



# Audit and Governance Committee

**Date:** Tuesday, 17 September 2019  
**Time:** 10.00 am  
**Venue:** Committee Room A/B, South Walks House,  
South Walks Road, Dorchester, DT1 1EE

**Membership: (Quorum 3)**

Matthew Hall (Chairman), Richard Biggs (Vice-Chairman), Simon Christopher, Susan Cocking, David Gray, Brian Heatley, Nocturin Lacey-Clarke, Mike Parkes, Bill Pipe and Bill Trite

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**Chief Executive:** Matt Prosser, South Walks House, South Walks Road, Dorchester, Dorset DT1 1UZ (Sat Nav DT1 1EE)

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# **A G E N D A**

**Page No.**

**1 APOLOGIES**

To receive any apologies for absence.

**2 MINUTES**

5 - 12

To confirm the minutes of the meeting held on 26 July 2019.

**3 DECLARATIONS OF INTEREST**

To receive any declarations of interest.

**4 PUBLIC PARTICIPATION**

To receive questions or statements on the business of the committee from town and parish councils and members of the public.

**5 URGENT ITEMS**

To consider any items of business which the Chairman has had prior notification and considers to be urgent pursuant to section 100B (4) b) of the Local Government Act 1972. The reason for the urgency shall be recorded in the minutes.

**6 PRESENTATION - DORSET COUNCIL EU EXIT PREPARATIONS**

To receive a presentation from the Executive Director of Place with regard to preparations being made by Dorset Council in respect of EU Exit.

**7 RISK MANAGEMENT UPDATE**

13 - 22

To receive an update in respect of risk management issues.

**8 FINANCE REGULATIONS**

23 - 34

To undertake a review of the Dorset Council Finance Regulations, as contained within the Constitution.

**9 TREASURY MANAGEMENT ANNUAL REPORT 2018/19 35 - 46**

To receive the Treasury Management Annual Report.

**10 FINANCE REPORT QUARTER 1 2019/20 47 - 60**

To consider the Finance Report Quarter 1 2019/20 as presented to Cabinet on 30 July 2019.

**11 PRESENTATION - OVERVIEW OF THE PENSIONS FUND**

To receive a presentation to provide an overview of the Pension Fund.

**12 REPORT OF INTERNAL AUDIT ACTIVITY PLAN PROGRESS 2019/20 - AUGUST 2019 61 - 70**

To receive a report from South West Audit Partnership (SWAP).

**13 2019/20 INTERNAL AUDIT PLAN - OCTOBER - MARCH 71 - 80**

To receive a report of South West Audit Partnership (SWAP).

**14 AUDIT AND GOVERNANCE COMMITTEE WORK PLAN 81 - 84**

To review the Work Plan for the Audit and Governance Committee.

**15 EXEMPT BUSINESS**

To move the exclusion of the press and the public for the following item in view of the likely disclosure of exempt information within the meaning of paragraph x of schedule 12 A to the Local Government Act 1972 (as amended).

The public and the press will be asked to leave the meeting whilst the item of business is considered.

There is no exempt business.

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## **DORSET COUNCIL - AUDIT AND GOVERNANCE COMMITTEE**

### **MINUTES OF MEETING HELD ON FRIDAY 26 JULY 2019**

**Present:** Cllrs Matthew Hall (Chairman), Richard Biggs (Vice-Chairman), Simon Christopher, Susan Cocking, David Gray, Brian Heatley, Nocturin Lacey-Clarke, Mike Parkes and Bill Trite

**Apologies:** Cllrs Bill Pipe

**Also present:** Cllr Tony Alford, Cllr Nick Ireland, Cllr Peter Wharf, Ian Howse and Michelle Hopton

**Officers present (for all or part of the meeting):**

Aidan Dunn (Executive Director - Corporate Development S151), Jim McManus (Interim Deputy 151 Officer), Rupert Bamberger (Assistant Director SWAP), Sally White (Principal Auditor) and Lindsey Watson (Senior Democratic Services Officer)

**6. Minutes**

The minutes of the meeting held on 28 June 2019 were confirmed and signed by the Chairman as a correct record.

**7. Declarations of Interest**

There were no declarations of interest.

**8. Public Participation**

There were no representations from town and parish councils or members of the public.

**9. Urgent items**

There were no urgent items.

**10. Outturn Report 2018/19**

The committee received a report which contained financial performance and position information for Dorset Council's six predecessor authorities for the year ended 31 March 2019. The report summarised the performance against budget and the impact this had had on each council's closing position. It also set out the impact of the outturn and other relevant events on general balances, other reserves and the financial position transferring to Dorset Council on 1 April 2019.

In addition, the report described work in progress to transition the six sovereign councils' financial positions into a single system and a target date for achieving this.

A presentation was provided at the meeting which outlined the key aspects of the approval process.

Councillors considered the issues arising from the report and presentation and during discussion the following points were raised:

- The Executive Director of Corporate Development provided an update on staffing relevant to the Finance area and paid tribute to officers for the work they had done in preparing the accounts for the former Councils
- Councillor Peter Wharf attended the committee in the absence of the Finance, Commercial and Assets Portfolio Holder
- The role of the Audit and Governance Committee was to seek assurance that the organisation had a proportionate and appropriate level of governance in place for the preparation of the accounts, which included an internal and external audit process. At the meeting, councillors had the opportunity to ask questions of the auditor before a decision was taken to sign off the accounts
- There were a number of qualifications from the External Auditor in some of the accounts and the committee had to make a judgement as to how the recommendations would be taken forward. It was noted that not all accounts could be signed off at this meeting as there were elements of audit work to be completed
- Feedback was also sought from the committee with regard to the process generally and the information required by councillors, which would feed into next year's process
- A question was asked with regard to the transfer of reserves from the former Weymouth and Portland Borough Council to Weymouth Town Council. In response it was confirmed that a number of reserves had been shared with the town council and that the Shadow Executive Committee had agreed to transfer £0.5m to the town council. Some general funding had been set aside for the setting up of the town council with some additional funding earmarked for specific items
- A similar point was raised with regard to Portland Town Council and this would be picked up following the meeting
- In respect of the External Audit report for Dorset County Council, the External Auditor had concluded that expenditure had not been materially mis-stated
- A discussion was held with regard to the figures given in the External Audit report for academies and it was confirmed that the reports contained a best estimate for deficits associated with academies. Evidence would need to be given to Cabinet in respect of this
- Reference was made to the value for money exception note included within the Dorset County Council statement of accounts

and a reassurance was sought that the council was looking at this area

- In respect of this, the External Auditor recognised that there was a lot of work to be undertaken which would take time and that the qualification on value for money was likely to still show up in the next year's report
- The Executive Director of People – Children, attended the meeting and provided a brief overview of the future plans for Children's Services, which included budget issues and the recovery plan that had been put in place, safeguarding issues and the transformation programme that was underway. This would represent a whole service reform, including statutory consultation, in order to embed a new structure and service from January 2020. It was recognised that it would not be a quick process but there was confidence that a positive impact could be made
- With regard to Special Educational Needs and Disability (SEND) it was recognised that there was still a long way to go and there continued to be a significant funding issue with Central Government in this area. The Chairman asked that the committee be kept aware of issues in this area
- In response to a question, the External Auditor noted that a small percentage of accounts were qualified
- A discussion was held with regard to issues around the high needs block and it was noted that the council was lobbying the government with regard to funding in this area. Reference was also made to the contribution from the Clinical Commissioning Group (CCG). The Executive Director noted that a wide range of bids were submitted to the Department for Education in order to bring funding into Children's Services and examples of successful bids were provided
- In response to a question, the Executive Director provided an overview of the way support to schools was changing, with the council taking on more of a co-ordinator role, bringing schools together for increased peer to peer support
- The Executive Director offered to provide the committee with further detail in respect of the Children's Services transformation plan at a future meeting
- A discussion was held with regard to the Pensions Account and the gap in the pensions provision. Councillor Wharf spoke as the Chair of the Pension Fund Committee and noted that steps were being taken with a number of organisations, to address the situation. He indicated that he would attend a future meeting of the committee to provide more detailed information on the position
- In response to a point raised with regard to employer and employee contributions made into the scheme, the External Auditor noted that the scheme was set across local government at a national level. Contributions to the scheme were assessed every 3 years, with the next valuation being in 2020
- In response to a question it was noted that different actuaries used different assumptions when making projections about figures in the

- pensions scheme. The council had taken a prudent approach in using a figure that was at the higher end of a range of estimates
- A discussion was held in respect of a number of IT issues which had been highlighted in the External Audit reports and how these would be addressed. Councillor Wharf noted that he would refer these issues to the Executive Advisory Panel that had been set up for this area and that an update could be provided for the committee at an appropriate time
  - A point was raised with regard to recurring issues within external audit reports, including with the listing and valuation of assets
  - In response to a question with regard to the accuracy of figures included at the year end, the External Auditor confirmed that there had been a huge amount of post year transaction testing undertaken which had found no evidence of high level issues in this area
  - The External Auditor provided an overview of the items that would be signed off by 31 July 2019 and those items that would not be signed off by this date, which included some further work to be undertaken in respect of North Dorset District Council, West Dorset District Council and Weymouth and Portland Borough Council. A statement would be included on the Dorset Council website to indicate the position with these council's accounts. The External Auditor expressed their thanks to the officers working in the finance teams for all of the work undertaken for the preparation of the statements of account.

The Executive Director of Corporate Development outlined the recommendations as set out in the report. He indicated that recommendations 1 to 5 were available for the committee to confirm if they were so minded. In respect of recommendations 6 and 7, he noted that the Pension Fund accounts, East Dorset District Council and Purbeck District Council accounts could be signed off as audit work had been completed. The accounts for Dorset County Council could be approved upon receipt of the final written report from the external auditor. However, as audit work associated with the accounts for North Dorset District Council, West Dorset District Council and Weymouth and Portland Borough Council had not been completed, it would not be possible to approve these accounts at this meeting. In respect of these accounts, the committee could choose to delegate authority to the Executive Director of Corporate Development in consultation with the Chairman of the Audit and Governance Committee to approve the audited financial statements upon receipt of the final reports or could ask for the reports to be considered at the next meeting of the committee on 17 September 2019. Councillors considered the pros and cons of the 2 options available to them in respect of the outstanding audit reports. The Chairman suggested that the committee could choose the option of delegating approval to the Director to sign off the accounts, with the option of bringing the reports back to the committee if there were material changes to the reports. It was noted that as audit work continued, some material changes could be of a positive nature.



Following discussion, it was suggested that a report back to the committee could be provided through the Chairman, upon receipt of the finalised reports.

It was proposed by Councillor Lacey-Clarke seconded by Councillor Christopher

### **Decision**

That the Chairman provide a report back to the committee following the completion of the audit work and receipt of final report for each financial statement for North Dorset District Council, West Dorset District Council and Weymouth and Portland Borough Council.

It was proposed by Councillor Lacey-Clarke seconded by Councillor Parkes

### **Decision**

That the Audit and Governance Committee:

1. notes the outturn position for each predecessor council;
2. understands the impact this had on the councils' general funds and reserves;
3. notes the opening position on the general fund compared with the expectations set out in the budget report;
4. understands the disaggregation process and timing for the County Council's balance sheet and the work being progressed between the S151 Officers and teams of Dorset Council and Bournemouth Christchurch and Poole Council;
5. notes the work currently in progress to review reserves and establish a new reserves baseline for Dorset Council;
6. notes the Auditor's qualified opinion on arrangements for securing economy, efficiency and effectiveness in Children's Services at Dorset County Council;
7. approves the audited financial statements for East Dorset District Council, Purbeck District Council, Dorset County Council (on receipt of the final written report) and the Pension Fund Accounts for the period ending 31 March 2019
8. delegate authority to the Executive Director of Corporate Development in consultation with the Chairman of the Audit and Governance Committee to approve the audited financial statements for North Dorset District Council, West Dorset District Council and Weymouth and Portland Borough Council for the period ending 31 March 2019, following the completion of the audit work and receipt of the final report on the financial statements.

#### **11. Internal Audit Annual Opinion Reports 2018/19 for Dorset County Council, Dorset Councils Partnership, Purbeck District Council and East Dorset District Council**

The committee was presented with the Internal Audit Annual Opinion Reports for 2018/19 for the predecessor councils comprising Dorset County Council (DCC), Dorset Councils Partnership (DCP), Purbeck District Council (PDC)

and East Dorset District Council (EDDC). It was noted that South West Audit Partnership (SWAP) had delivered the Internal Audit services for both DCC and DCP and as such had provided the annual audit opinions contained within the reports for these predecessor councils. The audit opinions for PDC and EDDC had been provided by legacy staff working for those Councils and had been included for reference and completeness purposes. They did not form part of SWAP's internal audit annual opinion.

The overall internal audit assurance opinion for the year, for both the former Dorset County Council (DCC) and Dorset Councils Partnership (DCP) was 'Reasonable', in line with previous years. A caveat was provided to this, in that there were a number of key areas of Children's Services that over the course of the year internal audit were unable to complete audit work, and therefore could only provide limited assurance over this area

The Assistant Director highlighted some key areas from the DCC annual opinion report, including details of two significant risks highlighted by internal audit within the 2018/19 year, as well as four recommendations that had been 'risk accepted' by management.

Members considered the issues arising from the report and a point was raised with regard to instances where there was a differing view between Internal Audit (SWAP) and External Audit (Deloitte) in relation to financial reviews at the former DCP. In response it was noted that Internal Audit and External Audit would approach work with a different scope and that there were some issues that External Audit would cover and there would not be an expectation that these areas would be covered by Internal Audit.

In response to a question, it was noted that there may be a need for a future internal audit review of high cost placements.

## **12. Dorset Council - Report of Internal Audit Activity - Plan Progress 2019/20 - July 2019**

The committee received the South West Audit Partnership (SWAP) Report of Internal Audit Activity – Plan Progress report for 2019/20.

Members noted a number of outstanding recommendations in respect of IT data handling and it was noted that this reinforced how much work was required in the area of IT.

In response to a question regarding the amount of audit (both internal and external audit) savings achieved through the creation of Dorset Council, it was noted that the new Authority would see annual savings of £183,000 in respect of audit work.

## **13. Draft Audit and Governance Committee Work Programme**

Members noted the draft work programme for the Audit and Governance Committee for 2019/20, which set out the items to be considered at each meeting.

Members noted that the following additional reserve dates for the committee had been put in place for 2019/20:

14 October 2019  
7 November 2019  
16 January 2020  
11 February 2020  
23 April 2020

**14. Exempt Business**

There was no exempt business.

**Duration of meeting:** 10.00 am - 12.12 pm

**Chairman**

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## Audit & Governance Committee

### Risk Management Update

Date of Meeting: 17 September 2019

Portfolio Holder: Cllr S Flower, Leader/Governance, Performance & Communications

Local Member(s): N/A

Director: Jonathan Mair, Corporate Director, Legal & Democratic

#### **Executive Summary:**

The continual development and promotion of risk management will ensure that the Council is well placed to demonstrate that objective and informed decisions are taken and that the Council is ultimately in a strong position to successfully face and address the challenges ahead.

Strategic risk management is owned by the Senior Leadership Team, with an agreed risk management policy statement setting out the Council's commitment. Work was undertaken with the leadership team and the Shadow Executive to determine the Council's risk appetite, and this informs the scoring criteria used to prioritise and escalate risks.

