3	PWLB	Annuity	21/12/2004	20	25/03/2023	256,144	117,219	4.65%
Loan 10	PWLB	Maturity	01/03/2006	45.5	25/03/2051	8,815,800	8,815,800	3.95%
Loan 11	PWLB	Maturity	09/10/2006	45.5	25/03/2052	15,000,000	15,000,000	4.10%
Loan 12	PWLB	Maturity	02/08/2007	45.5	25/09/2052	8,000,000	8,000,000	4.55%
Loan 13	Barclays	LOBO	30/07/2007	70	30/07/2077	15,600,000	15,600,000	4.80%
Loan 14	PWLB	Maturity	23/08/2007	46.5	25/09/2053	10,000,000	10,000,000	4.45%
Loan 24	RBS	LOBO	25/09/2011	48	25/11/2059	15,000,000	15,000,000	4.39%
Loan 26	RBS	LOBO	04/10/2010	68	24/04/2078	10,000,000	10,000,000	4.20%
Loan 27	RBS	LOBO	04/10/2010	69	31/03/2079	10,000,000	10,000,000	4.14%
Loan 28	PWLB	Maturity	07/09/2010	15	25/02/2025	10,000,000	10,000,000	3.74%
Loan 29	PWLB	Maturity	07/09/2010	20	25/03/2030	10,000,000	10,000,000	3.98%
Loan 30	PWLB	Maturity	03/11/2011	10	25/03/2021	20,000,000	20,000,000	3.30%
Loan 31	Siemens	LOBO	25/09/2012	15	25/09/2027	10,000,000	10,000,000	3.19%
Loan 32	Siemens	LOBO	25/09/2013	15	25/09/2028	9,500,000	9,500,000	2.80%
Loan 34	Dorset LEP	Maturity	31/03/2013	5	31/03/2018	800,000	800,000	0.00%
Loan 35	BAE Systems	LOBO	31/12/2013	45	31/12/2058	2,500,000	2,500,000	4.03%
Loan 36	BAE Systems	LOBO	25/03/2014	45	31/12/2058	7,500,000	7,500,000	4.03%
Loan 37	BAE Systems	LOBO	31/03/2014	45	31/12/2059	3,000,000	3,000,000	4.00%
Loan 38	BAE Systems	LOBO	31/12/2014	45	31/12/2059	12,000,000	12,000,000	4.00%
Total / Weighted Average Rate						**192,157,450**	**184,341,149**	**3.98%**
PWLB - Total / Weighted Average Rate						**96,257,450**	**88,441,149**	**3.98%**
LOBOs - Total / Weighted Average Rate						**95,100,000**	**95,100,000**	**4.03%**
Other - Total / Weighted Average Rate						**800,000**	**800,000**	**0.00%**

Lender Option Borrower Option (LOBO) Agreement Details

Loan 13	If 6 month LIBOR is between 4.50% and 6.50%, 4.45% interest is paid, if outside this range 4.80% is paid.
	First lender option 30/07/17, then every 6 months - if the borrower does not agree, can repay without penalty.
Loan 24	Rate fixed until 25/09/16 then 5 yearly lender option - if the borrower does not agree, can repay without penalty.
Loan 26	Rate fixed until 24/04/11 then 2 yearly lender option - if the borrower does not agree, can repay without penalty.
Loan 27	Rate fixed until 31/03/17 then 2 yearly lender option - if the borrower does not agree, can repay without penalty.
Loan 31-32	Rate fixed first 5 years then 5 yearly lender option - if the borrower does not agree, can repay without penalty.
Loan 35-36	Rate fixed until 31/12/2016, then annual lender option - if the borrower does not agree, can repay without penalty.
Loan 37-38	Rate fixed until 31/12/2024, then annual lender option - if the borrower does not agree, can repay without penalty.

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Appendix 3

Cash and Investments as at 31 March 2016

Counterparty	Start Date	Maturity	Amount £'000	Rate %	Long Term Rating at Start Date	Current Counterparty Rating	Sovereign
Loans:							
Icelandic Banks							
Heritable Bank	19/05/2008	18/05/2009	4,000	6.20	n/a	n/a	Iceland
Heritable Bank	04/08/2008	31/10/2008	4,500	5.80	n/a	n/a	Iceland
Heritable Bank	21/08/2008	30/01/2009	4,600	5.97	n/a	n/a	Iceland
Icelandic Monies Returned			-13,010				n/a
Call Accounts							
NatWest Bank	31/03/2016	01/04/2016	478	0.25	BBB+	BBB+	UK
Money Market Funds							
BNP Paribas MMF	31/03/2016	01/04/2016	12,170	0.53	AAA	AAA	UK
Total Cash and Investments			**12,738**				
Weighted Average Yield			0.52%				

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Audit & Governance Committee

Dorset County Council

Date of Meeting	20 September 2016
Lead Officer Richard Bates – Chief Financial Officer	
Subject of Report	**Review of Council Tax Single Person's Discount**
Executive Summary	This report provides a brief update on the planning work being carried out to review of the Council Tax Single Person's Discount (SPD).
Impact Assessment:	Equalities Impact Assessment: This report does not involve a change in strategy, it is an update on what has happened under current policy.
	Use of Evidence: None in this report; previous reports to Audit & Scrutiny Committee drew on evidence of the impact of the review of SPD by the appointed contractor, Capita, in the previous review.
	Budget: Successful challenges to SPD claims result in windfall income during the year of correction and increase the council tax base for future years.
	Risk Assessment: 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: Current Risk: LOW Residual Risk LOW

	Other Implications: None
Recommendation	The Committee is asked to: (i) note the progress so far and the key dates outlined in the report (ii) put forward any other issues that it wishes to be considered in the development of the plan.
Reason for Recommendation	To enable Officers of the nine Dorset authorities to finalise the plan and timetable for the review work.
Appendices	None
Background Papers	21 January 2016 paper on SPD to Audit & Scrutiny Committee
Officer Contact	Name: Jim McManus, Chief Accountant Tel: 01305 221235 Email: j.mcmanus@dorsetcc.gov.uk

1. Background

1.1 Audit & Scrutiny Committee received several reports in the past, concerning the exercise to ensure CTSPD is only being claimed by eligible claimants. This report provides a further, very brief update on the planning for the next SPD review. The history of the exercise and the results from the previous review have been provided in previous reports and are not repeated here.

2. Timing

2.1 One of the lessons learned from the previous exercise was that the timing of the conclusion of the work was critical - so although, theoretically the work could be carried out any time, it was important to ensure the results were fed into the system, sufficiently in advance of the end of the financial year to ensure no adverse skewing of the collection rates for Council Tax.

2.2 Working backwards from the targeted end date of September 2017, means the work needs to start in April 2017 - to allow for the work programme to begin shortly after the 2017/18 council tax bills are issued.

3 Contractor selection

3.1 The previous exercise was carried out by Capita. The experience from that work was that although there were some minor areas for improvement (and these are being built into the schedules of requirements) the performance was good. This was no doubt aided by Capita's familiarity with the systems in use.

3.2 It is therefore proposed to carry out a direct call-off of Capita again under the existing Kent County Council framework contract. The participating Authorities plus the Police and Fire Services all support this approach and have agreed to share the costs on the same basis as last time (based on their demand on the collection fund).

3.3 Timing is also critical for contractor selection as the framework agreement ends on 16th September 2016. It is therefore essential that we have awarded by that date if we are to avoid uncertainty and potentially delay the review work. Capita have confirmed that they would be comfortable with an award in September 2016 with a pause before commencing work in April 2017.

3.4 While we await absolute confirmation of the rates for the work, essentially these will be on the basis of a rate per successful case (£20.84 or £18.98). The lower unit rate is possible if Bournemouth Borough Council participate in the exercise but their involvement is not yet certain.

4 Proposals for further updates

4.1 If Committee Members are content with the plan so far, it is suggested that unless there is any reason why the April start date is not met, that Officers return with an update after April 2017 to confirm work has started and is progressing to plan.

Richard Bates
Chief Financial Officer
September 2016

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Audit and Governance Committee

Dorset County Council

Date of Meeting	20 September 2016
Cabinet Member Cllr Robin Cook – Cabinet Member for Organisational Development and Transformation Local Members All Members Lead Director Debbie Ward – Chief Executive	
Subject of Report	**DES Business Continuity Update**
Executive Summary	In November 2015 the former Audit and Scrutiny Committee considered a report on the ICT General Control Environment following on from the annual report from the External Auditors, KPMG. It was noted that we had only undertaken limited service continuity test of DES and the Committee asked for a further report following planned tests in summer 2016. Tests in July of DES, the new Smarter Computing (desktop and mobile) infrastructure and a number of critical business applications were undertaken. This exercise has provided assurance that DES can be recovered in the event of a major incident. The annual major test of all business critical systems is planned for October 2016. A recent risk to business continuity is 'cyber security'; an attack by individuals or software designed to deny access to data and systems or steal information. The county council has experienced two such attacks in 2016 and has been able to contain them and recover without significant impact. The risk of a major attack severely disrupting service remains very real and an audit of our preparedness has been commissioned from the South West Audit

	Partnership and will start in September 2016.
Impact Assessment:	Equalities Impact Assessment: N/A
	Use of Evidence: This report draws upon the Internal Audit report DES ICT General Controls 2014/15 and the Post Exercise Report July 2016.
	Budget/ Risk Assessment: None
Recommendation	That the Committee notes and comments on the outcome of the July 2016 ICT Service Continuity Exercise.
Reason for Recommendation	To provide the Committee assurance over the controls relating to the operation of DES and our ability to recover the system in the event of a major incident.
Appendices	Appendix 1: ICT service continuity test objectives and outcome – July 2016
Background Papers	Audit and Scrutiny Report – ICT General Control Environment November 2015
Report Originator and Contact	Name: Richard Pascoe Tel: 01305 224204 Email: r.j.pascoe@dorsetcc.gov.uk

1. Background

1.1. In November 2015 the former Audit and Scrutiny Committee considered a report on the ICT General Control Environment following on from the annual report from the External Auditors, KPMG.