The initial strategic and service level risk registers are based on a mix of consolidated sovereign council registers and other exposures identified during the Shaping Dorset Council implementation programme. Executive / Corporate Directors are accountable for the top level strategic risks. Operational / service level risks meanwhile are owned by Heads of Service / Service Managers, with the performance of these informing the top level strategic risks. A summary of the corporate risks is identified at Appendix A.

A full risk profiling exercise is proposed for Autumn 2019 now that the management structures are largely in place. The aim of this work will be to challenge and refresh the content of the registers and ensure that they accurately reflect the current risk profile of the Council. However this work has been delayed as a result of staffing gaps within the corporate risk function. Once complete, future quarterly reports will include a management update on High service risks.

Although the full risk profiling has been delayed, capacity has been focussed on ensuring that risks associated with the potential of a no-deal EU Exit have been identified and managed. This feeds into the wider Dorset Local Resilience Forum response. The Council has an identified dedicated Gold (John Sellgren, Executive Director of Place) and Silver (Matthew Piles, Corporate Director for Economic Growth and Infrastructure). A strategic EU Exit Impact Group has been established, chaired by John Sellgren, which includes challenging the EU Exit risk register. The key risks currently identified are included at Appendix B.

The risk framework approved by the Shadow Executive places an emphasis on gaining assurance on the effectiveness of risk controls, and this will start to be rolled out as part of the risk profiling work.

Once finalised, the risk register will be accessible from Sharepoint and transparent to all staff and elected members. However, it hasn't been promoted significantly at this stage, pending the profiling work.

Overview of risk management rests with the new Assurance function, which is looking to embed a culture of organisational learning from risk events that occur.

**Equalities Impact Assessment:**

There is no change in policy, or impact on equalities groups, associated with this report.

**Budget:**

No budget implications specifically, although unmanaged risks may pose a threat to the Council's financial stability. Identified risk improvement measures may also have direct budget implications, each of which need to be subject to a cost/benefit analysis prior to implementation.

**Risk Assessment:**

Having considered the risks associated with this decision using the Council's approved risk management methodology, the level of risk has been identified as:

Current Risk: HIGH  
Residual Risk: HIGH

The risk level is identified as High as Appendix A provides an update on those High level risks which are currently identified within the Corporate Risk Register.

**Climate implications:**

"Failure to protect our environment and adapt services and communities to the impacts of a changing climate" is identified as one of the 20 corporate risk themes.

**Other Implications:**

**Recommendation:**

That Audit and Governance Committee:

- Note the key risks identified in the corporate risk register and the proposals to carry out more detailed risk profiling to challenge service level risks;
- Note the work currently underway to manage the risks associated with the potential for a no-deal EU Exit.

**Reason for Recommendation:**

To ensure that the Council's risk management methodologies remain current, proportionate and effective in enabling risk informed decisions to be made.

**Appendices:**

Appendix A – Summary of Dorset Council corporate risks;

Appendix B – Summary of Dorset Council EU Exit risk register.

Appendix C – Dorset Council Risk Scoring Matrix

**Background Papers:****Officer Contact:**

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## **APPENDIX A**

### **Summary of Corporate Risks**

*Please note, corporate risks are informed by a more detailed schedule of service level risks.*

<b>Ref</b>	<b>Risk Description</b>	<b>Current Risk Level</b>
CRR 01	Failure to adequately manage the financial position leads to an overspend which is untenable in the medium term	<b>High</b>
CRR 02	Loss of ICT service or data through a cyber attack	<b>High</b>
CRR 03	Failure to recruit, develop and retain the required workforce skills leads to an inability to deliver the Council's vision	<b>High</b>
CRR 04	Failure to safeguard personal information or the misuse of information leads to a breach of the General Data Protection Regulations	Medium
CRR 05	Failure to respond to a major event (internal or external) that could impact on the community, the environment and/or the delivery of critical Council services	Medium
CRR 06	A failure to understand and manage EU Exit implications on the Council results in a breach of statutory duty or service failure	Medium
CRR 07	Failure to provide adequate provision of infrastructure leads to inability to deliver the Council's vision	<b>High</b>
CRR 08	Failure to provide a good education to young people in Dorset	Medium
CRR 09	A failure to manage the service transformation process results in poor service outcomes and negative staff morale	Medium
CRR 10	Failure to manage the extent of staff changes and structural change results in a significant loss of corporate knowledge	Medium
CRR 11	Failure to protect our environment and adapt services and communities to the impacts of a changing climate	Medium
CRR 12	Failure of process, policy or procedure leads to a breach of statutory duty, litigation or cessation of critical service	Medium
CRR 13	Failure to protect the health, safety and wellbeing of staff, contractors or the public leads to significant financial and/or reputational damage	Medium
CRR 14	A safeguarding failure results in the harm or neglect of a vulnerable person	Medium
CRR 15	Failure to effectively commission services results in poor value for money, service failure or legal challenge	Medium
CRR 16	Failure to maintain an effective political and managerial interface leads to a breakdown in effectiveness	Medium
CRR 17	Major service failure associated with transport provision for schools	Medium
CRR 18	Failure to use sufficient and meaningful evidence leads to incorrect decisions	Medium
CRR 19	Failure to sustain an effective relationship with key partners results in a service delivery failure	Medium
CRR 20	Failure to successfully deliver an election impacts on the Council's reputation and incurs costs	Medium



**APPENDIX B****Summary of EU Exit Risk Register**

<b>ID</b>	<b>Potential Risk</b>	<b>Risk Owner</b>	<b>Current Risk Rating</b>
55	Disruption to the distribution of medicines	Service Manager for Assurance	Medium
56	Disruption to Food Supply Chain (and other supply chains)	Service Manager for Assurance	Medium
57	Large scale public disorder in site(s) in a single city or town in multiple cities/towns, occurring concurrently over several days.	Service Manager for Assurance	Low
59	Impact of EU Exit related disruption coinciding with other events or emergencies (e.g. severe weather, organised events)	Service Manager for Assurance	Medium
24	Increase in safeguarding referrals due to vulnerable members of communities being exploited should there be problems with supply-side resulting in shortages of food and fuel	Corporate Director – Adult Care Operations	Medium
25	Increased referrals as carers and/or good neighbours become stressed as people look to their own needs, rather than those of others, at times of shortage.	Corporate Director – Adult Care Operations	Medium
26	Shortages of fuel means domiciliary care staff unable to travel, leaving people at risk	Corporate Director – Adult Care Operations	Medium
27	Potential return of Ex pats who may be older with care needs. This will increase pressure on services	Corporate Director – Adult Care Operations	Medium
23	Increased demand on Social Work for statutory assessment and reviews due to possible Provider Failure resulting in delaying time for completion of assessment and increasing in time for those awaiting commencement of assessment	Corporate Director – Adult Care Operations	Medium
19	Inability to recruit and retain EU citizens within Adult Social Care	Head of Commissioning, Adult Social Care	Medium
20	Uncertainty of EU Exit outcomes impacts on sustainability and deliverability of Adult Social Care statutory duties	Head of Commissioning, Adult Social Care	Medium
21	Uncertainty of EU Exit outcomes results in service provider failure	Head of Commissioning, Adult Social Care	Medium
22	Uncertainty of EU Exit outcomes results in a failure to deliver strategic/transformation initiatives	Head of Commissioning, Adult Social Care	Medium
33	Potential increase in hate crime incidents following a no deal EU Exit	Community Safety Partnership Manager	Medium
34	Risk of increases in modern slavery cases	Community Safety Partnership Manager	Medium

<b>ID</b>	<b>Potential Risk</b>	<b>Risk Owner</b>	<b>Current Risk Rating</b>
35	Potential increases in extremist activity (far right / far left)	Community Safety Partnership Manager	Medium
36	Potential for public disorder issues in the event of No Deal EU Exit	Community Safety Partnership Manager	Medium
37	Potential for short term increases in other specific crimes, e.g. domestic abuse in the event of a No Deal EU Exit	Community Safety Partnership Manager	Medium
38	Increased school closures, due to a range of No Deal EU Exit related impacts	Senior Manager, Commissioning & Partnerships	Medium
39	Increase in safeguarding referrals, due to a range of No Deal EU Exit related impacts	Service Manager, Commissioning & Partnerships	Medium
40	Fuel shortages result in service invoking contingency measures and reducing overall effectiveness of Childrens Services	Senior Manager, Commissioning & Partnerships	Medium
111	Community tension increase following school closures and lack of supervision	Senior Manager, Commissioning & Partnerships	Low
54	Changes in regulations and border controls results in a significant slowdown in the existing flow of goods and people (Poole Port / Bournemouth Airport)	Head of Highways	Medium
46	Impact of a No Deal EU Exit upon workforce and sectors dependent upon EU27 citizens, especially social care and health, land based and tourism.	Service Manager for Growth & Regeneration	Medium
47	Uncertainty among the business community, in relation to for instance, food standards, trading standards, export health certificates, etc.	Service Manager for Growth & Regeneration	Medium
48	Impacts of a No Deal EU Exit on delivery of EU structural funds and Common Agricultural Policy payments	Service Manager for Growth & Regeneration	Medium
49	Disruption to supply of construction minerals impacting on the Councils ability to support the construction industry	Service Manager for Operational Planning & Enforcement	Medium
50	No Deal EU Exit influences a fall in oil prices	Service Manager for Operational Planning & Enforcement	Low
51	Tariff on export of waste affecting contractual arrangements	Service Manager for Operational Planning & Enforcement	Medium
52	Uncertainties of EU Exit impact on the local plan policy framework	Service Manager for Operational Planning & Enforcement	Low

<b>ID</b>	<b>Potential Risk</b>	<b>Risk Owner</b>	<b>Current Risk Rating</b>
53	Impacts of EU Exit on legislative basis for environmental policies	Service Manager for Operational Planning & Enforcement	Low
41	Dorset's Residual Waste disposal is largely dependent on Refuse Derived Fuel (RDF) Export	Head of Waste	Medium
42	Local waste storage capacity	Head of Waste	Medium
43	Availability of vehicle parts for waste collection fleet	Head of Waste	Medium
44	Uncertainty in the market place at the time of tendering	Head of Waste	Medium
45	Waste service workforce	Head of Waste	Medium
178	Failure to issue new Export Health Certificates for fish leading to business block/ failure and /or other service disruption	Service Manager for Food, H&S and Port Health	Medium
28	Loss of pet passport allowing movement of pets may lead to increase pet smuggling / disease	Service Manager for Trading Standards	Low
29	Overspill from port of detained live animal exports – animals waiting too long. Husbandry issues	Service Manager for Trading Standards	Low
30	Quality of goods imported from outside EU not meeting current safety standards	Service Manager for Trading Standards	Medium
31	Changes to marking and labelling of goods (safety/food) - consumer understanding fails	Service Manager for Trading Standards	Medium
32	Access to information systems on product safety and animal movement across Europe may be lost.	Service Manager for Trading Standards	Low
176	Legislative changes leading to business advice and officer re-training	Service Manager for Trading Standards	Medium
175	Waste Services - Fuel	Head of Waste	Medium

**High / Worsening Risks (Exception Reporting):**

<b>Risk</b>	<b>Risk Owner</b>	<b>Risk Level</b>	<b>Management Update</b>
59) Impact of EU Exit related disruption coinciding with other events or emergencies (e.g. severe weather, organised events)	Service Manager for Assurance	Medium (Worsening)	With the potential of a no-deal EU Exit at end of October, there is an increased chance of a secondary (concurrent) incident such as severe weather-related event (snow; flooding) or pandemic flu. To mitigate this, a dedicated EU Exit Gold and Silver have been allocated in addition to the usual command and control structure (i.e. rota Gold, Silver and other duty officers). However, it is recognised that concurrent events would put significant strain on a number of service areas. Business continuity plans will look to prioritise service delivery.

**Dorset Council Risk Scoring Matrix**

**IMPACT (1 to 5)**

Score	Financial	Legal / Compliance	Strategic	Safety, Wellbeing & Safeguarding	Reputation	Service Delivery
5	Over £1 million	Non-compliance with legislation or regulatory breach	Complete failure of a strategic priority	Fatality or life-changing injury / illness; Significant safeguarding breach	Complete failure in confidence (local or national)	Complete failure to deliver critical services (safeguarding; urgent statutory responsibilities etc)
4	£500k to £1 million	Significant regulatory impact	Major impact on a strategic priority	Major injury / illness; moderate safeguarding breach	Long term media attention (local or national)	Major impact on delivering critical services (safeguarding; urgent statutory responsibilities etc)
3	£300k to £500k	Moderate regulatory impact	Moderate impact on a strategic priority	Moderate injury / illness	Medium term negative impact on public memory	Serious disruption to less critical services
2	£100k to £300k	Minimal regulatory impact	Minor impact on a strategic priority	Injury or illness requiring minimal intervention / treatment	Short term negative impact on public memory	Minor disruption to services
1	£100k or less	No legal or regulatory impacts	Negligible impact on a strategic priority	No health and safety impact	Minor complaints or rumours	Negligible disruption to service delivery

**LIKLIHOOD (1 to 5)**

5	Almost Certain	Over 80% chance
4	Likely	61 – 80% chance
3	Possible	41 – 60% chance
2	Unlikely	21 – 40% chance
1	Rare	0 – 20% chance

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Date of Meeting: 17 September 2019

Lead Member: Cllr Matt Hall – Chair, Audit & Governance Committee

Local Member(s): N/A

Lead Officer: Aidan Dunn

**Executive Summary:**

The Committee has scheduled a review of the Council’s financial regulations at its meeting in September 2019. Regular review is good practice.

The regulations form part of Dorset Council’s constitution and material amendments must be agreed by the Council. Financial regulations are part of the Council’s internal control environment and so commenting upon them and making recommendations to the full Council fall within the remit of this committee. When the Shadow Council adopted the wider constitution of Dorset Council it agreed that a review of the constitution should take place after the first year of operation. It is intended that the wider review will be undertaken by an executive advisory panel drawn on a cross party basis from the wider council.

The current financial regulations (Appendix 1) were developed by the finance and legal working groups as part of the *Shaping Dorset Council* work programme. The regulations were approved as part of the overall constitution, by the Shadow Council on 24 January 2019.

**Equalities Impact Assessment:**

This report does not deal with any new strategies or policies that would trigger an impact assessment.

**Budget:**

N/A

**Risk Assessment:**

Current Risk: LOW

Residual Risk: LOW

**Climate implications:**

N/A

**Other Implications:**

N/A

**Recommendation:**

It is recommended that the Committee note the Finance Regulations and suggest when the next review might be appropriate.

**Reason for Recommendation:**

The finance regulations are an important part of Dorset Council's constitution and as part of the internal control environment should be subject to regular review by the Audit and Governance Committee.

The constitution was approved on 24 January 2019, so changes are not anticipated at this stage.

**Appendices:**

Dorset Council Finance Regulations

**Background Papers:**

**Officer Contact:**

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## **FINANCIAL REGULATIONS**

For the purposes of Article 14 of this Constitution these are the Financial Regulations for the purposes of the management of the Council's financial affairs.

### **1. INTRODUCTION**

- 1.1. These Financial Regulations apply to every Member and officer and anyone acting on the Council's behalf. They identify the financial responsibilities of the Full Council; the Executive; Executive Committees (if any); individual members of the Executive; committees and sub-committees; the Head of Paid Service, the Monitoring Officer, the Section 151 Officer, Executive Directors and other officers.
- 1.2. In these Financial Regulations references to:
  - "Executive Director" includes the Corporate Director - Legal and Democratic Services;
  - designated officers include any officer duly authorised for the purpose of these Financial Regulations; and
  - where powers have been delegated to other officers, references to a designated officer should be read as if referring to the officer with the delegated power.
- 1.3. The Section 151 Officer will review these Financial Regulations and make changes as he/she considers necessary for the efficient and effective financial management of the Council in accordance with his/her powers under Article 15.
- 1.4. The Section 151 Officer can allow exceptions to these rules where he/she believes that the interests of the Council would be best served subject to prior consultation with the Leader and/or other such Member as the Section 151 Officer considers appropriate.
- 1.5. These Financial Regulations apply equally to any partnership where the Council exercises management control. If in any doubt issues should be discussed with the relevant Executive Director and/or the Section 151 Officer.
- 1.6. The Section 151 Officer is responsible for reporting, where appropriate, financial breaches of these Financial Regulations to the Audit and Governance Committee. Breaches that amount to unlawful actions will be reported by the Section 151 Officer in accordance with his duties under section 114 of the Local Government and Finance Act 1988.
- 1.7. The Section 151 Officer will issue advice, guidance and detailed financial procedures to underpin these Financial Regulations that Members, officers and others acting on behalf of the Council are required to follow.

### **Financial Regulation A: Financial Management**

#### **Introduction**

- A.1 Financial management covers all financial accountabilities in relation to the

running of the Council, including the budgetary framework and budget.

### **Section 151 Officer**

A.2 The Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the Council, which are set out in Article 12 of the Constitution.

### **Executive Directors**

- A.3 Each Executive Director is responsible in his/her own service areas for:
- ensuring that all reports to Members contain sufficient financial information to allow them to understand the budgetary implications and financial risks associated with any proposals.
  - signing contracts on behalf of the Council as provided for in the Officer Scheme of Delegation.
- A.4 An Executive Director must take financial advice on any matter liable to result in any budget in his/her control being exceeded in any financial year (after any approved virements), before any further commitments are incurred.

### **Other Financial Accountabilities**

#### **Virement**

- A.5 Virement between budget lines of the annual revenue estimates need not be approved by Council provided it does not:
- compromise policy objectives for the cost centre relinquishing the budget;
  - result in any additional costs or commitments in future years;
  - utilise fortuitous savings in expenditure or increases in income; or
  - involve virement from recharge budgets.
- A.6 An Executive Director is responsible for agreeing virements within delegated limits on budgets within his/her responsibility and/or control, in consultation with the Section 151 Officer where required. He/she must notify the Section 151 Officer of all virements and as necessary these will be reported by the Section 151 Officer to Members.
- A.7 The Section 151 Officer may vire between budgets within the control of any one or more Executive Directors.

#### **Treatment of year-end balances**

A.8 Members are responsible for agreeing procedures for carrying forward under and overspend budgets.

#### **Accounting policies**

A.9 The Section 151 Officer shall determine appropriate technical accounting policies and standards.

### **Accounting records and returns**

- A.10 The Section 151 Officer shall determine the accounting records and returns for the Council.

### **The Annual Statement of Accounts**

- A.11 The Section 151 Officer is responsible for ensuring that the annual statement of accounts is prepared in accordance with relevant accounting Codes of Practice and the Accounts and Audit Regulations 2015. The Audit and Governance Committee is responsible for approving the annual statement of accounts.

### **Government Grants**

- A.12 All bids and claims for Government grant, including lottery funding, and all related estimates or forecasts, must be submitted to the Section 151 Officer and the relevant Executive Director before submission or as otherwise provided for in the Officer Scheme of Delegations.

### **Bank Arrangements**

- A.13 The Section 151 Officer is responsible for putting in place appropriate banking arrangements with the Council's bankers, including setting up subsidiary accounts.

### **Procurement**

- A.14 The Section 151 Officer is responsible for advising the Executive on the Council's procurement policies and arrangements.

### **Financial Regulation B: Financial Planning**

#### **Introduction**

- B.1 The Full Council is responsible for approving the Council's Budget and Policy Framework – Part 2 of the Constitution - and the council tax which will be proposed by the Executive. The key elements of financial planning are the:
- Corporate Plan;
  - Capital Strategy;
  - Asset Management Plan;
  - Risk Management Policy Statement and Strategy;
  - Treasury Management Strategy;
  - Medium Term Financial Plan;
  - Revenue Budget; and
  - Capital Programme

#### **Policy Framework**

- B.2 Unless it determines otherwise, the Full Council is also responsible for approving procedures for agreeing variations to approved budgets, plans

and strategies forming the policy framework and for determining the circumstances in which a decision is deemed to be contrary to the Budget and Policy Framework. Decisions will be referred to the Full Council by the Monitoring Officer and/or the Section 151 Officer.

- B.3 The Full Council is responsible for setting the level at which the Executive may reallocate budgets from one service to another. The Executive is responsible for taking in-year decisions on resources and priorities to deliver the Budget and Policy Framework within the financial limits set by the Council.

## **Budgeting**

### **Budget format**

- B.4 The Section 151 Officer is responsible for determining the general format of the budget. The draft budget will include allocation to different services and projects, proposed taxation levels and contingency funds.

### **Budget preparation**

- B.5 The Section 151 Officer is responsible for ensuring that a budget is prepared on an annual basis and a longer term budget plan is prepared for consideration by the Executive, before submission to the Full Council. The Full Council may amend the budget or ask the Executive to reconsider it before approving it. Further details on this procedure can be found in the Policy and Budgetary Framework Procedure Rules – Part 2 of the Constitution.
- B.6 Guidelines on budget preparation will be issued to Executive Directors by the Executive following agreement with the Section 151 Officer. The guidelines will take account of:
- legal requirements;
  - medium-term planning prospects;
  - the Corporate Plan;
  - available resources;
  - spending pressures;
  - best value and other relevant Government guidelines;
  - other internal policy documents; and
  - cross-cutting issues (where relevant).
- B.7 An Executive Director is responsible for submitting budget estimates to the Section 151 Officer that reflect agreed service plans and that are prepared in line with the guidance issued by the Executive.

## **Resource Allocation**

- B.8 The Section 151 Officer is responsible for developing and maintaining a resource allocation process that ensures due consideration of the Council's Policy Framework.

## **Preparation of the Capital Programme**

- B.9 The Section 151 Officer is responsible for ensuring that a capital programme is prepared annually for consideration by the Executive before submission to the Full Council.

## **Maintenance of Reserves and Balances**

- B.10 The Section 151 Officer is responsible for advising the Executive and/or the Full Council on prudent levels of reserves and balances.

## **Budget Monitoring and Control**

- B.11 The Section 151 Officer is responsible for providing appropriate financial information to enable budgets to be monitored effectively.
- B.12 The Section 151 Officer must monitor and control expenditure against budget allocations. Any variation (after approved virements) that the Section 151 Officer considers material will be reported to the Executive.
- B.13 An Executive Director is responsible for controlling income and expenditure in his/her own service area and for monitoring performance, taking account of financial information provided by the Section 151 Officer. He/she will alert the Section 151 Officer and report to Members on variances in his/her own service areas and take any action necessary to avoid exceeding his/her budget allocation (after any approved virements).
- B.14 No expenditure will be incurred on a purpose for which there is no provision in the approved estimates except:
- (a) where a supplementary estimate has been approved by the Executive/Full Council (as relevant) ; or
  - (b) in the case of an emergency as provided for in the Officers Scheme of Delegation.

## **Financial Regulation C: Risk Management and Control of Resources**

### **Introduction**

- C.1 It is essential that robust, integrated systems are developed and maintained for identifying and evaluating all significant operational risks to the Council. This will include the proactive participation of all those associated with planning and delivering services.

### **Risk Management**

- C.2 The Section 151 Officer and/or Monitoring Officer is responsible for:
- preparing the Council's risk management policy statement and strategy for approval by the Executive;
  - ensuring that appropriate insurances are in place;
  - promoting risk management throughout the Council; and
  - reviewing the effectiveness of the risk management policy statement and strategy.

## **Internal Control**

- C.3 Internal control refers to the systems of control devised by management to help ensure the Council's objectives are achieved in a manner that promotes economical, efficient and effective use of resources and that the Council's assets and interests are safeguarded.
- C.4 The Section 151 Officer is responsible for advising on effective systems of internal control which are compliant with all applicable statutes and regulations, and other relevant statements of best practice. The arrangements will aim to ensure that public funds are properly safeguarded and used economically, efficiently, and in accordance with the statutory and other authorities that govern their use.
- C.5 An Executive Director is responsible for establishing sound arrangements for planning, appraising, authorising and controlling operations in his/her own service area to achieve continuous improvement, economy, efficiency and effectiveness and for achieving his/her financial performance targets.

## **Audit requirements**

- C.6 The Accounts and Audit Regulations 2015 require every local authority to maintain an adequate and effective internal audit. The Section 151 Officer is responsible for internal audit and for this purpose he/she or his/her representative may inspect and audit all books of account, financial documents and all other records of the Council, visit any of the Council's premises and obtain such explanations and take away such records for examination as he/she may consider necessary.
- C.7 The Council may, from time to time, be subject to audit, inspection or investigation by external bodies such as HM Revenue and Customs, who have statutory rights of access.

## **Preventing fraud and corruption**

- C.8 The Council has a zero tolerance to fraud, bribery and corruption.
- C.9 The Section 151 Officer is responsible for the development and maintenance of an anti-fraud and anti-corruption policy.
- C.10 Where it is suspected that money or property has been stolen or otherwise misappropriated, or that a financial irregularity has occurred, the relevant Executive Director must immediately report the matter to the Section 151 Officer. The Section 151 Officer will report such matters as appropriate to Members.

## **Assets**

- C.11 An Executive Director will ensure that records and assets in his/her own service area are properly maintained and securely held. He/she will also ensure that contingency plans are in place for the security of assets and continuity of service in the event of disaster or system failure.
- C.12 An Executive Director is responsible for reporting any deficiencies of equipment or stores in his/her own service areas to the to the Section 151 Officer, who may authorise the items to be written off or instigate an

investigation into the circumstances.

### **Leasing, Finance and Hire Agreements**

- C.13 An Executive Director is responsible for ensuring that any proposal to enter into a leasing, finance or hire agreement in his/her own service areas is agreed in advance with the Section 151 Officer.

### **Property**

- C.14 The agreement of any terms for leasing of any property or the taking or granting of any interest in property must be undertaken by an Executive Director (or any other Officer delegated/nominated power for such purposes in accordance with the Officer Scheme of Delegations – Part 3(2) of the Constitution).
- C.15 Legal interests in property will be recorded in a Property Terrier or other record.
- C.16 Where exclusive possession of a building, parts of a building or any land is involved on other than a sessional basis or occasional hiring, an Executive Director or any other Officer delegated/nominated power for such purposes in accordance with the Officer Scheme of Delegations – Part 3(2) of the Constitution) will be responsible for making the necessary arrangements including the assessment of rent
- C.17 The Council has adopted policies on whistleblowing, fraud, bribery and anti-corruption all of which support the Council's zero tolerance to fraud, bribery and corruption.

### **Treasury Management**

- C.18 The Council has adopted CIPFA's Treasury Management Code of Practice 2017.
- C.19 The Full Council is responsible for approving a Treasury Management Strategy compliant with the Code of Practice.
- C.20 The Council has delegated responsibility for the implementation and monitoring of treasury management policies and practices to the Executive. The Executive has delegated the administration of treasury management decisions to the Section 151 Officer who will act in accordance with the Treasury Management Policy statement and CIPFA's standard of professional practice on treasury management.
- C.21 The Council has delegated to the Audit and Governance Committee responsibility for ensuring scrutiny of the Treasury Management Strategy and policies.

### **Staffing**

- C.22 The Chief Executive, as the Head of Paid Service, is responsible for providing overall management to staff. He/she is also responsible for the evaluation or other agreed systems for determining the remuneration of a job.
- C.23 An Executive Director is responsible for controlling total staff numbers in his/her own service areas by:

- advising the Executive on the annual budget required to cover estimated staffing levels;
- adjusting staffing to a level that can be funded within approved budget provision, varying the provision as necessary within that constraint to meet changing operational needs; and
- proper use of appointment procedures.

## **Financial Regulation D: Systems and Procedures**

### **Introduction**

D.1 Sound systems and procedures are essential to an effective framework of accountability and control.

### **General**

- D.2 The Section 151 Officer is responsible for the operation of the Council's accounting systems, the form of accounts and the supporting financial records. Any changes made by an Executive Director to the existing financial systems or the establishment of new systems must be approved by the Section 151 Officer. However, an Executive Director is responsible for the proper operation of financial processes in his/her own service areas.
- D.3 An Executive Director must agree any changes to agreed procedures to meet his/her own specific service needs with the Section 151 Officer.
- D.4 An Executive Director will ensure that his/her staff receive relevant financial training that has been approved by the Section 151 Officer.
- D.5 An Executive Director must ensure that, where appropriate, computer and other systems in his/her own service areas are registered in accordance with data protection legislation. An Executive Director must ensure that staff in his/her own service areas are aware of their responsibilities under freedom of information legislation.

### **Income and Expenditure**

- D.6 The Section 151 Officer will be responsible for paying all properly incurred liabilities.
- D.7 An Executive Director is responsible for ensuring that a proper Scheme of Delegation has been established in his/her own service areas and is operating effectively. The Scheme of Delegation identifies staff authorised to act on the Executive Director's behalf, or on behalf of the Executive, in respect of payments, income collection and placing orders, together with the limits of his/her authority. Further details relating to officer delegations can be found in the Officer Scheme of Delegations - Part 3(2) of the Constitution.
- D.8 Once a charge has been raised no debtor will be excused a payment due to the Council other than with the approval of the relevant Executive Director and the Section 151 Officer. The Section 151 Officer will maintain a record of write-offs.



## **Payment to Employees and Members**

- D.9 The Executive Director - Corporate Development is responsible for payments of salaries, wages and allowances to staff, including payments for overtime, and for payment of allowances to Members.

## **Taxation**

- D.10 The Section 151 Officer is responsible for advising Executive Directors, in the light of guidance issued by the appropriate bodies and relevant legislation, on all taxation issues that affect the Council.
- D.11 The Section 151 Officer is responsible for maintaining the Council's tax records, making all tax payments, receiving tax credits and submitting tax returns by their due date as appropriate.

## **Trading Accounts/Business Units**

- D.12 It is the responsibility of the Section 151 Officer to advise Executive Directors on the establishment and operation of trading accounts and business units, and to determine the arrangements under which these are operated.

## **Financial Regulation E: External Arrangements**

### **Introduction**

- E.1 The Council provides a distinctive leadership role for the community and brings together the contributions of the various stakeholders.