1.2. The General Controls Environment relates to the controls for the council's core financial ICT application, DES, and KPMG's report draws upon the Internal Auditor's annual review. The 2015 South West Audit Partnership report provided 'reasonable' assurance, with no priority 5 recommendations and one priority 4.

1.3. The November officer report provided commentary on the key risks from the Internal Audit report and noted that we had upgraded the technology underpinning DES and had refreshed the 'disaster recovery' systems for DES that are sited at Hampshire CC.

1.4. However, whilst we had tested the DES system in isolation at Hampshire, we had not yet been able to conduct a full service continuity test where we simulate the data centre at Dorchester being unavailable and evaluate how well and quickly we could start up and operate from Hampshire.

1.5. This was because the new desktop computing infrastructure being introduced by the Smarter Computing Project had to be in place before a meaningful full test could be completed.

1.6. Our ICT Service Continuity Policy sets out an intention to conduct a full test exercise in October and a more limited one in April each year. The Committee noted the plan to conduct a full test of a small number of systems, including DES and the new Smarter Computing infrastructure, in summer 2016 and asked for a report on the findings.

2. Scope and outcome of the July 2016 ICT service continuity test

2.1. Note that the term 'service continuity' is used rather than 'business continuity' as this was a test of our ability to recover our ICT systems and not how the broader organisation's plans to maintain service in the event of a major incident.

2.2. The purpose of the July test was to provide assurance that DES, the Smarter Computing infrastructure and a limited number of applications supporting critical business functions, could be recovered following the (theoretical) loss of the data centre at County Hall. The test largely met its objectives and the high-level test results are provided in Appendix 1. A detailed test report was produced.

2.3. The tests demonstrated that the core technology solutions can be restored and perform largely as expected. The test successfully demonstrated the readiness of the service continuity infrastructure supporting DES and provides assurance that this system can be recovered in the event of a major incident.

2.4. There were some minor issues reported in the detailed test report, including the need to ensure all test scripts are completely up to date and that these are followed step by step. Occasionally technical staff who are familiar with the systems and don't need the instructions do not always follow them exactly. It's important we have tested the instructions, as well as the systems, as we may have to rely on support staff who are not normally responsible for the systems in a real emergency.

2.5. The major test being planned for October 2016 will seek to provide assurance that these minor issues have been addressed and also ensure we have accommodated a number of upgrades to DES that are currently being implemented.

3. Annual major continuity test

3.1. The major annual test in October 2016 will take the County Hall data centre offline to simulate an outage and will run a full test to demonstrate the readiness of all continuity arrangements for critical infrastructure services and applications supporting critical business functions. This test will provide a full picture of ICT service continuity readiness, following recent changes to the ICT infrastructure and also ensure we have addressed the issues which the July test highlighted in the sub-set of the other critical business applications tested.

3.2. We rigorously plan the ICT continuity tests, with clear communication to the wider organisation. The test processes require business user engagement to conduct user testing to provide the necessary assurance that systems perform as expected, and are not simply 'switched on'. Testing plans and results are monitored by the corporate Resilience Group.

3.3. It is worth noting that, whilst not related to DES, we have a key weakness relating to our telephony services in that the loss of the data centre would, over a period of a week, see telephones gradually stop working. This is due to a network constraint that we have been unable to resolve with KCOM, our current network provider. Work is underway to migrate to a new network to replace the KCOM network and this issue with the telephony service continuity arrangements will be resolved as soon as possible and before the end of the financial year.

4. Cyber security and the risk to business continuity

4.1. Whilst disaster recovery conjures thoughts of flood or fire, the more likely scenarios have been a major electrical power outage (as we had in 2008) or hardware failure. Today, the threat of a 'cyber attack' has grown and become a key risk.

4.2. Such an attack refers to actions of individuals or computer software that seek to deny access to data and systems or steal information. The attacks may be specifically targeting the organisation; the majority operate over the internet seeking to infect whichever organisations or individuals they come across.

4.3. We are automatically at risk by having a connection to the internet.

4.4. A prevalent form of attack is known as 'ransomware' – this uses a computer program to encrypt data files such that they cannot be accessed unless a ransom is paid.

4.5. The effects of a malicious cyber-attack can be limited to the short-term productivity of an individual, or extend to affecting the ability of the whole organisation to access its ICT systems and data, such that we would need to implement full business continuity arrangements, with all the impacts on service provision this brings.

5. The county council has been subject to two such infections, both in 2016, though we were able to quickly identify, contain and eradicate the malicious program and restore data files from back-up with limited loss of service or work. Lincolnshire County Council shut down their entire computing infrastructure following a similar attack in January 2016.

5.1. We employ a range of defence tools, including anti-virus software and firewalls, to protect our internal networks and engage with other organisations, including regional and national information sharing schemes and, Zephyr, the regional organised crime unit specialising in cyber crime in order to share intelligence.

5.2. However, it is not possible for technical measures to stop all attacks and we rely on the vigilance of individuals as often such attacks are triggered by opening a link or attachment in an email.

5.3. In September 2016, the South West Audit Partnership will conduct an audit of our cyber-security provisions. It is proposed that the audit scope will cover:

- Information Security Policy and processes
- Recovery planning and procedures in the event of a cyber-attack (auto-response)
- Staff training and awareness
- Information asset identification and classification (to ensure critical assets are identified and prioritised to maximise security in these areas)
- Monitoring and preventative measures (hardware and software monitoring, stress testing) including mechanisms for monitoring the cyber threat landscape and implementing appropriate response measures
- Identification, capture, reporting, application and dissemination of lessons learnt from cyber-attacks.

Richard Pascoe

Head of ICT and Customer Services

Appendix 1: ICT service continuity test objectives and outcome – July 2016

Objective	Additional Information	Overall Result
Disconnect the Primary data centre from the WAN, Telephone Exchange and Internet.	This work completed although a little later than anticipated as there was a delay on KCom's side.	SUCCESS
Rehearse a documented recovery of the core ICT services and systems	As with previous exercises the presence and use of documentation was not consistent.	PARTIAL
Provide assurance that the recovery methods for our core services (DHCP, DNS, Active Directory, Network Drives, App-V, Internet Link and Canon Print Solution) are still fit for purpose.		SUCCESS
Ensure that Service Continuity Plans (SCPs) are up to date for core services.	Continuity Plans are in varying states of completeness, this exercise has provided the opportunity to identify gaps in the documentation.	PARTIAL
Prove that the DES continuity solution and documentation is fit for purpose.	This was the first formal recovery of DES since 2012.	SUCCESS
Provide a limited test of line of business applications.	Additional information is in section 8 of the test report (see Appendix 3).	SUCCESS

Audit & Governance Committee

Dorset County Council

Date of Meeting	20 September 2016
Officer	Head of Corporate Development
Subject of Report	**Learning from Service Failures in other Authorities and Implication for Governance**
Executive Summary	This paper highlights the impact and causes of service and governance failures across the organisation. Drawing on a range of publications the paper consolidates the learning that has taken place as organisations turn themselves around and change. The paper also categorises failure and uses four examples to illustrate the point.
Impact Assessment: *Please refer to the protocol for writing reports.*	Equalities Impact Assessment: N/A
	Use of Evidence:
	Budget: N/A
	Risk Assessment: The paper highlights potential risk but the paper provides information only.

	Other Implications: The learning from others experience of failure is such that it provides some useful information that support the role oversight and scrutiny is protection from failure and ensures correction where needed.
Recommendation	The committee is asked to note the contents of the report and comment on any future actions that may be required as a result.
Reason for Recommendation	The committee will need to reflect on any actions required across the authority that result from the points raised in the report.
Appendices	None
Background Papers	None
Officer Contact	Name: Patrick Myers Tel: 01305 228302 Email: p.myers@dorsetcc.gov.uk

1. Background

1.1 Over the recent past there have been reports that have detailed the service failures across a range of public sector organisations. A variety of publications have highlighted the failures and a very useful synthesis has been undertaken by the Institute of Government[1] that provides some insight into the factors that came into play to create such failures in public services.

1.2 This paper seeks to summarise the adverse impacts that failure can have on organisations and the public. These impacts may include:

- Unacceptable standards of service
- Harm to service users
- Disruption of service provision
- Discontinuation of service entirely

For the organisation in question these impacts may lead to reputational damage, additional costs or direct intervention by others.

1.3 This paper will use the analyses by others to assess the implication for Dorset County Council with a particular emphasis on learning from governance and oversight failings of a variety of public sector organisations.