### **Partnerships**

- E.2 The Executive will normally take the lead in forming partnerships with public, private voluntary and community sector organisations.
- E.3 The Section 151 Officer must ensure that the accounting arrangements to be adopted relating to partnerships and joint ventures are satisfactory. He/she must ensure that the financial risks have been fully appraised before agreements are entered into with external bodies.
- E.4 An Executive Director is responsible for ensuring that appropriate approvals are obtained before any negotiations are concluded in relation to work with external bodies.

### **External Income**

- E.5 The Section 151 Officer is responsible for the Council's arrangements for the pursuit, receipt and recording of external income.

### **Work for Third Parties**

- E.6 The Chief Executive is responsible for the arrangements for any work for third parties.

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Date of Meeting: 17 September 2019

Portfolio Holder: Cllr Tony Ferrari

Local Member(s): Not applicable

Director: Aidan Dunn, Executive Director Corporate Development

**Executive Summary:**

This report summarises the treasury management performance and position information for Dorset Council's six predecessor authorities for the year ended 31 March 2019.

Treasury management at the six authorities was conducted within the framework of CIPFA's Treasury Management Code of Practice. In adopting the code, recommended best practice is for members to approve an annual treasury management strategy report, and to then receive a mid-year update on progress against the strategy and a year-end review of actual performance against the strategy (this report).

Total capital expenditure in 2018/19 for all six authorities was £72.1m, compared to a combined estimate of £61.6m when the respective treasury management strategies were approved. This was primarily because of higher than expected slippage of projects within the Dorset County Council capital programme.

The combined Capital Financing Requirement (CFR) (or borrowing need) for all six authorities at 31 March 2019 was £364.4m, compared to a combined estimate of £369.5m when the respective strategies were approved. Again, this is largely the result of slippage in the unfinanced element of the capital programme.

Total actual external borrowing and other financing liabilities of the six predecessor authorities at 31 March 2019 was £265.1m, and the total interest payable on this borrowing was £11.9m. The difference between the CFR and actual borrowing was approximately £100m, financed temporarily by 'internal borrowing' – effectively reserves have temporarily offset the need to borrow.

The total cash, cash equivalents, and investments for all six authorities at 31 March 2019 was £147.5m, of which £14.8m was invested for longer than one year. The total interest and investment income for all six authorities for the year was approximately £5.8m.

**Equalities Impact Assessment:**

This report does not deal with any new strategies or policies that would trigger an impact assessment.

**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 management risks are highlighted as part of the treasury management strategy approved by Council 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

**Climate Implications:**

Not applicable.

**Other Implications:**

Not applicable.

**Recommendation:**

That the Committee note and comment upon the report.

**Reason for Recommendation:**

To better inform members of treasury management activity, in accordance with the corporate requirement to ensure money and resources are used wisely.

**Appendices:**

Appendix 1 – Treasury Management Outturn Summary 2018/19

**Background Papers:**

Treasury management strategy statements 2018/19 (for each predecessor authority)  
Statements of accounts 2018/19 (for each predecessor authority)

**Officer Contact:**

Name: David Wilkes, Service Manager for Operational Finance  
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Email: david.wilkes@dorsetcouncil.gov.uk



## **1. Introduction**

- 1.1 Local authorities operate a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. The role of treasury management is to ensure this cash flow is adequately planned, with surplus monies invested with low risk counterparties, ensuring adequate liquidity initially before then considering optimising investment return.
- 1.2 The second main function of the treasury management service is the funding of capital plans. These capital plans provide a guide to the borrowing needs of councils, essentially longer-term cash flow planning to ensure capital spending requirements can be met. This management of longer-term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. Also, on occasion, any debt previously drawn may be restructured to meet risk or cost objectives.
- 1.3 Accordingly, treasury management is defined by CIPFA as:  
“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 1.4 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the TM Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code), and the obligation under the Local Government Act 2003 to have regard to the TM Code.
- 1.5 The TM Code recommends that local authorities produce for each financial year as a minimum:
  - An annual treasury strategy in advance of the year;
  - A mid-year treasury update report, and;
  - An annual review following the end of the year describing the activity compared to the strategy (this report).
- 1.6 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 positions for 2018/19 for treasury activities, and highlights compliance with the predecessor councils’ policies previously agreed by members of those councils.
- 1.7 The key outturn and comparator figures for the treasury management activities of the councils are summarised in Appendix 1. All figures are sourced from either the treasury management strategies or the final accounts for each of the predecessor authorities.

## **2. Treasury Management Advisers**

- 2.1 Treasury management advisers provide a range of services which include:
  - Technical support on treasury matters, capital finance issues and the drafting of reports;
  - Economic and interest rate analysis;
  - Debt services which includes advice on the timing of borrowing;

- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments; and
- Credit ratings-market information service comprising the tmain credit rating agencies.

2.2 Whilst advisers provide support to the internal treasury function, under current market rules and the TM Code, the final decision on treasury matters remains with councils.

2.3 The six predecessor authorities all used treasury management advisers. Dorset County Council and Purbeck District Council both used Link Asset Services (formerly Capita Asset Services). East Dorset District Council, North Dorset District Council, West Dorset District Council and Weymouth and Portland Borough Council all used Arlingclose. Following a selection process, Arlingclose have been appointed as treasury management advisers to Dorset Council.

### 3. Economic Background and Interest Rate Forecasts

3.1 Part of the service provided by treasury management advisers is to help clients formulate a view on likely changes to interest rates.

3.2 In early 2018, when the predecessor authorities were finalising their strategy statements for 2018/19, Arlingclose forecast interest rates to remain broadly constant over the year but with some volatility, particularly driven by the progress of EU exit negotiations. Link forecast one 0.25% increase in Bank Rate during the year, with investment returns and borrowing rates increasing marginally too, but cautioned that the balance of risks to the UK economy was to the downside, highlighting in particular uncertainties in relation to Brexit.

3.3 UK economic growth in the first half of 2018/19 was modest but sufficiently robust for the Bank of England’s Monetary Policy Committee (MPC) to unanimously vote in August 2018 to increase Bank Rate from 0.5% to 0.75%. Some MPC members had expressed concerns about a build-up of inflationary pressures and the MPC indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on target. However, expectations of further increases over the remainder of the year (and into 2019/20) subsided as Brexit uncertainties continued, and concerns grew about the risk of a global economic slowdown.

3.4 The following table gives Arlingclose’s most recent forecast for UK Bank Rate, short term investment returns (LIBID) and borrowing rates from the Public Works Loans Board (PWLB):

	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-21	Mar-21	Jun-21
BANK RATE	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
3 month LIBID	0.95%	1.00%	1.15%	1.25%	1.35%	1.35%	1.35%	1.35%
6 month LIBID	1.00%	1.05%	1.20%	1.30%	1.40%	1.40%	1.40%	1.40%
12 month LIBID	1.15%	1.25%	1.40%	1.45%	1.55%	1.55%	1.55%	1.55%
5 Yr PWLB	0.85%	0.95%	1.05%	1.10%	1.10%	1.10%	1.10%	1.10%
10 Yr PWLB	1.05%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.50%
20 Yr PWLB	1.55%	1.60%	1.75%	1.80%	1.90%	1.95%	1.95%	1.95%
50 Yr PWLB	1.50%	1.55%	1.70%	1.75%	1.85%	1.90%	1.90%	1.90%

#### 4. Capital Expenditure

- 4.1 Total capital expenditure in 2018/19 for all six predecessor authorities was £72.1m, compared to a combined estimate of £61.6m when the respective strategies were approved.

	<b>DCC</b>	<b>EDDC</b>	<b>NDDC</b>	<b>PDC</b>	<b>WDDC</b>	<b>W&amp;PBC</b>	<b>Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Capital Expenditure:							
Estimate	64,341	3,457	42	1,010	1,401	1,856	72,107
Actual	53,806	1,770	168	1,857	3,157	853	61,611
Under / (Over) Spend	10,535	1,687	- 126	- 847	- 1,756	1,003	10,496

- 4.2 The underspend was driven largely by higher than expected slippage of projects within the Dorset County Council capital programme, with funding carried forward into 2019/20 to enable those projects to be completed.

#### 5. Capital Financing Requirement (CFR)

- 5.1 Councils' capital expenditure on long-term assets may either be financed immediately through the application of capital or revenue resources, including capital receipts from asset sales, capital grants received from central government or from revenue budgets, and has no impact on borrowing need. If insufficient financing is available, or a decision is made not to apply resources, capital expenditure will give rise to a borrowing need.
- 5.2 The Capital Financing Requirement (CFR) is the cumulative unfinanced element of the capital programme and is made up of a council's underlying need to borrow in addition to any Private Finance Initiative (PFI) and finance lease liabilities it may have.
- 5.3 In 2002, the Government changed the way in which it helped councils to fund their capital spend. Rather than paying councils capital grants the Government gave 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. As part of the 2010 grant changes this part of the funding formula has been removed.
- 5.4 Part of a council's treasury activity is to address the funding requirements for this borrowing need, and the cash position must be managed to ensure that there is sufficient cash available to meet capital plans and 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 temporarily utilising cash resources from within the council ('internal borrowing').
- 5.5 A council's borrowing need, and therefore 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.
- 5.6 It is important to stress that the borrowing need or requirement is not the same as the actual amount of borrowing held by a council. The decisions on the level of borrowing are taken as part of the treasury management operations of a council, subject to overriding limits in the treasury management strategy agreed by members annually.



- 5.7 The CFR can also be reduced by the application of additional capital financing resources (such as unapplied capital receipts or government grants); or by charging more than the statutory revenue charge (MRP) each year through a voluntary revenue provision.
- 5.8 The total CFR for all six predecessor authorities at 31 March 2019 was £364.4m, compared to a combined estimate of £369.5m when the respective strategies were approved.

	<b>DCC</b>	<b>EDDC</b>	<b>NDDC</b>	<b>PDC</b>	<b>WDDC</b>	<b>W&amp;PBC</b>	<b>Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Capital Financing Requirement:							
Opening CFR 01.04.2018	340,624	52	-	-	10,080	8,281	359,037
Closing CFR 31.03.2019	346,185	50	-	-	10,005	8,201	364,441
Estimated CFR 31.03.2019	351,303	48	-	-	10,000	8,100	369,451

## **6. Borrowing and Other External Capital Financing**

- 6.1 Actual borrowing activity is constrained by the CFR, the operational boundary and the authorised limit, and maturity limits, all approved annually in the Treasury Management Strategy.
- 6.2 In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, a council's external borrowing should not exceed the brought forward CFR for the year plus the expected changes to the CFR from financing the capital programme for the current and next two financial years. This aims to prevent councils from borrowing to support revenue expenditure. It does, however, allow 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.
- 6.3 The 'operational boundary' is the limit beyond which external debt is not normally expected to exceed, based on the CFR plus an allowance for short term borrowing that might be required for cash flow purposes or unexpected calls on capital resources. The 'authorised limit' is based on the operational boundary but includes a margin to allow for unusual or unpredicted demands on cash.
- 6.4 In addition, 'maturity limits' can help councils to manage 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 a 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.
- 6.5 In 2018/19, all six predecessor authorities complied with these prudential indicators as set out in their respective treasury management strategies.
- 6.6 The total borrowing, PFI and other financing liabilities of the six predecessor authorities at 31 March 2019 was £265.1m.

	<b>DCC</b>	<b>EDDC</b>	<b>NDDC</b>	<b>PDC</b>	<b>WDDC</b>	<b>W&amp;PBC</b>	<b>Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Capital Financing - actual:							
Short Term Borrowing	30,942	-	-	-	602	372	31,916
Long Term Borrowing	180,020	-	-	-	-	21,086	201,106
<b>Total Borrowing</b>	<b>210,962</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>602</b>	<b>21,458</b>	<b>233,022</b>
Long Term PFI Liabilities	25,643	-	-	-	-	-	25,643
Obligations under Finance Leases	6,458	-	-	-	-	-	6,458
<b>Total Capital Financing</b>	<b>243,063</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>602</b>	<b>21,458</b>	<b>265,123</b>

6.7 The total interest payable on borrowing for all six predecessor authorities in 2018/19 was £11.9m.

	<b>DCC</b>	<b>EDDC</b>	<b>NDDC</b>	<b>PDC</b>	<b>WDDC</b>	<b>W&amp;PBC</b>	<b>Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Interest Payable	7,348	5	40	-	943	3,530	11,866

## 7. Investments

7.1 The TM Code requires councils to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return. Each predecessor authority invested in accordance with its own investment strategy, agreed by members alongside the treasury management strategy each year.

7.2 Balances available for investment fluctuate throughout the year as part of day to day operations, and cashflows are monitored and projections updated on a daily basis. Liquidity was maintained at adequate levels during the year by all six predecessor authorities, with no concerns over the ability to discharge creditors and other payments as they fell due.

7.3 The total cash, cash equivalents, and investments for all six predecessor authorities at 31 March 2019 was £147.5m. Of this, £14.8m was invested for longer than one year, compared to a combined upper limit of £161.0m.

	<b>DCC</b>	<b>EDDC</b>	<b>NDDC</b>	<b>PDC</b>	<b>WDDC</b>	<b>W&amp;PBC</b>	<b>Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Cash and Investments:							
Cash & Cash Equivalents	3,512	19,555	5,068	153	6,257	6,118	40,663
Short Term Investments	-	-	18,652	2,280	40,907	30,145	91,984
Long Term Investments	38	-	-	2,046	6,314	6,432	14,830
<b>Total Cash &amp; Investments</b>	<b>3,550</b>	<b>19,555</b>	<b>23,720</b>	<b>4,479</b>	<b>53,478</b>	<b>42,695</b>	<b>147,477</b>

7.4 The total interest and investment income for all six predecessor authorities for the year was approximately £5.8m.

	<b>DCC</b>	<b>EDDC</b>	<b>NDDC</b>	<b>PDC</b>	<b>WDDC</b>	<b>W&amp;PBC</b>	<b>Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Interest & Investment Income	- 178	- 124	- 674	- 145	- 2,628	- 2,013	- 5,762

## **8. Member and Officer Training**

- 8.1 The high level of risk inherent in treasury management means officers need to be adequately experienced and qualified. Officers attend national treasury management events and training courses, and have regular strategy and review meetings with advisers, as well as regular telephone contact.
- 8.2 A training session for all Dorset Council's elected members will be provided by officers and advisers to further explain the responsibilities that members have in relation to treasury management. Further training will also be provided from time to time.

## **9. Local Government Reorganisation (disaggregation)**

- 9.1 The creation of two new unitary councils in Dorset has made it necessary to divide Dorset County Council's assets and liabilities as at 31 March 2019 between Dorset Council and Bournemouth, Christchurch and Poole (BCP) Council.
- 9.2 The principles for this process of disaggregation were agreed as part of preparations for setting up the two new councils. Officers from both councils are currently working through the DCC balance sheet detail to ensure the principles are applied correctly and consistently. This work should be complete by the end of September 2019.
- 9.3 The results of this exercise will have an impact on Dorset Council's capital financing requirements, and levels of borrowing and investments.

**Aidan Dunn**  
**Executive Director Corporate Development**  
**September 2019**

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**Appendix 1: Treasury Management Outturn Summary 2018/19**

	<b>DCC</b>	<b>EDDC</b>	<b>NDDC</b>	<b>PDC</b>	<b>WDDC</b>	<b>W&amp;PBC</b>	<b>Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Capital Expenditure:							
Estimate	64,341	3,457	42	1,010	1,401	1,856	72,107
Actual	53,806	1,770	168	1,857	3,157	853	61,611
Under / (Over) Spend	10,535	1,687	- 126	- 847	- 1,756	1,003	10,496
Capital Financing Requirement:							
Opening CFR 01.04.2018	340,624	52	-	-	10,080	8,281	359,037
Closing CFR 31.03.2019	346,185	50	-	-	10,005	8,201	364,441
Estimated CFR 31.03.2019	351,303	48	-	-	10,000	8,100	369,451
Capital Financing - actual:							
Short Term Borrowing	30,942	-	-	-	602	372	31,916
Long Term Borrowing	180,020	-	-	-	-	21,086	201,106
<b>Total Borrowing</b>	<b>210,962</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>602</b>	<b>21,458</b>	<b>233,022</b>
Long Term PFI Liabilities	25,643	-	-	-	-	-	25,643
Obligations under Finance Leases	6,458	-	-	-	-	-	6,458
<b>Total Capital Financing</b>	<b>243,063</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>602</b>	<b>21,458</b>	<b>265,123</b>
Under / (Over) Borrowed	103,122	50	-	-	9,403	- 13,257	99,318
Operational Boundary for External Debt	376,000	48	2,000	-	19,000	67,000	464,048
Headroom	132,937	48	2,000	-	18,398	45,542	198,925
Authorised Limit for External Debt	398,000	1,048	3,500	10,000	24,000	72,000	508,548
Headroom	154,937	1,048	3,500	10,000	23,398	50,542	243,425
Maturity structure of borrowing:							
< 12 Months (upper limit)	25%	100%	100%	100%	100%	100%	
< 12 Months (actual 31.03.2019)	14%	n/a	n/a	n/a	100%	2%	
1 to 5 Years (upper limit)	25%	100%	100%	0%	100%	100%	
1 to 5 Years (actual 31.03.2019)	11%	n/a	n/a	n/a	0%	0%	
5 to 10 Years (upper limit)	35%	100%	100%	0%	100%	100%	
5 to 10 Years (actual 31.03.2019)	5%	n/a	n/a	n/a	0%	0%	
10 to 20 Years (upper limit)	35%	100%	100%	0%	100%	100%	
10 to 20 Years (actual 31.03.2019)	14%	n/a	n/a	n/a	0%	0%	
20 to 40 Years (upper limit)	45%	100%	100%	0%	100%	100%	
20 to 40 Years (actual 31.03.2019)	20%	n/a	n/a	n/a	0%	0%	
>40 Years (upper limit)	75%	100%	100%	0%	100%	100%	
>40 Years (actual 31.03.2019)	36%	n/a	n/a	n/a	0%	98%	
Cash and Investments:							
Cash & Cash Equivalents	3,512	19,555	5,068	153	6,257	6,118	40,663
Short Term Investments ( < 1 year)	-	-	18,652	2,280	40,907	30,145	91,984
Long Term Investments ( > 1 year)	38	-	-	2,046	6,314	6,432	14,830
<b>Total Cash &amp; Investments</b>	<b>3,550</b>	<b>19,555</b>	<b>23,720</b>	<b>4,479</b>	<b>53,478</b>	<b>42,695</b>	<b>147,477</b>
Limit for Investments > 1 year	20,000	-	24,000	2,000	65,000	50,000	161,000
Headroom	19,962	-	24,000	- 46	58,686	43,568	146,170
Interest Payable	7,348	5	40	-	943	3,530	11,866
Interest & Investment Income	- 178	- 124	- 674	- 145	- 2,628	- 2,013	- 5,762
<b>Net Interest Payable/(Receivable)</b>	<b>7,170</b>	<b>- 119</b>	<b>- 634</b>	<b>- 145</b>	<b>- 1,685</b>	<b>1,517</b>	<b>6,104</b>

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## Audit & Governance Committee

Finance report Qtr1 2019/20

Date of Meeting: 17 September 2019

Lead Member: Cllr Matt Hall – Chair, Audit & Governance Committee

Local Member(s): N/A

Lead Officer: Aidan Dunn

### **Executive Summary:**

Dorset Council's emerging governance arrangements involve review of the quarterly financial management reports by the Audit & Governance Committee after they have been received by Cabinet.

This report covers the Qtr1 report that was presented to Cabinet on 30 July 2019.

The Cabinet report is attached as Appendix 1. Members may also wish to refer to minutes of the Cabinet meeting for further information regarding the discussion of the report.

### **Equalities Impact Assessment:**

This report does not deal with any new strategies or policies that would trigger an impact assessment.

### **Budget:**

The report sets out a forecast overspend of £7.1m on Council budgets plus a further predicted overspend of £5.5m on the Dedicated Schools Grant.

The narrative around key variances is set out in the Cabinet paper and is therefore not repeated here.

### **Risk Assessment:**

Current Risk: HIGH

Residual Risk: HIGH

Any overspend in 2019/20 will impact on the Council's general funds and/or reserves.

As well as any overspend in-year, the Council will need to take account of any continuing cost or volume pressures when setting the budget strategy for 2020/21 and in the development of the Medium-Term Financial Plan (MTFP).

**Climate implications:**

N/A

**Other Implications:**

N/A

**Recommendation:**

It is recommended that the Committee:

1. note the predicted overspend at the end of the first quarter;
2. note the context around the budget that was set for the year;
3. discuss and agree what courses of action the Committee wishes to pursue in light of the forecast overspend.

**Reason for Recommendation:**

Amongst other things, the Committee's terms of reference refer to "the Council's risk management framework including the internal control environment, integrity of financial reporting and governance arrangements;".

Effective financial management is a cornerstone of this responsibility.

**Appendices:**

Cabinet Qtr1 Finance report 30 July 2019

**Background Papers:****Officer Contact:**

Name: Jim McManus

Tel: 01305 221235

Email: [jim.mcmanus@dorsetcouncil.gov.uk](mailto:jim.mcmanus@dorsetcouncil.gov.uk)



Date of Meeting: 30 July 2019

Lead Member: Cllr Tony Ferrari – Lead Member for finance, commercial and assets

Local Member(s): N/A

Lead Officer: Aidan Dunn

**Executive Summary:**

This report updates Cabinet on Dorset Council's financial performance, position and forecasts at the end of the first quarter of the new financial year.

Initial analysis of the expenditure information for the first three months of the year suggests that Dorset Council is currently forecasting a year end overspend of £7.1M on its directly controlled budgets, and up to £5.5M on funding for schools and education.

If necessary, the risk associated with this overspend can be funded by general reserves held by Dorset Council without exposing the Council to unnecessary financial risk. These general reserves have increased following the closure of the accounts from the predecessor authorities and are now higher than when the budget was agreed in February 2019.

Clearly reserves can only be spent once, and a continued overspend into 2020/21 is not sustainable. The following work is underway to address the forecast overspend:

- a) completion of the new staffing structures to achieve the planned savings identified by bringing the councils together;
- b) as the newly appointed finance team takes shape, a focus on review the budget, income and expenditure to identify further savings through the harmonisation process;
- c) implementation of the Children's and Adults services' improvement plans to improve services whilst reducing costs;
- d) continued focus on developing an organisation-wide transformation plan for 2020-24.

**Equalities Impact Assessment:**

This report does not deal with any new strategy or policy issues that would trigger the need for an impact assessment.

**Budget:**

Financial information is set out in this report.

**Risk Assessment:**

Having considered the risks associated with this decision, the level of risk has been identified as:

Current Risk: HIGH

Residual Risk: HIGH

There is material risk around some of the savings plans incorporated into the 2019/20 budget, especially concerning activities driving spend in Children's Services, Adult Services social care budgets and the High Needs Block (HNB) of the Dedicated Schools Grant (DSG).

There is less (and reducing) risk around convergence savings being delivered from reorganisation.

**Climate implications:**

N/A

**Other Implications:**

**Recommendation:**

Cabinet is asked to:

1. Note the Senior Leadership Team's forecast for Dorset Council's position at the end of quarter 1;
2. Note the context around the budget that was set for the year;
3. Comment on the actions/proposals to improve the position during the year;
4. Consider further actions needed to bring down spend during the year;
5. Note the impact that any overspend will have on reserves and the general fund;
6. Note the work going into reviewing Dorset Council's reserves and balances;
7. Note the approach to work to develop sustainability of the base budget position for 2020/21 and beyond;
8. Note and comment on the work going on around capital strategy and the capital programme and financing.

**Reason for Recommendation:**

Cabinet needs to consider the forecast position and risks potentially impacting over the remainder of the year. Support and/or challenge is needed for actions being taken in 2019/20 to balance the budget and consider the adequacy and use of reserves and to support transition and convergence.

2019/20 is a critical year for establishing the base budget for Dorset Council to enable an accurate, medium-term financial plan to be delivered alongside a longer-term, sustainable financial strategy.

**Appendices:**

None

**Background Papers:**

Budget paper 2019/20 approved by Shadow Council 20 Feb 2019

**Officer Contact:**

Name: Jim McManus

Tel: 01305 221235

Email: [jim.mcmanus@dorsetcouncil.gov.uk](mailto:jim.mcmanus@dorsetcouncil.gov.uk)

## 1. Introduction

- 1.1 Dorset Council's budget for 2019/20 was approved by the Shadow Council on 20 February 2019. It was built using the base budgets of the six predecessor councils and incorporated targets for staff savings and efficiencies from "de-duplication" where this could be identified. The level of the general fund reserve was set at £25.5m, safely above the £14.5m minimum recommended by the Chartered Institute of Public Finance and Accountancy (CiPFA).
- 1.2 The council plans to use 2019/20 as a transitional year of consolidation to release the savings from bringing the councils together, whilst developing medium and long-term service and financial plans for the future. The money identified to be released through the consolidation has been reinvested in front line service budgets.
- 1.3 Since 1 April, officers have been working to consolidate the predecessor councils' budgets and simplify them, to reflect the evolving structures of Dorset Council. This work will take some time to complete, but progress is being made and savings are accruing as we rebase the 2019/20 budget.

## 2. Outturn and the starting position

- 2.1 The outturn position for 2018/19 was positive with all six councils performing well against their revenue budgets. This means that the general fund reserve increased to approximately £29M (subject to disaggregation). This improvement gives some headroom to enable officers time to review the inherited budgets and spend, whilst coming to terms with the continuing growth - in particular in Children's Services spend.
- 2.2 There are other earmarked reserves that the council can use to support service delivery during the year. These were noted as being adequate in the

budget report. Officers are currently carrying out a review of *all* reserves to determine if they are still required for the purposes required.

### **3. Further budget context**

- 3.1 2019/20 was always going to be an extremely challenging year to develop anything other than a single-year budget. It is the final year of four that were included in a longer-term funding settlement offered by Government following the last Comprehensive Spending Review (CSR2015).
- 3.2 It is still Government's aim to continue with longer-term funding arrangements to give councils greater planning certainty but since June 2016, a significant amount of parliamentary time has been consumed by arrangements for leaving the European Union. This means the quantum of funding available for public spending remains unclear and Government is not yet able to give us certainty over longer-term funding options.
- 3.3 The 2019-20 budget was set prudently and included the most accurate data available at the time. Despite this, the budget report still acknowledged that there were risks and pressures; most notably in Children's Services where a national picture of escalating demand is being replicated in Dorset. This is evident not just across social care budgets but also in the High Needs Block (HNB) of the Dedicated Schools Grant (DSG).
- 3.4 Additional funding was made available in the 2019/20 budget, especially for Children's Services but even at that time it was noted that there were further budget pressures building in the system. A base budget review was therefore recommended, and this is being progressed as part of the "baseline" work currently in progress with newly appointed managers. Further funding was also included in contingency and the forecast shows that a portion of this is currently not committed (£2.5m) and is available to support the areas experiencing most pressure.

### **4. Action in the current year**

- 4.1 A review of reserves is under way. All six predecessor councils did this regularly, so it is consistent with previous approaches and is good practice. The purpose is to ensure all reserves are still required for their original purposes and where they are not, the reserve can be either re-purposed or released to the general fund.
- 4.2 In setting a budget for a single year, it was clear that a strategy for delivering longer-term financial stability and sustainability would need to be developed. There is more information on the Medium Term Financial Plan (MTFP) later in this report. However, against the context set out above and given that transition to a single council had to be done within 13 months, 2019/20 was identified as a transitional year. Within these constraints the council set the best budget it could, building-in contingency to support risks and reviewing reserves and balances to support in-year transition costs while going through a proper process to design and build a modern, efficient council for the residents of Dorset.
- 4.3 Within this turbulent and dynamic local context of reform and modernisation, and against the national backdrop of increasing demand and cost pressures it is inevitable that this first year will be challenging. Some of that challenge is

emerging and is reported in the numbers and narrative below. But work continues to converge, streamline and modernise the organisation.

- 4.4 It is right that the council pursues the convergence savings; they are essential in continuing to deliver resources to front line services. We aim to save £5.2m in 2019/20 and £10m in a full-year this way – and we are making good progress. We also need to remove duplication, build on our digital work to date and ensure the work to baseline our budgets this year gives us adequate resources for the services needed for Dorset’s residents.

## 5. Forecast v budget

- 5.1 At the end of quarter 1, the council is forecasting an overall overspend of £7.1m excluding the DSG budgets. There are some key reasons for this which are set out in the analysis and narrative below; the narrative covers material areas only.

Directorate	Net Budget	Forecast Outturn	Forecast (Overspend)/ Underspend	
	£k	£k	£k	%
People - Adults	111,918	114,341	(2,422)	(2.16%)
People - Children's	65,815	72,727	(6,912)	(10.50%)
Place	70,285	70,631	(346)	(0.49%)
Corporate Development	23,532	23,879	(347)	(1.47%)
Legal & Democratic	7,204	7,246	(42)	(0.58%)
Insight & Corporate Communications	5,319	5,129	190	3.58%
Public Health	0	0	0	0.00%
Total Service Budgets	284,073	293,952	(9,879)	(3.48%)
Central Finance	(283,863)	(286,638)	2,775	(0.98%)
Whole Authority	209	7,313	(7,104)	

## 6. Analysis by Directorate

### People Services – Adults & Housing

Executive Director Mathew Kendall; Cabinet Members Laura Miller, Graham Carr-Jones

- 6.1 The People Services - Adults budget is projected to overspend by £2.4m (2.16%).

People Services - Adults	Net Budget	Forecast Outturn	Forecast (Overspend)/ Underspend	
	£k	£k	£k	%
Adult Care Packages	87,730	89,751	(2,021)	(2.30%)
Adult Care	15,205	15,413	(208)	(1.37%)
Commissioning	5,344	5,904	(561)	(10.49%)
Director's Office	622	637	(15)	(2.41%)
Housing Services	3,018	2,635	383	12.69%
Total Directorate Budget	111,918	114,341	(2,422)	(2.16%)

- 6.2 Adult Social Care Packages are currently forecast to be overspent by £2m (2.3%). £825k of this is due to movements since the service budgets were disaggregated a year ago. There is also additional base budget pressure of

£500k. The remaining overspend reflects an increase in Residential, Supported Living and Direct Payment spend.