2. Categorisation of failures

[1] Failing Well. Institute for Government 2016

2.1 It is suggested in much of the current literature that failure is a contested term. However there have been attempts to categorise types of failure and these are listed below.

Type	Description
Financial	Organisations are unable to continue due to financial imbalance
Governance	There is a dysfunctional governance structure or senior leadership
Performance	There is an unacceptable standard of care or provision
Policy and Politics	An inadequate framework for actions, strategy or stakeholder engagement is in place
External	There is insufficient preparation for both planned and unforeseen events
Commissioning	There are dysfunctional commissioning arrangements
Connection	Individual organisations focused on one aspect of user's needs are successful but they fail to coordinate and so lead to unacceptable outcomes

2.2 The categories are not discrete and they do overlap and it is worthwhile to examine the issues from a range of organisational and sectorial perspectives.

3. Summary of Failures and Consequences.

3.1 For the purposes of this paper the primary category reported will be that of governance failure and they will be examined from the learning derived from the following organisations:

- Tower Hamlets
- Doncaster Metropolitan Borough Council
- Rotherham Metropolitan Borough Council
- Basildon and Thurrock University NHS Trust

The following table highlights the failures and the consequences that resulted from such failures and section four will reflect on what the authority might learn

Organisation	**Summary**	**Consequences**
Tower Hamlets LBC	Best Value review undertaken by PWC revealed: 1. Grant awarding process lacked transparency and rigour with very poor monitoring which compromised best value principles. 2. Transfer of property to third parties was subject to certain irregularities. 3. Spending on media and publicity were subject to questions about appropriateness and value for money. The inspection identified failures to comply with the best value duty, these failures have occurred under the Authority's governance arrangements as they have existed throughout the period and continue to exist at the present time	Secretary of State imposed three commissioners on Tower Hamlets LBC. They are set to remain in place until 31 March 2017. Appointment of new Chief Executive. Many day to day functions returned to members but commissioners still oversee grant making by the authority.
Doncaster Metropolitan Borough Council	Long history of governance issues with relationship breakdown between the mayor, chief executive and councillors. Audit Commission report 2010 found a failure of governance led to a situation where the authority was failing in its legal duty. Other factors included Serious Case Reviews and a disagreement about budget setting between the mayor and councillors	Secretary of State appointed new chief executive and a team of commissioners to oversee the turnaround of the council. This included the ability to intervene and direct activity of the local authority

Rotherham Metropolitan Borough Council	It is estimated that at least 1400 children were sexually exploited in Rotherham between the years 1997-2013. In just over a third of cases, children affected by sexual exploitation were previously known to services because of child protection and neglect. There was a collective failure by both the Council and the police to stop the abuse. There were serious failings in the council over a number of years with regard to the safeguarding of children, and also serious failings of corporate governance, leadership, culture, and the operation of the overview and scrutiny function. Inspection reports found the Council was in denial both of the issues around safeguarding, and its inability to address them. In its actions, Rotherham has at times taken more care of its reputation than it has of its most needy The council was repeatedly told by its own youth service what was happening and it chose, not only to not act, but to close that service down Rotherham Council was failing in its duties to protect vulnerable children and young people from harm. The inspection revealed past and present failures to accept, understand and combat the issue of child sexual exploitation, resulting in a lack of support for	Rotherham Metropolitan Borough Council is managed by four commissioners appointed by the government in February 2015 after a number of reports highlighted serious failings across the authority. On 11 February 2016 a recommendation by the commissioner, the secretary of state for CLG confirmed new directions that handed back powers of functions to council members. These included: • Education and schools • Public Health • Leisure services • Customer and Cultural Services • Housing and Planning

	victims and insufficient action against known perpetrators Reports highlighted serious failings in the council over a number of years with regard to the safeguarding of children, and also serious failings of corporate governance, leadership, culture, and the operation of the overview and scrutiny function	
Basildon and Thurrock University NHS Trust	Monitor and CQC inspections placed the trust into special measures. This was the result of declining standards of care and safety while data indicated that morality rates were significantly higher than the national average.	CQC task force appointed to drive improvement at the hospital and included the introduction of an effective system to identify and assess risks to the health, safety and welfare of children. The trust quickly come out of special measures. New Governance arrangements had to be made more relevant to front line staff.

4. Lessons Learnt

4.1 Early intervention is required at the first signs of potential failure. All the information above indicates that government only intervenes when failure is apparent rather than when it might begin to emerge. Governance structures must be in place and able to effectively investigate those areas which are most susceptible to failures. This can be achieved by the use of peer-peer support, offering governance and oversight structures with assurance and early warnings.

4.2 Insular organisations are more prone to failure. Those organisations tend to lack the objectivity to use comparisons to judge where standards are not as good as they could be. The importance of networks and national organisations cannot be underestimated and connections should be actively encouraged.

4.3 Structural reforms will not by themselves change failing organisations. It has to be accompanied by other efforts.

4.4 There is a natural disposition to blame when failure occurs. The inquiry into Mid-Staffordshire NHS Trust concluded that early warning signs from front line staff were not recognised because of the prevailing culture. A culture of transparency is vital for the early signs of failure to be identified.

4.5 We need to be able to learn from other experiences of failure. We also need to learn from organisations who have successfully been able to turn themselves around after significant failures.

4.6 There is a need to make sure the ownership of failure is shared and responses to failure should be as much about the whole system as it is about organisation and individuals.

4.7 We need to be vigilant and aware that failure is always possible and maintain the appropriate level of scrutiny to avoid such major failures.

4.8 There is a significant role for governance structures to prevent failure from occurring and where it becomes evident that early action is undertaken and where significant failures do occur then we are able to understand the cause, impact and turnaround.

Patrick Myers
Head of Corporate Development

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Audit and Governance Committee

Date of Meeting	20 September 2016
Officer	Chief Executive
Subject of Report	**Corporate Complaints** **Annual Report 1 April 2015 to 31 March 2016**
Executive Summary	The County Council, together with many other public service organisations, continue to face significant financial challenges in delivering services. The requirement to actively transform the way services are delivered to our citizens and communities is key to us meeting these challenges. An important aspect of understanding how well the council is performing in its operational delivery of services is through the transparent recording and investigation of complaints. We are currently developing and writing a new complaints policy and strategy to support the council in its commitment to being a Learning Organisation and, through an open, objective and proactive review of complaints we are able to make necessary changes and seek to improve the outcomes for those citizens and communities we serve. Last year's review of our approach to the management of complaints has sought to further actively strengthen the achievement of these important outcomes. The council's centralised complaints team has been in place since December 2015. To help to provide some context around the councils complaints activity for the 2015/16 financial year, the headlines contained in the attached Annual Report are as follows; o We received a total of 313 complaints in 2015-16 compared to 356 received in 2014-15 which is an overall decrease of 12%. o Comparing 2015-16 and 2014-15 data, in Adult and Community Services, and Environment and the Economy Directorate and Chief Executives, the number of complaints a decrease of 15%, 32% and 30% respectively. One of the reasons why there may have been a decrease in Adult Social Care complaints is that services transferred to Tricuro in this financial year and figures

	provided would confirm that assumption. o However, we experienced a significant increase in the number of complaints relating to children's social care, which rose from 52 in 2014-15 to 72 in 2014-15, an increase of 38%. Out of the 72 complaints about children's social care, 8 complaints were fully justified, 2 complaints were mostly justified and 25 complaints were partly justified, 35 were not justified and 2 required no further action. o There was also a significant increase in the number of stage 2 investigations in Children's Services which has had budget implications. This incurred external investigation costs of £23,883.21 in 2015-16. o The traded complaints service, delivered for schools and academies, generated a total of £22,945.28 income during 2015-16. o The Local Government Ombudsman made a final decision on 48 complaints in respect of the council. This included 3 decisions of maladministration, 1 of which related to Children's Services and 2 to Adult social care. In every case the Council acted upon the recommendations made by the LGO to put matters right and each complainant received a letter of apology. Further analysis and detail is included in the attached Annual Report, which records improvements having been made to address a number of identified weaknesses. It remains vital that the County Council continues to actively take steps to improve the delivery of services to our customers.
Impact Assessment:	Equalities Impact Assessment: N/A
	Directorate and Service Compliments and Complaints Annual Reports 2015-16; Complaints Review Report, July 2015; Local Government Ombudsman Annual Complaints Report 2015-16
	Budget: There are budget implications in relation to time and resources used in managing and responding to complaints across the authority. There are additional costs created by formal stage 2 investigations from employing independent investigators and independent people. Under the Children's social care complaints procedure if a complaint is escalated to a Stage 3 Panel there are also additional costs associated with the of employment of independent people to chair and be members of such panels.
	Risk Assessment: 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: Current: LOW Residual: LOW

	Other Implications: None
Recommendation	That the Committee; 1. Scrutinises the content of the annual report ; 2. Approves the publication of the annual report 2015-16
Reason for Recommendation	To provide information and assurance on the council's proactive approach to the management of complaints and to seek approval for the Annual Report for 2015-16 to be published.
Appendices	Appendix 1: Dorset County Council's Complaints Procedures Appendix 2: Local Government Ombudsman Annual Review letter
Background Papers	Directorate and Service compliments and complaints reports 2010-2016 Corporate Compliments and Compliments Annual Reports 2010-2016
Report Originator and Contact	Name: Julie Taylor, Senior Assurance Manager (Complaints) Governance and Assurance Tel: 01305 224077 Email: julie.taylor@dorsetcc.gov.uk

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Dorset County Council

Complaints

We want to ensure that voices are heard and that as a result we take appropriate action.