- 6.3 The Adult Care budget is currently forecast to overspend by £208k (1.37%), principally on staff budgets. Establishment control measures are in place to reduce this overspend as the year progresses.
- 6.4 The Commissioning area is forecast to overspend by £561k (10.49%). The majority of this is driven by the increased projections on the Integrated Community Equipment Store (ICES) pooled budget and the Dorset Accessible Homes Service (DAHS) contract. There are also some residual pressures to manage from budget disaggregation.
- 6.5 Housing Services are forecasting an underspend of £383k due to vacancies and lower than expected use of B&B accommodation. Detailed work is currently taking place to review and rationalise these budgets.
- 6.6 The overall savings target for the Directorate for 2019-20 is £5.1m. Of this, £2.3m has already been achieved and the forecast assumes that the plans in place for the remaining £2.8m will be successful. These are reviewed at the monthly Cost Reduction Board.

#### People Services – Children

##### Executive Director Sarah Parker; Cabinet Member Andrew Parry

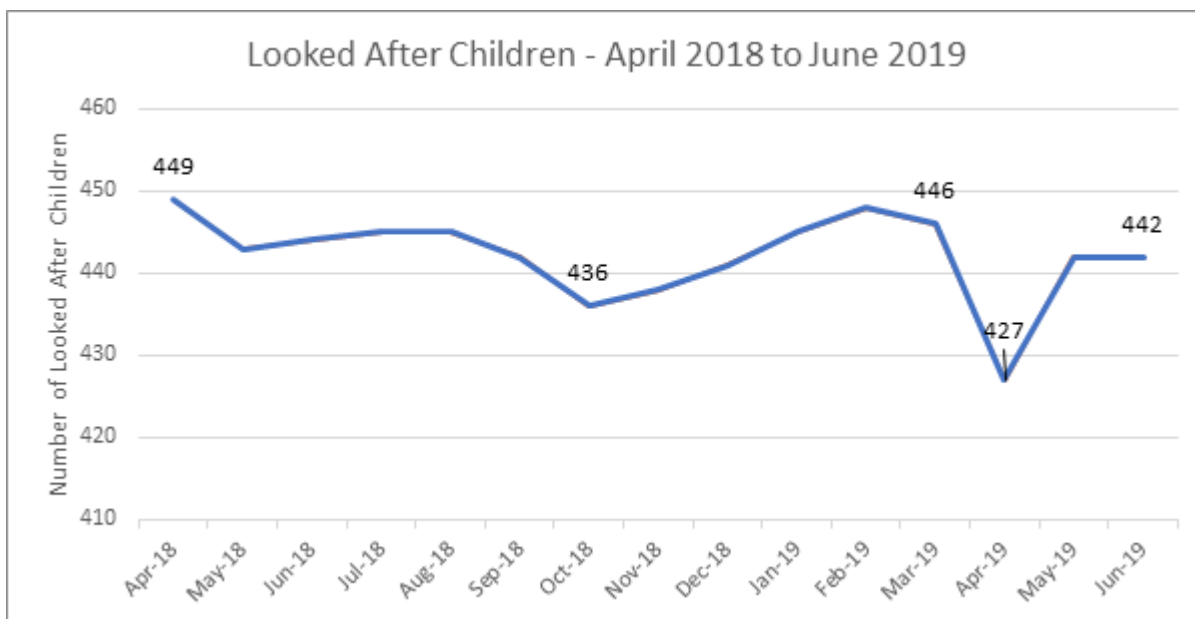
- 6.7 The People – Children’s Services revenue budget is projected to overspend by £6.9m (10.5%). The Dedicated Schools Grant (DSG) is forecast to overspend by £5.5m.

<b>People Services - Children</b>	<b>Net Budget</b>	<b>Forecast</b>	<b>Forecast (Overspend)/</b>	
	<b>£k</b>	<b>Outturn</b>	<b>Underspend</b>	
		<b>£k</b>	<b>£k</b>	<b>%</b>
Care and Protection	40,445	45,991	(5,545)	(13.71%)
Commissioning and Partnerships	9,192	9,091	101	1.10%
Director’s Services	3,469	4,276	(807)	(23.26%)
Education and Learning	12,708	13,369	(661)	(5.21%)
<b>Total Directorate Budget</b>	<b>65,815</b>	<b>72,727</b>	<b>(6,912)</b>	<b>(10.50%)</b>

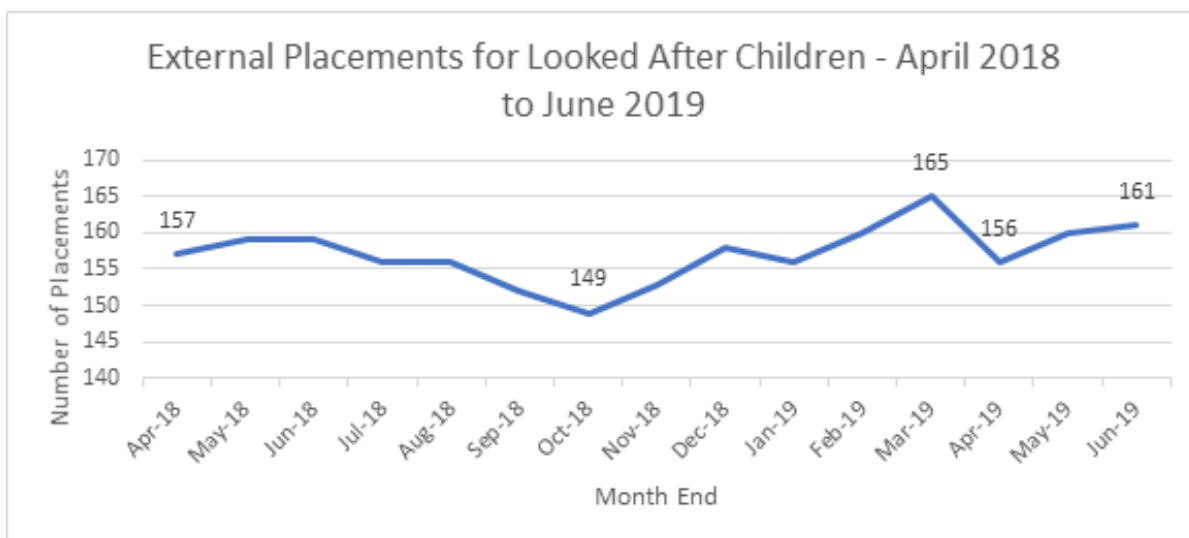
<b>Dedicated Schools Grant budgets</b>	<b>(386)</b>	<b>5,128</b>	<b>(5,514)</b>
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- 6.8 The 2019/20 People Directorate – Children’s revenue budget was set with an increase of £9.9m on the 2018/19 base budget inherited from Dorset County Council in order to address known pressures such as the increasing cost and number of external placements, associated SEN transport costs, investment in additional social care staff and on increasing in-house foster carer recruitment.
- 6.9 The Care and Protection Service is responsible for children’s social care in Dorset. Following the transfer of 33 children to the Bournemouth, Christchurch and Poole Council on 1 April 2019, there were 413 Looked After

Children in Dorset at the start of the financial year. At 30 June 2019 there are 442 Looked After Children; an increase of 29 in the first quarter.



6.10 Looked After Children live in a variety of settings sourced internally and externally, for example, residential care, foster care and independent accommodation. In the last 15 months an average of 36% of the Looked After Children placements have been sourced externally.



6.11 On 1 April 2019 15 children in external placements were transferred to the Bournemouth, Christchurch and Poole Council, leaving 150 Dorset children in these placements at the start of the financial year. As at 30 June 2019 there are 161 children with external providers; an increase of 11 in the first quarter. The current cohort of 161 children are forecast to overspend the External Placements budget by £5.5m.

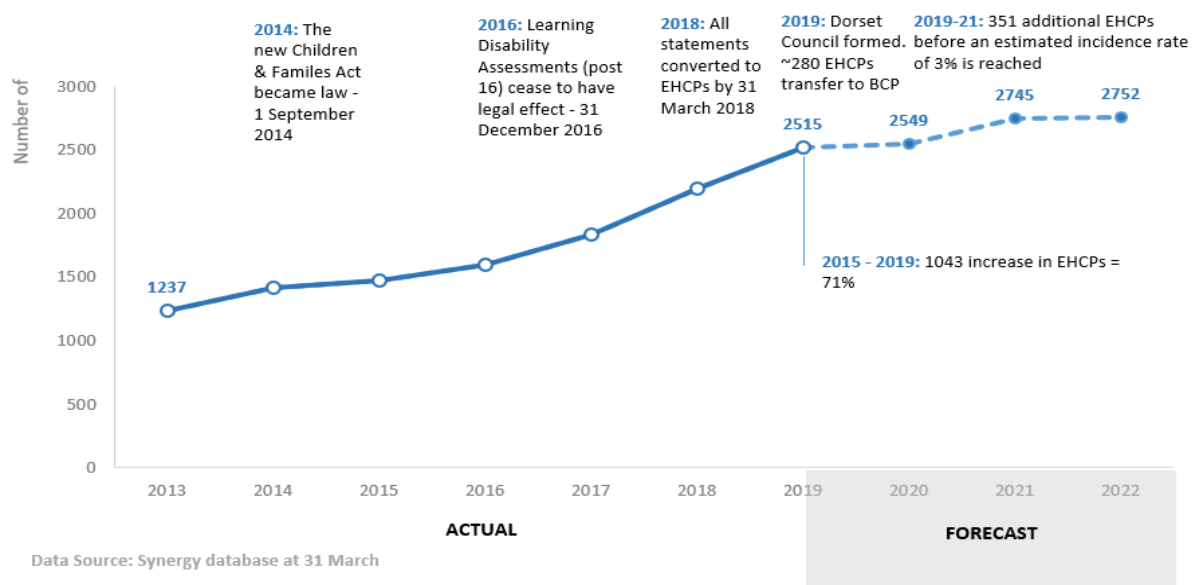
6.12 Residential care placements are mainly required for adolescents that are highly vulnerable or that might present a danger to themselves or others. Costs range between £3,000 and £8,250 per week, this has increased significantly over the past 2 years. There has been a net increase of five new residential care placements in the first three months of 2019/20. A fortnightly

high cost placements panel has now been set up to review practice and approve the suitability and value for money of all newly proposed placements.

- 6.13 There are 199 children placed with in-house foster carers and this is below the budgeted placement level for 2019/20. The recruitment and retention of foster carers continues to be a priority for the service. The forecast underspend on the in-house Fostering budget will offset budget pressures in other areas, for example Community Resource Workers, Independent Living and Unaccompanied Asylum Seeking Children.
- 6.14 The Commissioning & Partnerships and Director's Services budgets are forecast to overspend by £0.7m. The main part of the overspend is savings for which plans are still being finalised.
- 6.15 The Education and Learning service comprises areas funded from Dorset Council revenue budgets and the (DSG). This area provides:
- Educational services to schools including early years and post 16 settings.
  - Traded / trading services including the Dorset Music Service and Governor Support services.
  - Sufficiency and School Organisation including school admissions, SEN Transport and early years funding.
  - SEND (Special Education Needs and Disabilities) Services 0-25 including specialist teaching services, SEN Assessment team and Educational Psychology.
- 6.16 The major issues impacting Education and Learning are:
- Rising numbers of children and young people with SEND requiring an Education, Health and Care Plan (EHCP). This causes pressure on the statutory services that administer EHCPs and the EHCP process – DC revenue funded - plus the demand-led SEN Transport. This also drives demand for services and education provisions, for example high cost placements, funded from the HNB, part of the DSG. The graph shows the increase in EHCPs since the introduction of the Children and Families Act in 2014.
  - School funding decreasing and the increase in academy conversions (>50% of schools will be academies by the end of the 2019-20).



Number of Statements / EHCPs over time



- 6.17 The DSG is forecast to overspend by £5.5m. There is a further £2.9m of risk. This would mean the overall cumulative DSG deficit would be £23.7m (this will reduce slightly once the LGR disaggregation transfer to BCP takes place).
- 6.18 £0.476m of the risk is due to a decision to return this amount to maintained schools. This was a transfer from the Schools Block to the High Needs Block as part of the 2019/20 DSG budget setting process.
- 6.19 The remainder of the risk, £2.4m, concerns EHCP growth being 194 EHCPs over the 351 budgeted increase level. The 194 is based on the current request for EHCP assessment level, used as a basis for future demand. The 194 growth is a risk and not part of the main forecast because there are several variables, including the yet unknown education provision for the child or young person and the associated cost.
- 6.20 The Dorset Council budgets within Education and Learning are forecast to overspend by £0.66m. This includes £300k of stranded costs because of Local Government Reorganisation, approximately £0.15m due to forecast under recovery of traded income (purchases below budgeted) and £0.16m due to demand pressures on the alternative provision pupils, part of the SEN Transport budget. There could be additional pressures within the SEN transport area, however this will be known once contracts and new routes have been set up in September.

#### Other budgets

- 6.21 Expectations for other areas are not materially different from the budget at this stage except some additional New Homes Bonus funding (£275k) and the £2.5m uncommitted contingency budget in the central finance line of the table.
- 6.22 Convergence savings also mentioned earlier are held within these budgets until the restructure work is complete. £5.2m is anticipated and the council is making good progress with this work. Savings from LGR are being realised

and are on-track and are flowing through to support delivery of services to residents.

## **7. Capital programme, strategy and budget**

- 7.1 The council also approved the capital budget for 2019/20 at its meeting on 20 February. The programme was established through the Budget Working Group, which took approved projects from the predecessor councils. There was no new bidding and the budget included only projects that were due to start on or after 1 April 2019. The programme is predicted to cost £65.3m and is funded from capital grants, other contributions (such as from developers through S106 agreements), revenue contributions and borrowing.
- 7.2 The approved programme excluded slippage of unfinished schemes from 2018/19. Any slippage will already be financed as part of being approved in 2018/19 or earlier so the budget impact will be net nil. Officers are working through the slippage calculations to ensure cash flow estimates are accurate and any funding that needs to be drawn down is available when required. It is also important to define the level of capital receipts in reserves that is required to support the programme alongside other sources of finance.
- 7.3 As well as the capital receipts work, Executive Directors and the Cabinet member for Finance are also establishing governance arrangements to ensure that the emerging vision and priorities are supported by a capital programme and that the overall plan is affordable and well managed.
- 7.4 The February 2019 budget report set out that £13.5m would be needed to fund LGR implementation costs. No support from Government has been provided to meet these costs, so they will need to be funded from our own resources using capital receipts. There is currently £6.5m available in the capital receipts reserve and plans are well developed to fund the balance of £7M through planned in year asset sales.

## **8. Savings plans/targets**

- 8.1 A number of savings were incorporated into the 2019/20 base budget. These ranged from straight forward, de-duplication (like subscriptions) right through to more complex change projects such as fairer charging, renegotiation of block contracts, demand management initiatives and restructuring.
- 8.2 Each Directorate Leadership Team monitors its own savings targets and performance through a cost reduction board (or similar). South West Audit Partnership (SWAP) is also undertaking a three-part review of financial management in these early stages of the year to provide valuable assurance as well as advisory work. Whilst officers continue to include assumptions about savings achieved/likely/unachieved in their forecasts, SWAP will also provide some independent evaluation of the processes and outcomes as we seek to build a revised 2019/20 base budget for use in the MTFP.