An inability to listen is a failure to learn

Customer

Listen

Action

Learn

Customer complaints are the key messages from which we learn

ANNUAL REPORT 2015-16

Dorset County Council

Welcome - *Complaints Annual Report for the period 2015-16.*

In July 2015 an internal review was undertaken here at Dorset County Council to address complaints, comments and compliments received. It was clear that we as an authority had to resolve issues quickly, however at times we did not achieve this as some complaints were not prioritised, a failure to take ownership, and deadlines being missed. Inevitably, this led to escalation, inefficient use of resources, and a poor customer experience. As an authority we had to improve.

Since the introduction of a central team we are developing operations with a customer focused culture that takes personal responsibility on the best possible outcomes for our customers. We are committed to being a 'listening and learning organisation' that takes the positive steps to avoid errors and propose solutions through review and development.

We understand that satisfying customer expectations are important and we seek speedy remedies, providing early resolution and mediation for our customers. We will be better equipped and far more customer oriented and we promise to:

- *Listen carefully to what the customer has to say.*
- *Ask questions in an understanding and caring manner.*
- *Say sorry when things have gone wrong*
- *Ask the customer, "What would be an acceptable outcome for you?"*
- *Solve the problem, or find someone who can solve it quickly wherever possible.*

We are developing the complaints team to support the council being a learning organisation and to provide a resolution based procedure for our customers. This will be achieved through an overarching complaints strategy and an updated policy which are currently being developed and written and will be available in the next few months.

Julie Taylor

Senior Assurance Manager – Complaints

Governance and Assurance

Dorset County Council

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F R I E N D L I N E S S

One of the ways we are able to continuously improve our services is to **LEARN** from complaints and we have catergorised all complaints received into a key theme (as highlighted below) to enable us to capture improved analysis, and to look for ways to address and resolve recurrent themes.

Communication

- Breakdown in communication
- Lack of (or inadequate) Communication
- Tone of Communication
- Inappropriate Contact

Policy and Procedure

- Disagreement with Decision
- Foster Care
- Placement
- Standard of care

Finance

- Funding

Service Provision

- Attitude/Behaviour of Staff
- Delay in providing services
- Failure to provide service
- Inadequate Service
- Quality of Service
- Professional Practice of Staff

Data

- Confidentiality
- Inaccurate Information Recorded

Key LESSONS LEARNT: Is anyone better off as a result (OUTCOMES)?

SUMMARY: 1 April 2015 to 31 March 2016

Although we constantly look for ways to reduce the number of formal complaints we receive we do recognise that they present us with an opportunity to identify and rectify specific problems with our current systems or processes. They can us help us develop our relationships with our customers, whether they are external or internal. One of the ways we continuously improve our services is through learning from complaints. The key themes that have been highlighted from analysis of the issues and lessons learnt are:

Service Provision: Delay in providing service

We need to be better at forward planning and:

- Be able to better anticipate any future demands for service
- Co-ordinate tasks and actions where required with other teams and directorates
- Provide realistic timescales and don't provide deadlines that are unlikely to be met.

Managers need to scrutinise and take stock of available resources in an attempt to identify any potential delays in service and reduce backlogs. Ensuring that capacity meets the variation in demand for service will help to prevent any unnecessary delays. With such an approach it should be possible to:

- Identify and plan for known changes in available capacity, for example, staff leave, training, office moves or equipment maintenance
- Maximise the capacity for role changes and releasing time to train or plan capacity around the variation in demand and allow for excess capacity to meet variation in demand (matching staff levels to demand on some days to allow for increases on other days).

Communication: Lack of (or inadequate) communication

Breakdown in communication.

Tone of communication

Good communication is vital as the flow of information is not always smooth and seamless. When communication breaks down, the results can range from poor morale and strained relationships to missed opportunities. We can communicate through the telephone, text messages, chat services and social networks, yet, most will still use email as their primary method of communication. While message delivery is typically reliable, mistakes can happen whereby someone could misplace, delete or not even see a specific email, and therefore could miss a crucial piece of information. We can all quickly become overwhelmed by the amount of information required to process through inboxes.

It's possible for teams or services to focus too much on their own work and miss out on the big ideas that only come from collaboration. The importance of open discussions about the quality of work, necessary improvements and fresh ideas are therefore to be encouraged and not to be underestimated.

We will ensure that the tone of correspondence is appropriate and that as a "can do" authority we put ourselves "in the customer shoes" and respond accordingly in providing the best possible outcomes. We will provide apologies when required and will include reasons for delays in responding. We will be diligent in ensuring that customer details are correctly quoted in our communication.

It is acknowledged that we need to work hard at the way we share and discuss information. For example, we could take more direct forms of communication to limit internal emails - while email may be the easiest way to send a message to staff, try to keep the number of internal inbox clutter to a minimum. If it's really urgent, a telephone call or a visit may be more effective.

Our complaints SNAPSHOT of performance

SUMMARY: 1 April 2015 to 31 March 2016

Details of our complaints procedures are included in appendix 1.

Initial complaint raised with the Council

We received and managed 313 initial complaints during the period.

Following the unsatisfactory resolution of the initial complaint a stage 1 complaint was lodged as part of our complaints process as highlighted below.

Stage 1 complaints

We received and managed 202 complaints during the period which included:

- 68 for Environment and the Economy Directorate;
- 88 for Children's Services (72 social care and 16 non-social care);
- 9 for Chief Executive (Corporate Resources); and
- 148 for Adult and Community Services (111 social care and 37 non-social care)

Stage 2 complaints

29 complaints were escalated to stage 2 during the period. This included 12 for Children's social care, 5 for Children's non-social care, 8 for Environment and the Economy Directorate, 2 for Chief Executive's (Corporate Resources), and 2 for Adult and Community Services non-social care.

Stage 3 complaints

3 Children's social care complaints were escalated from stage 2 to stage 3 during the period.

Local Government Ombudsman (LGO)

We received 48 decisions from the LGO during the period, an **increase of 4%** when compared with the previous year. Maladministration was identified in 5 complaints which was the same as the previous year.

1. Introduction

1.1 To enable the regular monitoring and review of complaints by Councillors each year, we are required to prepare an annual report that sets out a summary of complaints dealt with under our formalised complaints procedure.

> A complaint is defined as ***'an expression of dissatisfaction, however made, about the standard of service, action or lack of action by the Council, or its staff, affecting an individual customer or group of customers.'***

1.2 Complaints recorded under our formal procedure do not include those 'first time' contacts which were effectively requests for a service and dealt with as such. For example, a new report of a missed bin collection, or a pot hole, would not be registered and dealt with as a complaint, but as a request for action. The annual report presents an overview of complaints received by Dorset County Council during the financial year 1 April 2015 to 31 March 2016. Additional information about our complaint procedures and our statutory duties for local authorities with regard to complaints are set out in the Appendix.

2. Whole Authority Review

2.1 In July 2015 we undertook a review of the various processes in place here at Dorset County Council to address complaints, comments and compliments received. It was clear that we tried to resolve issues quickly, however at times we were met by various obstacles, defensive and inconsistent responses, complaints not being prioritised, a failure to take ownership, and deadlines being missed. Inevitably, this led to escalation, inefficient use of resources, and a poor customer experience. It was clear that **improvements needed to be made** and the Corporate Leadership Team took action to do so with the establishment of a Central Complaints Team.

2.2 Some of our formal complaints processes were cumbersome and repetitive. We were uncertain about how to learn and communicate the lessons from complaints, and therefore issues surfaced far too often. Our handling of complaints at times felt sometimes seems slow, indecisive, cumbersome and bureaucratic. We have revisited and reviewed our processes, reports and technology to improve the way we work in being better at meeting our customer expectations. However, in doing so we need to acknowledge that social care processes are legal ones which we have to follow and embed in new approaches.

3. Learning from our Complaints

3.1 Within the report we have tried to highlight the various lessons learnt together with the usual figures surrounding the numerous complaints received during 2015-16. We remain committed to provide a means of redress to our customers for any injustice caused by unfair treatment or service failure. We will use our learning to promote good public administration and service improvement. We will achieve this by:

- Listening carefully to what the customer has to say.
- Asking questions in an understanding and caring manner.
- Saying sorry when things have gone wrong
- Asking the customer, "What would be an acceptable outcome for you?"

- Solving the problem, or find someone who can solve it quickly wherever possible.

3.2 With the use of the **LEARN** framework which we will introduce as part of our management strategy later this year we will be better placed to learn from complaints and provide opportunities for services to be developed by our resident's experiences.

4. Outcomes Based Accountability (OBA)

4.1 We are using Outcomes Based Accountability (OBA) as a way of taking action that can improve outcomes for populations, organisations and communities. Our approach seeks to improve the outcomes for our residents and communities we serve. This is a process for turning 'talk into action'. Performance accountability is based on three interlinked performance questions:

- How much did we do (outputs)?
- How well did we do it (quality)?, *and most importantly:*
- Is anyone better off as a result of our action (OUTCOMES)?

4.2 Our revised performance management arrangements will increasingly focus on what good outcomes for our customers look like. An effective and timely complaints management service makes an important contribution to help deliver this.

5. Feedback

5.1 Customer feedback, whether it is a complaint, comment or compliment, provides invaluable insight to the experience of customers, service users and all who interact with the Council. Good quality insight builds intelligence and understanding of where the Council is meeting expectation and doing well and what needs to be done to improve service outcomes for all customers. We are working to streamline our processes for feedback through our central complaints team.

6. Policy

6.1 It is vital that our complaints, comments and compliments policy is periodically reviewed and refreshed to reflect the changing organisation. The policy sets a common standard required for managing complaints to provide assurance to our customers through this process. We are in the process of producing a revised policy that focuses on our customers and helps to ensure that creating a culture of learning and improvement by being better equipped to address a problem, or find someone who can solve it quickly.

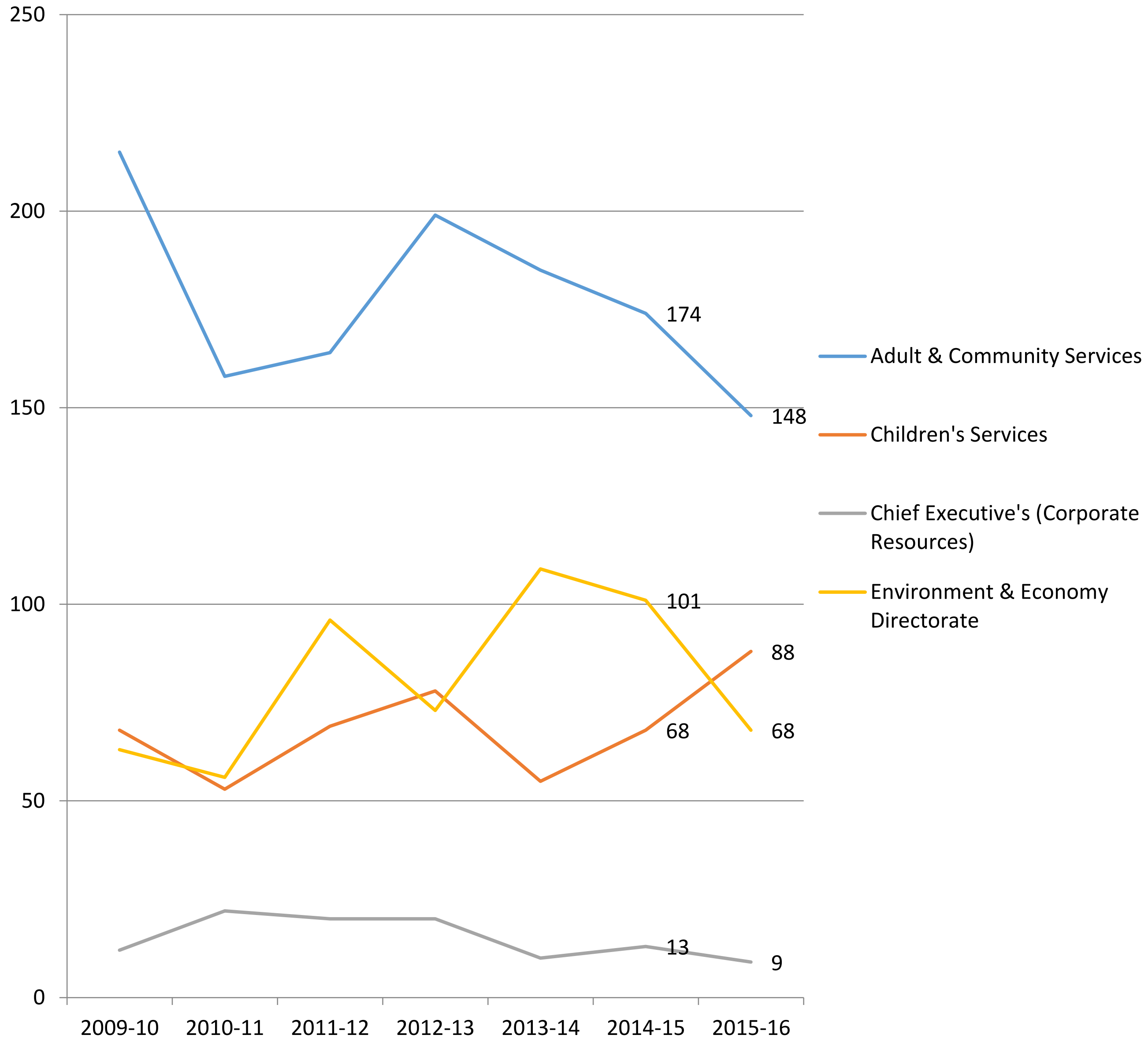
7. Dashboard and Graphical Analysis

7.1 We remain committed to providing clear and direct accountability to all interested in what we do. We introduced in the previous reports improved graphical analysis and we have tried to achieve that again within this report.

7.2 We look to achieve this in a way that enhances understanding of our work and helps to appreciate the associated challenges we face and the impacts this may have on future arrangements. This report reflects current practice and the improvements that have been achieved.

7.3 The following graphs highlight the complaints received and managed by our four directorates.

Table 1: Total number of complaints received by Directorate



7.4 Following receipt, acknowledgement and an initial review of these, a number of complaints were received and broken down as whole authority by the year as outlined in table 2. The table provides a graphical view over a five year period to 2015-16.

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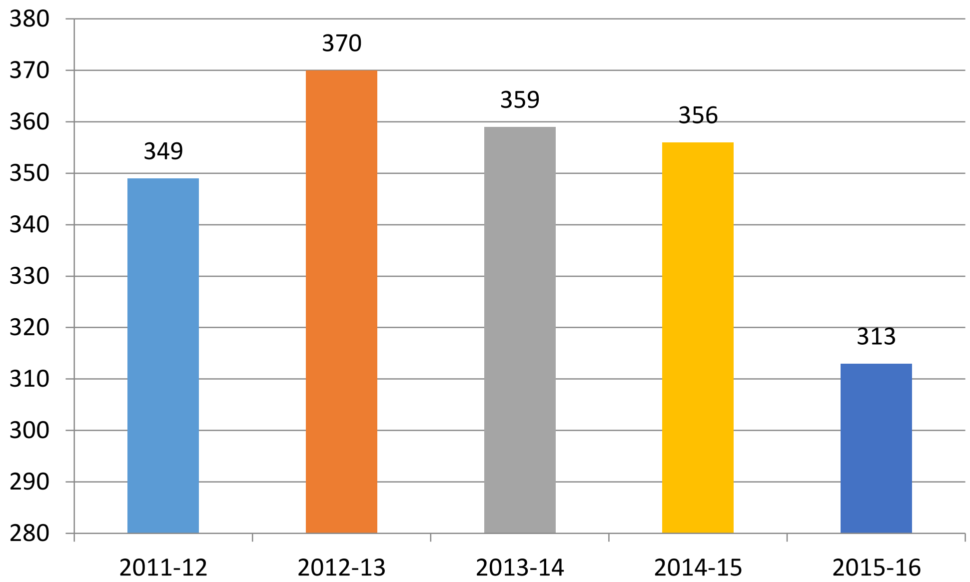
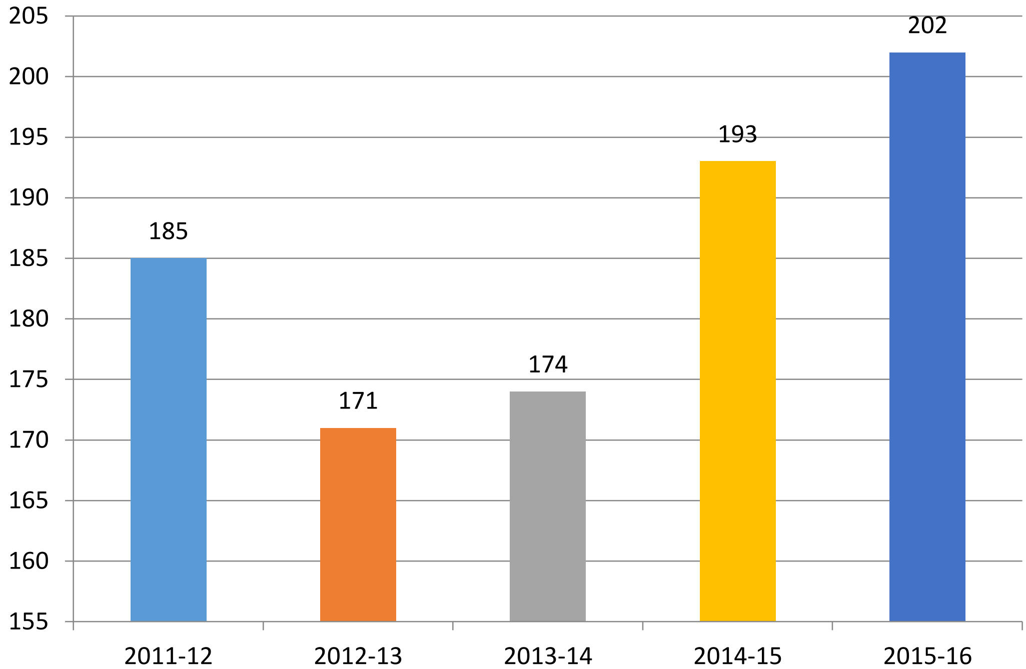


er of complaints received (whole authority by year)

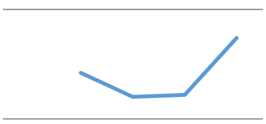
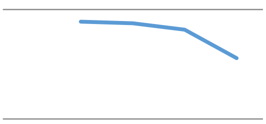
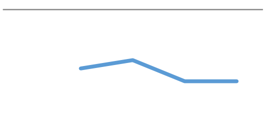
7.5 Following receipt, acknowledgement and an initial review of these, a number were considered appropriate for the formal Stage 1 investigation process. The breakdown of these is outlined in table 3:

Table 3: Total number complaints escalated to stage 1 received (whole authority by year)



7.6 Following receipt, acknowledgement and an initial review of these, a number were considered appropriate for the formal Stage 1 investigation process as highlighted above. The breakdown of these by directorate are outlined in below in table 4.