## 9. Risks – and opportunities

- 9.1 There are clearly risks in the short and longer-term. In 2019/20, the council should be robust enough to mitigate and manage these risks, through a combination of prudent use of reserves, management action and making in-year savings. But there is also risk to our ongoing, base position. The 2019/20 budget rebasing exercise is in progress and will be a cornerstone of our longer-term sustainability and the starting point of the MTFP.
- 9.2 It is likely that the re-basing work, as well as highlighting risks, will also identify opportunities. For example, early indications in our quarter 1 forecasting work suggest there is scope for further income to accrue from fees and charges and in treasury management. We have not built-in material changes for these items at this stage as it is prudent to deal with the council's cost base as well as looking at opportunities to realise additional income. However, a clear schedule of likely opportunities is being drawn-up and officers will be tasked with developing options for base budget improvements as they are appointed to positions in the new structure.

## 10. Planning/impact on budget 2020/21 and MTFP

- 10.1 Work is under way to build the new MTFP for Dorset Council. Beyond the model itself, there are significant uncertainties around the implementation and timing of the *Fair Funding Review* and *Business Rates Retention*. This uncertainty means that creating a picture of funding beyond this year is more challenging and may need more time for Government to finalise and implement. It would also appear likely that the next spending review is becoming more of a short-term settlement than a formal spending review.
- 10.2 There have also been changes to recent council tax referendum limits, with 2018/19 and 2019/20 being allowed to increase by up to 3% rather than 2% in previous years, before a referendum would be required. The referendum limits for 2020/21 are not currently clear.
- 10.3 Despite this lack of certainty we will continue to develop the longer-term financial strategy of the council, supported by a MTFP. The MTFP will be driven by and will underpin the resources to deliver the corporate plan. Clearly there are pressures to manage in the current year and this report sets out some of the strategies being deployed to mitigate and manage these. But they cannot be tackled without major reform of our operating model, systems, processes and most importantly our culture.
- 10.4 This council remains confident that it has the resources available to overcome short-term pressures while it continues to refine the vision, strategies and operating model that will deliver the sustainable, dynamic and innovative organisation that Dorset's residents need.

Aidan Dunn

**Executive Director, Corporate Development**

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# Dorset Council

## Report of Internal Audit Activity

### Plan Progress 2019/20 – August 2019

Page 61

Agenda Item 12

## Executive Summary

The Assistant Director is required to provide an annual opinion to support the Annual Governance Statement.



### Audit Opinion and Summary of Significant Risks

As part of our plan progress reports, we will provide an ongoing opinion to support the end of year annual opinion.

We will also provide details of any significant risks that we have identified in our work, along with the progress of mitigating previously identified significant risks by audit.

The contacts at SWAP in connection with this report are:

**Rupert Bamberger**

Assistant Director  
Tel: 07720312464  
[rupert.bamberger@swapaudit.co.uk](mailto:rupert.bamberger@swapaudit.co.uk)

**Sally White**

Principal Auditor  
Tel: 01305 224488  
[sally.white@swapaudit.co.uk](mailto:sally.white@swapaudit.co.uk)

**Audit Opinion:**

Audit reviews completed to date, highlight that in the majority of areas, risks are reasonably well managed with the systems of internal control working effectively.

**Significant Risks:**

No Significant Corporate Risks have been identified as part of our 2019/20 audit work across Dorset Council to date.

# Internal Audit Plan Progress 2019/20

The Chief Executive Officer for SWAP reports performance on a regular basis to the SWAP Directors and Owners Boards .



## SWAP Performance

SWAP performance is subject to regular review by both the Directors and Owners meetings. The respective outturn performance results for Dorset Council for the 2019/20 year (as at 23 August 2019) are as follows:

Performance Target	Performance
<b><u>Audit Plan – Percentage Progress*</u></b>	
Completed	34%
Work at Report Stage	5%
Fieldwork	41%
Scoping	18%
Not yet Started	2%
* The above percentages are based on the internal audit work plan presented in March, covering the first six months of the financial year	
<b><u>Quality of Audit Work</u></b>	
Overall Client Satisfaction <i>(did our work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i>	100%
<b><u>Outcomes from Follow Up Audit Work</u></b>	
Percentage of Priority 1&2 recommendations for Partial assurance audits, that remain outstanding when the follow up audit is undertaken	80% (4 of 5)
Value to the Organisation <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i>	100%

Page 63



SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

## Internal Audit Plan Progress 2019/20

### Value Added

**'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.'**



### Value Added

SWAP strives to add value wherever possible i.e. going beyond the standard expectations and providing something 'more' while adding little or nothing to the cost.

This includes the circulation of industry bulletins and fraud prevention alerts wherever possible. We also share the outcomes of any benchmarking undertaken across our SWAP Partner base. SWAP aim to share the results of emerging areas of risk, or findings from relevant audit reviews undertaken at our Partners, to enable the sharing of best practice and comparison of common findings.

Recent examples of such added value are the sharing of a best practice guides for the Development of a People Plan and the provision of benchmarking data around the Social Value Act and Fostering Service Delivery Models.

As well as the above, we have continued to make available to Dorset Council detailed analysis of expenditure through SAP in order to identify potential duplicate payments. This continues to be a valuable and worthwhile exercise enabling the Council to investigate and recover duplicate payments to suppliers.

Page 64



## Internal Audit Plan Progress 2019/20

### Approved Changes:

**We keep our plans under regular review so as to ensure that we are auditing the right things at the right time**



### Changes to the Audit Plan

We will regularly re-visit and adjust our programme of audit work to ensure that it matches the changing risk profile of the organisation's operations, systems and controls. Our 2019/20 audit plan also includes an increased proportion of audit time still to be specifically allocated, in order that the plan can remain flexible to respond to new and emerging risks as and when they are identified.

Since our last update report there has been a minor change to our plan of work. This had been due to an emerging risk. The number of changes have been small as we have put together the second half year plan and most additional work has been included in this plan.

#### New audits added to plan

Use of Pupil Premium for Looked After Children – *This was an audit requested by the Executive Director for People – Children's*

Due to the pace with which Dorset Council was created, as well as the fact that the organisation's corporate objectives are yet to be finalised, it has been difficult to accurately predict and align internal audit work with longer-term key organisational risks. Our approach to internal audit planning for 2019/20 has therefore also changed to reflect this. Instead of preparing a full twelve-month plan, we prepared a six-month 'Agile', work plans, containing key areas of coverage, to ensure that we are auditing the right areas at the right time. We have now compiled a second half year audit plan and more detail of this process and the proposed plan can be found in our planning paper.

## Internal Audit Work Programme – 2019-20

At the conclusion of audit assignment work each review is awarded a “Control Assurance”, a summary of the assurance levels is as follows:

- Substantial – Well controlled and risks well managed.
- Reasonable – Adequately controlled and risks reasonably well managed.
- Partial – Systems require control improvements and some key risks are not well managed.
- None – Inadequately controlled and risks are not well managed

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium		
						Recommendation		
						1	2	3
<b>Completed Work</b>								
Operational	Election Readiness	1	Final	Advice and Guidance	N/A			
Operational	Induction and Training of Elected Members	1	Final	Substantial	2	-	-	2
Operational	Dorset Local Enterprise Partnership – Enterprise Zone	1	Final	Partial	5	-	5	-
Grant Certification	Weymouth Port Health Authority – Annual Review	1	Final	Grant Certification	N/A			
Grant Certification	Dorset Gateway LEP	1	Final	Grant Certification	N/A			
Grant Certification	Troubled Families	1	Final	Grant Certification	N/A			
Follow up	Family Partnership Zones	1	Final	N/A	3	-	1	2
Operational	Mountjoy School	1	Final	Advice and Guidance	N/A			
Follow up	Deferred Payments (DCC)	1	Final	N/A	0	-	-	-
Follow up	Sickness Management (DCP)	1	Final	N/A	1	-	1	-
Follow up	Data Handling and Disposal (DCP)	1	Final	N/A	4	-	-	4

Page 66

## Internal Audit Work Programme – 2019-20

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium		
						Recommendation		
						1	2	3
Follow up	Whistleblowing (DCC)	1	Final	N/A	7	-	4	3
Operational	Property Maintenance Framework	1	Final	Reasonable	3	-	1	2
Operational	Portesham School	1	Final	Partial	13	-	6	7
Operational	Recording of the new Dorset Council Budget	1	Final	Advice and Guidance	N/A			
<b>Reporting</b>								
Operational	Homes Dorset	1	Draft					
Operational	Policy Convergence	2	Discussion					
<b>In Progress</b>								
Operational	Deputyship for Service Users	1	Fieldwork					
Operational	Duplicate Payments	1-4	Ongoing					
Operational	Financial Assessments	1	Fieldwork					
Operational	Fostering Service	2	Fieldwork					
Operational	NFI	1-4	Advice and Guidance					
Operational	Public Law Outline	2	Fieldwork					
Operational	Effectiveness of Budget Monitoring	2	Fieldwork					
Operational	IR35 Compliance	2	Fieldwork					

Page 67

## Internal Audit Work Programme – 2019-20

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium		
						Recommendation		
						1	2	3
Operational	Communication with Staff	2	Fieldwork					
Operational	Property Asset Management	2	Fieldwork					
Operational	Budget Monitoring and Reporting to Officers & Members	2	Fieldwork					
Operational	Social Care Caseload Management	2	Fieldwork					
Operational	Effectiveness of Social Care Practice	2	Fieldwork					
Operational	Effectiveness and Implementation of EHCP's	2	Fieldwork					
Operational	Use of Pupil Premium for Looked after Children	2	Fieldwork					
Operational	GDPR Compliance	2	Fieldwork					
Key Control	Key Control – Financial Reconciliations	2	Fieldwork					
Follow up	Deprivation of Assets	2	Fieldwork					
<b>Scoping</b>								
Operational	Programme Management – Children's	2	Scoping					
Operational	Capital Programme	2	Scoping					
Operational	Capital Budget	2	Scoping					
Operational	Contract Compliance	2	Scoping					
Operational	Commercial Contract Management	2	Scoping					

Page 68

## Internal Audit Work Programme – 2019-20

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major	↔	3 = Medium
						Recommendation		
						1	2	3
Operational	Service Continuity	2	Scoping					
Operational	Risk Management	2	Scoping					
Operational	Disaggregation of Records to BCP	2	Scoping					
<b>Not Started</b>								
Operational	Readiness for Ofsted Inspection		Not started					

A copy of the agreed first half year audit plan, including details of upcoming planned audit reviews can be seen at page 884 of the agenda report pack of the Audit and Governance Committee of 26<sup>th</sup> July 2019

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# Dorset Council

## 2019-20 Internal Audit Plan – October-March

Page 71

Agenda Item 13

# The Internal Audit Plan 2019-20

Page 72

This internal audit plan represents a summary of the proposed audit coverage that the internal audit team will deliver within the second half of the 2019/20 financial year.

Delivery of an internal audit programme of work that provides sufficient and appropriate coverage, will enable SWAP to provide a well-informed and comprehensive year-end annual internal audit opinion.

To develop an audit plan with appropriate coverage, SWAP have consulted with members of the Dorset Council Senior Leadership Team, as well as considering common high-risk areas for large local authorities.



## Approach to Internal Audit Planning 2019-20

Internal audit provides an independent and objective opinion on the Authority's risk management, governance, and control environment by evaluating its effectiveness.

Prior to the start of each financial year, SWAP, in conjunction with senior management, typically put together a proposed plan of audit work. The objective of our planning process and subsequent plans is to put us in a position to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.

However due to the fact that Dorset Council is still in its infancy, with the organisation's corporate objectives yet to be finalised, it has been difficult to align internal audit work with longer-term key organisational objectives and risks. Our approach to internal audit planning for 2019/20 has therefore also changed to reflect this. Instead of preparing a full twelve-month plan, we prepared a six-month 'Agile', work plan prior to the start of the financial year, containing a number of key areas of initial coverage.

We have been able to regularly re-visit and adjust our programme of audit work to ensure that it matches the changing risk profile of the organisation's operations, systems and controls. In addition, we have now prepared a second half-year plan which is detailed in **Appendix A** below. This plan has been compiled in consultation with Senior Management as well as SWAP's own risk assessment, including consideration of high-risk areas facing other local authorities.

In time SWAP will aim to align its audit work programme to the risk management process and the longer-term objectives of the Council which will be detailed within a Corporate Plan. The risk management process is currently under development and input is required from senior managers within the council to identify and assess the effectiveness of controls and the impact of residual risks within their service.

In order to help facilitate this process during a time of turbulence for the council, SWAP has allocated some time within the second half-year plan to assist Service Managers in populating their risk registers along gaining a better understanding of the control environment and risk profile of Dorset Council.



SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.



## The Internal Audit Plan 2019-12

**Going forwards, we will look to align our audit programme of work with the risk management process and the longer-term objectives of the Council which will be detailed within a Corporate Plan.**

It should be noted that internal audit is only one source of assurance, and the outcomes of internal audit reviews should be considered alongside other sources, as part of the 'three lines of defence' assurance model. Key findings from our internal audit work should also be considered in conjunction with completion of the Authority's Annual Governance Statement.

**It is the responsibility of the Council's Senior Leadership Team (SLT), and the Audit and Governance Committee, to determine that the audit coverage contained within the proposed audit plan is sufficient and appropriate in providing independent assurance against the key risks faced by the organisation.**

Page 73

# The Internal Audit Plan: SWAP

SWAP Internal Audit Services is a public sector, not-for-profit partnership, owned by the public sector partners that it serves. The SWAP Partnership now includes public sector partners, crossing eight Counties, but also providing services throughout the UK.



## Your Internal Audit Service

### Audit Resources

The level of internal audit resource for 2019/20 was agreed by the Shadow Executive prior to the start of the financial year. The current internal audit resources available represent a sufficient and appropriate mix of seniority and skill to be effectively deployed to deliver the planned work. The key contacts in respect of your internal audit service for Dorset Council will be:

**Rupert Bamberger, Assistant Director – [rupert.bamberger@swapaudit.co.uk](mailto:rupert.bamberger@swapaudit.co.uk), 07720 312464**

**Sally White, Principal Auditor – [sally.white@swapaudit.co.uk](mailto:sally.white@swapaudit.co.uk), 01305 224488**

### Conformance with Public Sector Internal Audit Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

At least every five years, SWAP is subject to an External Quality Assessment of Internal Audit Activity. The last of these was carried out in March 2016 which confirmed conformance with the PSIAS.

### Conflicts of Interest

We are not aware of any conflicts of interest within Dorset Council that would present an impairment to our independence or objectivity. Furthermore, we are satisfied that we will conform with our IIA Code of Ethics in relation to Integrity, Objectivity, Confidentiality, & Competency.

### Consultancy Engagements

As part of our internal audit service, we may accept proposed consultancy engagements, based on the engagement's potential to improve management of risk, add value and improve the organisation's operations. Consultancy work that is accepted, will contribute to our annual opinion and will be included in our plan of work.

### Approach to Fraud

Internal audit may assess the adequacy of the arrangements to prevent and detect irregularities, fraud and corruption. We have dedicated counter fraud resource available to undertake specific investigations if required.