Table 4: Stage 1 Complaints by Directorate

Directorate	Previous Year 2014-15	This Year 2015-16	Direction of Travel	Trend Line
Adult & Community Services (non-social care)	11	37	Worse	
Adult & Community Services (social care)	163	111	Improved	
Children's Services (non-social care)	16	16	No change	

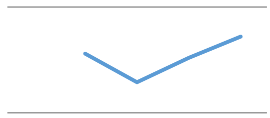
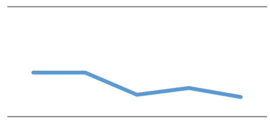
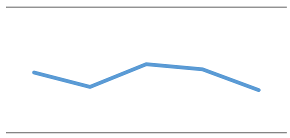
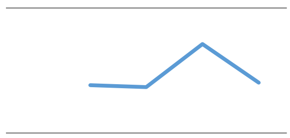
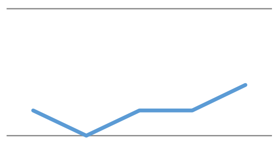
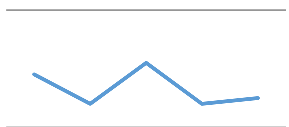
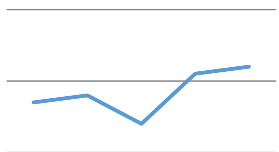
Children's Services (social care)	52	72	⇧ Worse	
Chief Executive's (Corporate Resources)	13	9	⇩ Improved	
Environment & Economy	101	68	⇩ Improved	
TOTAL	356	202	⇩ Improved	

Table 5: Stage 2 Complaints by Directorate

Directorate	Previous Period 2014-15	This Period 2015-16	Direction of Travel	Trend Line
Adult and Community Services (non-social care)	1	2	⇧ Worse	
Children's Services (non-social care)	4	5	⇧ Worse	
Children's Services (social care)	11	12	⇧ Worse	

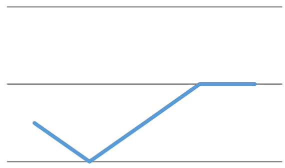
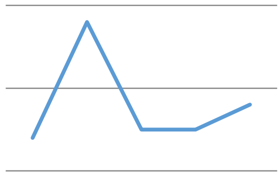
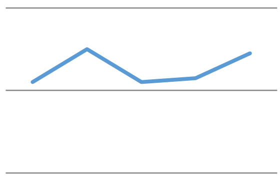
Chief Executive's (Corporate Resources)	2	2	No change	
Environment & Economy	5	8	Worse	
TOTAL	23	29	Worse	

Table 6: Stage 2 - Formal Investigation Costs

Please note that for the period the Stage 3 Panel (Children's Services)Costs were £5,181.25

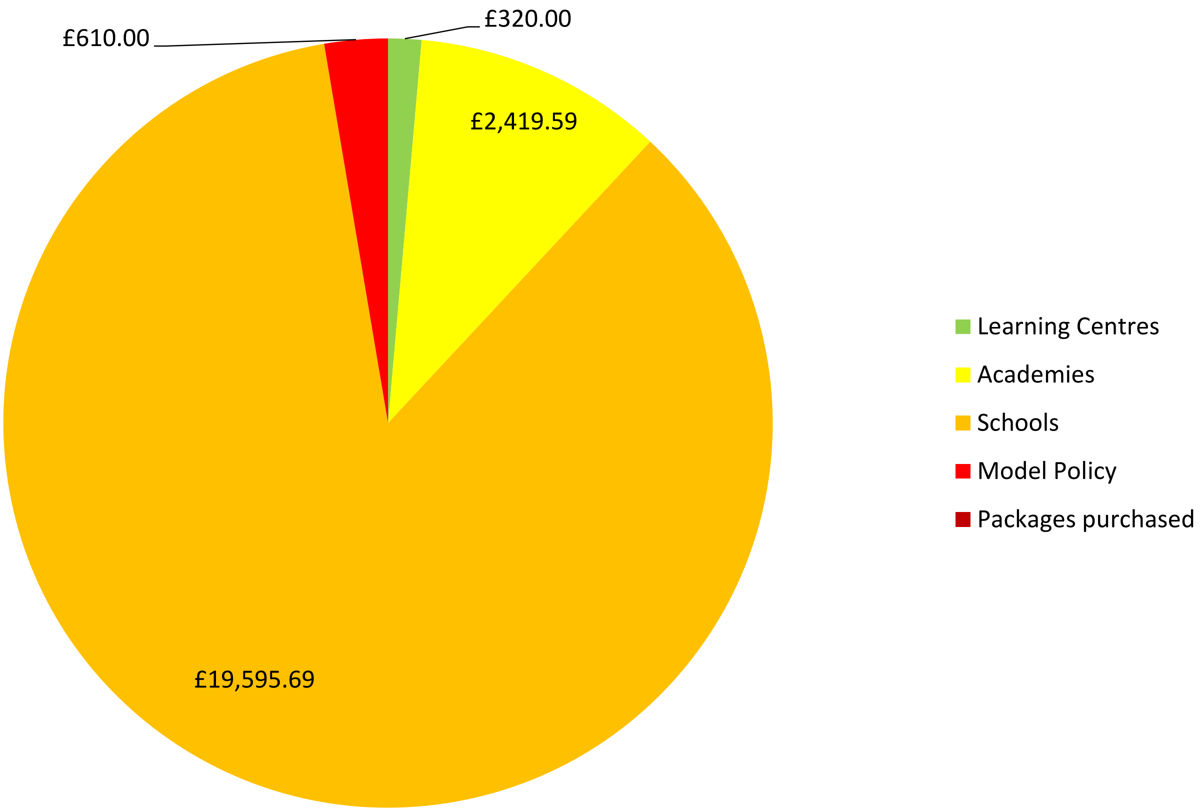
8.0 Traded Complaints Service

8.1 The 'Traded Complaints' service is generating an income for us from schools and academies who wish to purchase access to complaints policies support and advice offered by the County Council through our Children's Services complaints team. In total 52 schools purchased the service and 1 school bought the model policy. This service was also made available to academies in 2014-15.

8.2 The following graph provides a breakdown of the level of income generated for Dorset County Council through the provision of this service which represents a useful contribution of **£22,945.28** to support service delivery**.**

Table 7: The Traded Complaints Service – Income Generation

Total £22,945.28



Please note (Model Policy = The DCC paper work surrounding our complaints policy)

9.0 Learning from Complaints

9.1 We acknowledge that some of our complaints systems needs to improve. There is insufficient evidence of learning from complaints across the council as a whole, and providers are not making clear to users that services are being improved as result. Adequate staff training; proper investigation of complaints; and evidence of improvements in response to complaints are key pointers for the planned introduction of a new approach surrounding our complaints across the county council together with the introduction of the LEARN framework. One of the ways we continuously improve our services is through learning from complaints.

9.2 The council is committed to active learning from its complaints management process. We will therefore through regular team meetings be looking at individual complaints from different service areas to better understand how we can improve and LEARN.

9.3 A summary overview of the other main key improvements are outlined below, together with some examples of specific service examples. We have broken down what we have learnt and subsequent action/ outcomes into the following themes in an effort to improve our overall approach.

Communication

- Breakdown in communication
- Lack of (or inadequate) Communication
- Tone of Communication
- Inappropriate Contact

Service Provision

- Attitude/Behaviour of Staff
- Delay in providing services
- Failure to provide service
- Inadequate Service
- Quality of Service
- Professional Practice of Staff

Policy and Procedure

- Disagreement with Decision
- Foster Care
- Placement
- Standard of care

Data

- Confidentiality
- Inaccurate Information Recorded

Finance

- Funding

9.4 We undertook a Complaints Service Review and undertook a review of our complaints process and implemented the following:

- There is a new central, independent complaints team in the Business Development Service, within the Risk, Audit and Performance Management group. We have reduced duplication in work, encouraged where possible joined up thinking and helped to provide clear lines of communication.
- The new team has taken a troubleshooting approach to complaints management, mediate between customers and staff, and where possible resolve complaints quickly and close to the point of service delivery.
- We have improved our mechanisms for accessing timely legal advice, so that issues do not escalate unnecessarily while such advice is awaited.

- Once formal complaints have been made, we ensure that all responses to complainants are quality assured by complaints officers so that consistency of tone is maintained, and complaints are responded to in full.