As a company, SWAP has adopted the following values, which we ask our clients to assess us against following every piece of work that we do:

- Candid
- Relevant
- Inclusive
- Innovative
- Dedicated

## The Internal Audit Plan: SWAP

Over and above our internal audit service delivery, SWAP will look to add value throughout the year wherever possible. This will include:

- Benchmarking and sharing of best practice between our public-sector Partners
- Regular newsletters and bulletins containing emerging issues and risks
- Communication of fraud alerts received both regionally and nationally
- Annual Member training sessions

Page 75

However, the primary responsibility for preventing and detecting corruption, fraud and irregularities rests with management who should institute adequate systems of internal control, including clear objectives, segregation of duties and proper authorisation procedures.

### Our Reporting

A summary of internal audit activity will be reported quarterly to the Senior Leadership Team and the Audit & Governance Committee. This reporting will include any significant risk and control issues (including fraud risks), governance issues and other matters that require the attention of senior management and/or the Audit & Governance Committee. We will also report any response from management to a risk we have highlighted that, in our view, may be unacceptable to the organisation.

### Internal Audit Performance:

As part of our regular reporting to senior management and the Audit Committee, we will report on internal audit performance. The following performance targets will be used to measure the performance of our audit activity:

Performance Measure	Performance Target
<p style="text-align: center;"><b><u>Delivery of Annual Internal Audit Plan</u></b> Completed at Year End</p>	>90%
<p style="text-align: center;"><b><u>Quality of Audit Work</u></b> Overall Client Satisfaction <i>Did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation</i></p>	>95%
<p style="text-align: center;"><b><u>Outcomes from Audit Work</u></b> Value to the Organisation <i>Client view of whether our audit work met or exceeded expectations, in terms of value to their area</i></p>	>95%

*In order to ensure that during the first year of the new Dorset Council that the internal audit plan was sufficiently flexible to provide coverage of emerging risk and urgent assurance work, we initially provided an outline Quarter 1&2 plan. In consultation with SLT we have now prepared a proposed Internal Audit plan for October to March. It should be noted that the audit titles and high-level scopes included below are only indicative at this stage for planning our resources. At the start of each audit, an initial discussion will be held to agree the specific terms of reference for the piece of work, which includes the objective and scope for the review.*

Link to Core Assurance Area	Areas of Coverage and Brief Rationale	Audit Sponsor/ Senior Management Lead
<p><b>Corporate Governance</b>  <i>Corporate Governance refers to the strategic management practices and values and beliefs by which the Council operates</i></p>	<p><b>Scheme of Nomination (Delegation)</b>  <i>A review of the schemes across the Directorates which have been updated following completion of tranche 1 of the structure</i></p> <p><b>Coroner's Service</b>  <i>A review to include the shared arrangements between DC and BCP</i></p>	<p><b>Jonathan Mair</b>  <i>Corporate Director for Legal and Democratic Services</i></p> <p><b>John Sellgren</b>  <i>Executive Director for Place</i></p>
<p><b>Financial Management</b>  <i>Effective Financial Management is the bedrock of any successful organisation and is vital to the ongoing ability of local authorities to deliver services that the public wants</i></p>	<p><b>Achievement of Savings Plans</b>  <i>A review of the planned savings within the 2019-20 budget identified through the Shaping Dorset Programme and the achievement of these</i></p> <p><b>Key Financial Controls</b>  <i>A review of key financial controls in the following areas:</i></p> <p><b>Accounts Payable</b>  <b>Account Receivable</b>  <b>Payroll</b>  <b>Main Accounting</b>  <b>Treasury Management</b>  <b>Housing Benefits</b>  <b>Council Tax</b>  <b>Non-Domestic Rates</b></p> <p><b>Asset Valuation</b>  <i>A review of the process and preparedness for asset valuations for the 2019-20 accounts</i></p>	<p><b>Aidan Dunn</b>  <i>Executive Director Corporate Development</i></p>

	<p><b>Preparations for 2020-21 Budget</b>  <i>Review of the Medium-Term Financial Plans and the process for budget setting and how the corporate plan and the budget sit together</i></p> <p><b>Review of Reserves</b>  <i>A review to ensure that work undertaken to bring together the reserves from legacy councils has been effective resulting in accurate reserve figures and that going forward there is effective governance around reserves, use of reserves and that provisions are reasonable</i></p> <p><b>Duplicate Payment Identification Work</b>  <i>Use of data analytics software to identify potential duplicate payments for investigation by Accounts Payable staff</i></p> <p><b>National Fraud Initiative</b>  <i>To assist the Council in the monitoring and investigation of matches</i></p> <p><b>Grants to Partnerships and voluntary organisations</b>  <i>A review to ensure a consistent approach is being applied across the new Dorset Council</i></p>	<p><b>John Sellgren</b>  <i>Executive Director for Place</i></p>
<p><b>Risk Management</b>  <i>Organisations which can demonstrate and operate under a structured and active risk management approach, are far more likely to be able to focus upon their key priorities and outcomes and, in doing so, take informed and robust decisions</i></p>	<p><b>Risk Management</b>  <i>Assistance in developing the authority-wide risk management framework and process</i></p>	<p><b>Jonathan Mair</b>  <i>Corporate Director for Legal and Democratic Services</i></p>
<p><b>Performance Management</b>  <i>Performance management provides a transparent platform upon which the service is accountable to its citizens and service users for the effectiveness of its service provision and delivery of its objectives</i></p>	<p><b>Follow Up work</b>  <i>An allocation of time to ensure that key audit recommendations made during the last year of the sovereign council's existence have adequately transferred to the new Council and have been or will be actioned</i></p> <p><b>Corporate Performance</b>  <i>To provide assurance that the corporate performance process is enabling appropriate capture and monitoring of the Council's performance</i></p>	<p><b>Various</b></p> <p><b>Matt Prosser</b>  <i>Chief Executive</i></p>

	<p><b>Building Control</b> <i>To provide assurance around the processes, procedures and convergence of the teams</i></p> <p><b>Dorset HomeChoice</b> <i>To provide assurance that the arrangements across this pan Dorset service are sound</i></p> <p><b>Education, Health and Care Plans</b> <i>A review of quality assurance and monitoring processes &amp; procedures, and the impact of this upon judicial/ombudsman reviews</i></p> <p><b>School Off-Rolling</b> <i>A school thematic review examining the possibility that pupils are taken off-roll and the funding remains with the school, rather than using alternative provision where the funding or part of the funding follows the pupil to the alternative provision</i></p> <p><b>Use of Pupil Premium</b> <i>A thematic review to assess the use of pupil premium in schools ensuring adequate monitoring and assessment of the benefits and outcomes for pupils who attract the grant</i></p> <p><b>School Audits</b> <i>Based on intelligence from Children’s Services to undertake school audits on specific areas of concern as and when required (either as thematic school audits, or individual specific schools)</i></p> <p><b>Youth Offending Service</b> <i>The audit for this Pan Dorset service will be undertaken by BCP Internal Audit team and results will be provided to Executive Director for People-Children’s</i></p>	<p><b>John Sellgren</b> <i>Executive Director for Place</i></p> <p><b>Sarah Parker</b> <i>Executive Director for People – Children’s</i></p>
<p><b>Commissioning &amp; Procurement</b> <i>Assessing Procurement &amp; Commissioning activity of a Local Authority is a critical determinant in establishing its effectiveness in both being able to deliver benefit for its community, but also in showing whether it can maximise value for money for its taxpayers</i></p>	<p><b>Commissioning and Contract Management in Children’s Services</b> <i>To review the effectiveness of commissioning and contract management in Children’s Services with particular emphasis around high cost placements</i></p> <p><b>Commissioning and Contract Management in Adult Services</b> <i>To review the effectiveness of commissioning and contract management in Adult Services with particular emphasis on accuracy of invoices and payments to providers</i></p>	<p><b>Sarah Parker</b> <i>Executive Director for People – Children’s</i></p> <p><b>Mathew Kendall</b> <i>Executive Director for People Adults and Housing</i></p> <p><b>Aidan Dunn</b> <i>Executive Director Corporate Development</i></p>

<p><b>Information Management</b>  <i>Effective Information Management will facilitate and support effective working, better decision-making, improved customer service and business transformation</i></p>	<p><b>Software Licencing</b>  <i>A review of Software Licence management and control, due to the increase of cloud-based and hosted services</i></p> <p><b>Cyber Security</b>  <i>A high-level review to assess how the approach to cyber security has been revised as a result of a consolidated infrastructure</i></p> <p><b>Email Consolidation Project</b>  <i>A review of plans to have all DC staff migrated onto a single domain by January 2020 and to ensure that no data has been/will be lost and complies with regulatory and privacy controls</i></p>	<p><b>Aidan Dunn</b>  <i>Executive Director                  Corporate Development</i></p>
<p><b>Programme &amp; Project Management</b>  <i>Organisations which can demonstrate and operate under a structured and active approach are far more likely to be able to focus their efforts and successfully achieve the delivery of anticipated outcomes</i></p>	<p><b>Land Charges</b>  <i>A review to assess the bringing together of the various Land Charge teams to ensure a consistent and effective approach</i></p>	<p><b>Jonathan Mair</b>  <i>Corporate Director for                  Legal and Democratic Services</i></p>
<p><b>People &amp; Asset Management</b>  <i>Organisations which can demonstrate and operate under a structured and active approach to asset management are far more likely to be able to focus any available investment against key priorities and, as a direct result, deliver improved outcomes</i></p>	<p><b>Ethics and Culture</b>  <i>An assessment of cultural and ethical standards of staff and members across the new Dorset Council</i></p> <p><b>Equalities and Diversity</b>  <i>A review to ensure compliance with the Equalities Act 2010</i></p> <p><b>Role of the Dorset Manager</b>  <i>A review to ensure that there is adequate guidance/ procedural instruction/training for the role of a Dorset Manager, and then an assessment of compliance with this across the authority</i></p>	<p><b>Matt Prosser</b>  <i>Chief Executive/</i></p> <p><b>Bridget Downton</b>  <i>Head of Business Insight                  and Corporate Communications</i></p> <p><b>David McIntosh</b>  <i>Corporate Director HR/OD</i></p>

<p><b>Other</b></p>	<p><i>Reactive Fraud Investigations</i></p> <p><i>Grant Certifications</i></p> <p><i>Contingency for Emerging Risk Areas and Specific Management Requests</i></p> <p><i>Ad Hoc Requests for Audit Advice &amp; Guidance</i></p> <p><i>Audit Planning and Committee Reporting</i></p>	<p><b>Whole SLT</b></p>
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## Audit and Governance Committee Work Plan

Date of Meeting	Item	Purpose / Key lines of Enquiry	Lead councillor / officer
<b>14 October 2019</b>			
	Dedicated Schools Grant (DSG)	To receive a presentation on the Dedicated Schools Grant including a question & answer session.	Portfolio Holder - Children, Education & Early Help  Lead officer – Corporate Director (Education & Learning) and Finance Manager (Strategic Finance)
	People Services – Children; Transformation Programme update	To present an update on the plans, key aims, objectives, timelines and governance arrangements for the transformation programme.	Portfolio Holder - Children, Education & Early Help  Lead Officer – Executive Director for People; Children
	People Services – Adults; Transformation Programme update	To present an update on the plans, key aims, objectives, timelines and governance arrangements for the transformation programme.	Portfolio Holder - Adult Social Care & Health  Lead Officer – Executive Director for People; Adults
<b>7 November 2019</b>			
	Asset Management & Disposal	To receive an update on the Council’s emerging asset management governance arrangements and progress on the asset disposal programme.	Portfolio Holder - Finance, Commercial & Assets  Lead officer - Executive Director - Corporate Development S151 & Executive Director - Place

Date of Meeting	Item	Purpose / Key lines of Enquiry	Lead councillor / officer
<b>3 December 2019</b>			
	Financial Report Quarter 2 2019/20	To receive and scrutinise the Qtr2 finance report presented to Cabinet on 5 November 2019.	Portfolio Holder – Finance, Commercial & Assets  Lead Officer - Executive Director - Corporate Development S151
	Internal Audit 2019/20 Plan Progress Report	To enable the Committee to consider progress against the Internal Audit Plan. This will include reporting of and a focus upon the highest priority actions identified through the Plan previously approved by the Committee.	Portfolio Holder - Leader of the Council  Lead Officer - Corporate Director Legal & Democratic Service Monitoring Officer
	Risk Management update	To review and challenge the Council's corporate risk register, including the effectiveness of the controls identified to bring the level of risk down to an acceptable level.	Portfolio Holder - Leader of the Council  Lead Officer - Service Manager for Assurance
	External Audit Plan	To receive the External Audit Plan.	External Audit
	Treasury Management update	To receive a Treasury Management update.	Portfolio Holder – Finance, Commercial & Assets  Lead Officer - Executive Director - Corporate Development/S151

Date of Meeting	Item	Purpose / Key lines of Enquiry	Lead councillor / officer
	Constitutional Changes (if required)	To report to the Committee on any changes made to the Constitution under powers delegated to the Monitoring Officer and to seek the views of the Committee on any proposed changes requiring full Council approval ( <i>note a review of the Constitution is to take place after the first twelve months of operation</i> ).	Portfolio Holder - Leader of the Council  Lead Officer - Corporate Director -Legal & Democratic Service Monitoring Officer
<b>Reserve - 16 January 2020</b>			
<b>Reserve - 11 February 2020</b>			
<b>24 March 2020</b>			
	Financial Report	To receive and scrutinise the latest finance report as presented to Cabinet.	Portfolio Holder – Finance, Commercial & Assets  Lead Officer - Executive Director - Corporate Development S151
	Internal Audit 2019/20 Plan Progress Report	To enable the Committee to consider progress against the Internal Audit Plan for the second year half. This will include reporting of and a focus upon the highest priority actions identified through the Plan approved by the Committee at its 17 September 2019 meeting.	Portfolio Holder - Leader of the Council  Lead Officer - Corporate Director Legal & Democratic Service Monitoring Officer

Date of Meeting	Item	Purpose / Key lines of Enquiry	Lead councillor / officer
	Internal Audit Plan 2020/21 & Internal Audit Charter	To approve the proposed internal audit plan for 2020/21 ( <i>note this will include consideration of whether to adopt a full year plan or to continue with two plans of six months duration as in 2019/20</i> ). The plan brought to the Committee for approval will have been discussed with both the Leader and SLT	Portfolio Holder - Leader of the Council  Lead Officer - Corporate Director Legal & Democratic Service Monitoring Officer
	Risk Management update	To review and challenge the Council's corporate risk register, including the effectiveness of the controls identified to bring the level of risk down to an acceptable level.	Portfolio Holder - Leader of the Council  Lead Officer - Service Manager for Assurance
	Annual Audit Update (External Audit)	To receive an update from the council's External Auditor.	External Audit
	Annual Governance Statement	To review and challenge the content of the statutory Annual Governance Statement ahead of its signing by the Leader of the Council and Chief Executive.	Portfolio Holder - Leader of the Council  Lead Officer - Service Manager for Assurance
	Constitutional Changes (if required)	To report to the Committee on any changes made to the Constitution under powers delegated to the Monitoring Officer, to seek the views of the Committee on any proposed changes requiring full Council approval and to receive an update on the 12 month review of the Constitution.	Portfolio Holder - Leader of the Council  Lead Officer - Corporate Director -Legal & Democratic Service Monitoring Officer