9.5 We acknowledge that there is still a need to focus and make further improvements on a number of our desired objectives and outcomes, for example, we need to:

- Better understand the possible introduction of a one stage formal complaint process in an attempt to reduce bureaucracy 'red tape' for both complainants and staff.
- Improve on our response times as we still encounter delays in dealing with complaints and requests for service, such as data protection issues.
- Revisit our complaints process, policy and strategy. All documentation needs to be written in a clear and understandable manner that reflect protocols dealing with Freedom of Information and the Equality Act 2010.
- Work with Directorates to improve lines of enquiry with MPs.
- Investigate alternative uses of technology to enable better managed comments, compliments and complaints.
- Give greater consideration to the roll out of a traded service surrounding complaints management to interested stakeholders and organisations, for example, academies.

9.6 We must strive to ensure that customers have clear and acceptable mechanisms to complain; investigate all complaints fully and within a reasonable time; fix or compensate for any loss or detriment suffered by the customer; and **LEARN from the complaint to ensure other customers are not affected by similar issues.** This will include a focus on the need to identify related trends and themes within overall complaints and to understand the root causes of these, as well as handling individual complaints well.

10. Local Government Ombudsman (LGO) Complaints

10.1 The LGO operates a 'council first' policy and will in most cases expect a case to have been considered through the council's procedures first, prior to any investigation by the LGO itself. Complaints considered by the LGO are therefore not in addition to, but are a further consideration of complaints already investigated locally. The Local Government Ombudsman Annual Review Letter 2016 can be found at Appendix 2. The letter provides a summary of statistics on complaints made for the year ended 31 March 2016.

10.2 In 2015-16 the LGO made a decision on 48 complaints that included 20 referred back to the Council for local resolution and 11 in which the LGO decided whether the complaint was upheld. Out of the 11 decisions made by the LGO they judged 5 complaints to be upheld as detailed as follows:

<u>Adult and Community Services</u>

Out of the 24 complaints that were decided on by the LGO, maladministration was identified in 3 complaints as follows:

(LGO Ref: **14011728)** A complaint on behalf of his wife's late uncle, Mr X, that the Council failed to take appropriate action to safeguard Mr X.

What were the outcomes?

- Frontline services was restructured.
- A new procedure was implemented that focused on overall completion rate for reviews being monitored by administration staff. Any delays in completing annual reviews are now brought to the attention of Area Managers.
- All staff attend mandatory training sessions on the Care Act and there is a requirement that advocates be included in these sessions. There is also a prompt on all of our new Care Act forms which asks staff if an advocate is required.
- All staff attend mandatory safeguarding sessions every 2 years.
- All staff are aware that the funding of an individual is irrelevant when there are safeguarding issues.

(LGO Ref: **15003876**) Mr B complains about the review procedure for his son's care needs. He considers the process caused unnecessary distress and anxiety to his son. And the outcome is wrong.

What was the outcome?

- A standard letter has been implemented to be sent out prior to a review. The letter invites the individual or their representative to make contact and discuss any concerns they might have from the outset.

(LGO Ref: **14016781**) Mr T complains on behalf of his grandmother, Mrs S that the Council failed to:

- Follow the correct procedures when asked to carry out an assessment of her care needs in 2012;
- Provide her with the care she was assessed as needing for 2 years;
- Inform, advise, and explain, what care it would provide in 2014 and how this would be funded; and
- Keep her personal information confidential by discussing her circumstances with a local care provider without her knowledge or consent.

As a result of these failures, Mrs S did not receive the care she needed, suffering uncertainty, frustration, and distress.

What were the outcomes?

- Adult Services restructured and the community rehabilitation team concerned are co-located within the restructure.

    - Members of the team are now responsible for all new assessments and the design of a structure which supports the timely assessment of need.
    - Work undertaken to complete the assessment with the service user and support network in order to reduce delays.
- Frontline services have been redesigned so that staff collect financial information to process information in a quick and efficient manner.
- Designing ways of providing self- assessment online to service users to provide timely assessments.
- Staff trained in the new assessment process. To highlight the need that when an assessment is undertaken it must be communicated to the service user (to include costs of care, financial contribution and charges applied by DCC for arranging care services on behalf of service users and their families).

Children's Services

Out of the 14 complaints that were decided on by the LGO, maladministration was identified in 2 complaints as follows.

(LGO Ref: **13016600**) Mrs A complains that the Council's final complaint response based on the findings and recommendations of the independent investigator failed to identify the full extent and offered insufficient remedy for the fault.

What was the outcome?

- The Council has reviewed the quality of assurance systems and supervisory arrangements to ensure that they provide sufficient quality monitoring of Child in Need Assessment Framework.

(LGO Ref: **15006457**) Mrs B applied for a Reception place for her son, D, at a nearby Voluntary Aided School in Dorset (School 1). She complains that Dorset County Council (Dorset) did not tell her she should have applied to Wiltshire Council (Wiltshire), as her home authority. It was not until April 2015, when places were allocated, that Dorset told her that D had no place at all Dorset schools.

Had Dorset told her earlier, she might have been able to move house more quickly or apply in-time to Wiltshire. As a result, D had no Reception place for September 2015. This caused the family considerable distress.

Mrs B considers that the Council should put measures in place to advise parents promptly where they submit an application to the wrong local authority so that other parents will not experience this situation.

What was the outcome?

- Officers in the School Admissions team have been reminded to inform parents that they should contact their home authority in making an application for a school place.

10.4 Please note that details of the above LGO decisions together with any complaint received are available on request.

Debbie Ward, Chief Executive,
August 2016

Appendix 1

Complaints Procedures - The statutory duties of local authorities with regard to complaints are defined by:

a) The *Local Authority Social Services Act* (1970)

b) The *Children Act* (1989) *Representations Procedures (England) Regulations* (2006)

c) The *National Health Service and Community Care Act* (1990)

d) *The Local Authority Social Services and National Health Service Complaints (England) Regulations* (2009)

Children's Social Services complaints procedure - As required by the *Children Act*, there are three stages to the Children's Social Care Complaints Procedure. At stage 1, the first line manager investigates and responds in writing. If the complainant remains dissatisfied, they can request an independent stage 2 investigation with adjudication from the relevant Head of Service. If still dissatisfied, the complainant is invited to present the complaint to an independent review panel at stage 3, who will then recommend outcomes. Following the panel, the Director of Children's Services' adjudication letter is final, and if the complainant wishes to pursue the issue further they can approach the Local Government Ombudsman (LGO).

Adult Social Services complaints procedure - Complaints processes for Adult Social Services are designed to be simple, effective and flexible. The stage 1, stage 2 and stage 3 processes and set timescales were removed by the 2009 regulations (see (d) above). Complaints managers are now responsible for agreeing with the complainant what should happen and by when, and setting out an action plan based on an assessment of the seriousness of the complaint. Simple 'low risk' complaints are investigated by the first line manager. If a complaint is more serious the system allows the opportunity for an independent investigation.

Whole Authority complaints procedure (non-social care) - Complaints about non-social care services are not governed by a statutory procedure and the County Council's local *Whole Authority Complaints Procedure* applies. Complaints are referred to the relevant directorate complaints manager. The stage 1 response is compiled by the manager responsible for the service. If the complainant is dissatisfied with the response, they can request a stage 2 investigation. The Chief Executive decides whether to commission an independent investigation. If this goes ahead, the investigation report will decide whether the complaint is upheld and make any necessary recommendations for improvements. In exceptional cases the Chief Executive may refer a complaint to a Complaints Panel of county councillors. If the complainant remains dissatisfied with the County Council's response they can ask the Local Government Ombudsman to review their complaint.

The Environment and Economy Directorate also follows the whole authority complaints procedure as complaints in that directorate are not governed by a statutory procedure. Stage 1 complaints are responded to by the relevant service manager (with cases referred to the relevant Head of Service if the service manager deems this to be appropriate). All complainants are informed that they can request a stage 2 investigation if they are dissatisfied with the Directorate response.

Local Government
OMBUDSMAN

21 July 2016

By email

Debbie Ward
Chief Executive
Dorset County Council

Dear Debbie Ward,

Annual Review Letter 2016

I write to you with our annual summary of statistics on the complaints made to the Local Government Ombudsman (LGO) about your authority for the year ended 31 March 2016.

The enclosed tables present the number of complaints and enquiries received and the decisions we made about your authority during the period. I hope that this information will prove helpful in assessing your authority's performance in handling complaints.

Last year we provided information on the number of complaints upheld and not upheld for the first time. In response to council feedback, this year we are providing additional information to focus the statistics more on the outcome from complaints rather than just the amounts received.

We provide a breakdown of the upheld investigations to show how they were remedied. This includes the number of cases where our recommendations remedied the fault and the number of cases where we decided your authority had offered a satisfactory remedy during the local complaints process. In these latter cases we provide reassurance that your authority had satisfactorily attempted to resolve the complaint before the person came to us. In addition, we provide a compliance rate for implementing our recommendations to remedy a fault.

I want to emphasise that these statistics comprise the data we hold, and may not necessarily align with the data your authority holds. For example, our numbers include enquiries from people we signpost back to the authority, but who may never contact you.

In line with usual practice, we are publishing our annual data for all authorities on our website, alongside an annual review of local government complaints. The aim of this is to be transparent and provide information that aids the scrutiny of local services.

Effective accountability for devolved authorities

Local government is going through perhaps some of the biggest changes since the LGO was set up more than 40 years ago. The creation of combined authorities and an increase in the number of elected mayors will hugely affect the way local services are held to account. We have already started working with the early combined authorities to help develop principles for effective and accessible complaints systems.

We have also reviewed how we structure our casework teams to provide insight across the emerging combined authority structures. Responding to council feedback, this included reconfirming the Assistant Ombudsman responsible for relationship management with each authority, which we recently communicated to Link Officers through distribution of our manual for working with the LGO.

Supporting local scrutiny

Our corporate strategy is based upon the twin pillars of remedying injustice and improving local public services. The numbers in our annual report demonstrate that we continue to improve the quality of our service in achieving swift redress.

To measure our progress against the objective to improve local services, in March we issued a survey to all councils. I was encouraged to find that 98% of respondents believed that our investigations have had an impact on improving local public services. I am confident that the continued publication of our decisions (alongside an improved facility to browse for them on our website), focus reports on key themes and the data in these annual review letters is helping the sector to learn from its mistakes and support better services for citizens.

The survey also demonstrated a significant proportion of councils are sharing the information we provide with elected members and scrutiny committees. I welcome this approach, and want to take this opportunity to encourage others to do so.

Complaint handling training

We recently refreshed our Effective Complaint Handling courses for local authorities and introduced a new course for independent care providers. We trained over 700 people last year and feedback shows a 96% increase in the number of participants who felt confident in dealing with complaints following the course. To find out more, visit www.lgo.org.uk/training.

Ombudsman reform

You will no doubt be aware that the government has announced the intention to produce draft legislation for the creation of a single ombudsman for public services in England. This is something we support, as it will provide the public with a clearer route to redress in an increasingly complex environment of public service delivery.

We will continue to support government in the realisation of the public service ombudsman, and are advising on the importance of maintaining our 40 years plus experience of working with local government and our understanding its unique accountability structures.

This will also be the last time I write with your annual review. My seven-year term of office as Local Government Ombudsman comes to an end in January 2017. The LGO has gone through extensive change since I took up post in 2010, becoming a much leaner and more focused organisation, and I am confident that it is well prepared for the challenges ahead.

Yours sincerely

Jane Martin

Dr Jane Martin
Local Government Ombudsman
Chair, Commission for Local Administration in England

Local Authority Report: Dorset County Council
For the Period Ending: 31/03/2016

For further information on how to interpret our statistics, please visit our website:
http://www.lgo.org.uk/information-centre/reports/annual-review-reports/interpreting-local-authority-statistics

Complaints and enquiries received

Adult Care Services	Benefits and Tax	Corporate and Other Services	Education and Children's Services	Environment Services	Highways and Transport	Housing	Planning and Development	Other	Total
24	0	2	14	4	7	0	1	0	52

Decisions made

				Detailed Investigations			
Incomplete or Invalid	Advice Given	Referred back for Local Resolution	Closed After Initial Enquiries	Not Upheld	Upheld	Uphold Rate	Total
1	0	20	16	6	5	45%	48

Notes

Our uphold rate is calculated in relation to the total number of detailed investigations.

The number of remedied complaints may not equal the number of upheld complaints. This is because, while we may uphold a complaint because we find fault, we may not always find grounds to say that fault caused injustice that ought to be remedied.

The compliance rate is the proportion of remedied complaints where our recommendations are believed to have been implemented.

Complaints Remedied		
by LGO	Satisfactorily by Authority before LGO Involvement	Compliance Rate
4	0	100%

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Forward Together

Audit and Governance Committee
Work Programme

Forward Plan

Chairman: Cllr Trevor Jones
Vice Chairman: Cllr Kate Wheller

Dorset County Council

Agreed Items (yet to be scoped and/or scheduled)

All items that have been agreed for coverage by the Committee have been scheduled in the Forward Plan accordingly.

Date of Meeting		Item	Purpose / Key Lines of Enquiry (KLOE)	Lead Member/Officer
26 January 2017 (10.00am)	1	**Budget Monitoring Quarterly Report**	To consider and comment upon the budget monitoring information including actions taken to address any overspend.	**Jim McManus** Chief Accountant
	2	**Internal Audit Quarterly Report**	To receive a report on SWAP's independent work and assess the Council's risk, governance and control framework.	**Rupert Bamberger** Assistant Director South West Audit Partnership (SWAP)
	3	**Treasury Management Update**	To consider the update on treasury management.	**Tom Wilkinson** Group Finance Manager
	4	**Performance Monitoring Report**	To consider and comment upon the performance monitoring report for the quarter and agree any future actions with regard to the performance issues raised.	**John Alexander** Policy and Performance Manager
	5	**External Funding Monitoring Report 2015/16**	An annual report that provides measures of bidding performance and highlights areas of interest in relation to external funding.	**Chris Scally**
	6	**Constitutional Changes** (if required)	To consider any changes to the Constitution which have arisen that will need to be considered by the County Council.	**Lee Gallagher** Democratic Services Manager
13 March 2017 (10.00am)	1	**Budget Monitoring Quarterly Report**	To consider and comment upon the budget monitoring information including actions taken to address any overspend.	**Jim McManus** Chief Accountant

Date of Meeting		Item	Purpose / Key Lines of Enquiry (KLOE)	Lead Member/Officer
	2	**Internal Audit Quarterly Report**	To receive a report on SWAP's independent work and assess the Council's risk, governance and control framework.	**Rupert Bamberger** Assistant Director South West Audit Partnership (SWAP)
	3	**Performance Monitoring Report**	To consider and comment upon the performance monitoring report for the quarter and agree any future actions with regard to the performance issues raised.	**John Alexander** Policy and Performance Manager
	4	**Annual Audit Letter**		**John Oldroyd** Senior Manager, Audit KPMG
	5	**External Audit Plan 2016/17**	To consider the External Audit Plan for 2015/16.	**John Oldroyd** Senior Manager, Audit KPMG
	6	**Constitutional Changes** (if required)	To consider any changes to the Constitution which have arisen that will need to be considered by the County Council.	**Lee Gallagher** Democratic Services Manager
19 June 2017 (10.00am)	1	**Annual Internal Audit Report 2016/17**	To receive the annual report of internal audit activity and to provide an independent opinion on the Council's governance, risk and control framework for 2015/16.	**Rupert Bamberger** Assistant Director South West Audit Partnership (SWAP)
	2	**Internal Audit Plan 2017/18**	To consider the Internal Audit Plan for 2016/17.	**Rupert Bamberger** Assistant Director South West Audit Partnership (SWAP)
	3	**Draft Annual Governance Statement 2016/17**	To consider the Annual Governance Statement which sets out key features of the governance framework in place in the Authority and provides a review of its	**Mark Taylor** Group Manager (Governance and Assurance)

Date of Meeting		Item	Purpose / Key Lines of Enquiry (KLOE)	Lead Member/Officer
			effectiveness.	
	4	**Draft 2016/17 Budget Outturn and Financial Management Report**	To provide an update on the budget for 2016/17 and the Council's overall budget position.	**Jim McManus** Chief Accountant
	5	**Performance Monitoring Report**	To consider and comment upon the performance monitoring report for the quarter and agree any future actions with regard to the performance issues raised.	**John Alexander** Policy and Performance Manager
	6	**Treasury Management Update**	To consider the update on treasury management.	**Tom Wilkinson** Group Finance Manager
	7	**Constitutional Changes** (if required)	To consider any changes to the Constitution which have arisen that will need to be considered by the County Council.	**Lee Gallagher** Democratic Services Manager
20 September 2017 (10.00am)	1	**Statement of Accounts 2015/16**	To consider the Statement of Accounts for 2015/16 that has been reviewed by the Authority's external auditor, KPMG.	**Jim McManus** Chief Accountant
	2	**Budget Monitoring Quarterly Report**	To consider and comment upon the budget monitoring information including actions taken to address any overspend.	**Jim McManus** Chief Accountant
	3	**Treasury Management and Prudential Code Review 2015/16**		**David Wilkes** Finance Manager (Treasury and Investments)
	4	**Performance Monitoring Report**	To consider and comment upon the performance monitoring report for the quarter and agree any future actions with regard to the performance issues raised.	**John Alexander** Policy and Performance Manager

Date of Meeting		Item	Purpose / Key Lines of Enquiry (KLOE)	Lead Member/Officer
	5	**ISA 260 Report**	To consider the External Auditor's report to "Those charged with Governance".	**John Oldroyd** Senior Manager, Audit KPMG
	6	**Corporate Compliments and Complaints Annual Report 1 April 2015 to 31 March 2016**	To consider the Annual Report.	**Julie Taylor** Senior Assurance Manager (Complaints)
	7	**Internal Audit Quarterly Report**	To receive a report on SWAP's independent work and assess the Council's risk, governance and control framework.	**Rupert Bamberger** Assistant Director South West Audit Partnership (SWAP)
	8	**Constitutional Changes** (if required)	To consider any changes to the Constitution which have arisen that will need to be considered by the County Council.	**Lee Gallagher** Democratic Services Manager
Other draft items / issues identified for potential review				

Debbie Ward
Chief Executive
September 2016