



Audit and Governance Committee

Date: Thursday, 7 November 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

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

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1 APOLOGIES

To receive any apologies for absence.

2 MINUTES

5 - 10

To confirm the minutes of the meeting held on 14 October 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 WORKFORCE DATA AND PEOPLE STRATEGY

11 - 28

To receive a presentation on Dorset Council Workforce Data and the People Strategy.

7 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.

The presentation will be available at the meeting.

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DORSET COUNCIL - AUDIT AND GOVERNANCE COMMITTEE

MINUTES OF MEETING HELD ON MONDAY 14 OCTOBER 2019

Present: Cllrs 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

Apologies: None

Also present: Cllr Pete Barrow, Cllr Piers Brown, Cllr Les Fry, Cllr Nick Ireland, Cllr Laura Miller and Cllr Andrew Parry

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

Paul Ackrill (Service Manager for Finance), Mark Blackman (Corporate Director - Education and Learning), Aidan Dunn (Executive Director - Corporate Development S151), Avril Harrison (Transformation Programme Manager (Adult Services)), Rebecca Kirk (Corporate Director of Housing, Dorset Council), Jonathan Mair (Corporate Director - Legal & Democratic Service Monitoring Officer), Jim McManus (Corporate Director - Finance and Commercial), Sarah Parker (Executive Director of People - Children) and Lindsey Watson (Senior Democratic Services Officer)

29. Minutes

The minutes of the meeting held on 17 September 2019 were confirmed as a correct record and signed by the Chairman.

30. Declarations of Interest

There were no declarations of interest.

31. Public Participation

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

32. Urgent items

The Chairman reported that following his attendance at a Local Government Association (LGA) course on scrutiny, he had spoken to the Leader about arranging a meeting of group leaders, scrutiny chairmen and the Executive Leadership Team to discuss scrutiny moving forward.

33. People Services - Children Transformation Programme Update

The Executive Director for People – Children, gave a presentation to the committee which provided an overview of the directorate’s transformation programme ‘Blueprint for Change’. The presentation covered the council’s vision for children, design principles for the whole council and for Children’s Services, the programme timeline, an overview of the major changes proposed and the localities for the service. The Portfolio Holder for Children, Education and Early Help hoped that councillors recognised the steps taken in this area including recruitment of officers at a senior level and work undertaken around the corporate parenting board. The Chairman noted that it was important for the committee to receive the presentation in order to have an understanding of the background when they were considering financial information in this area.

The committee considered the issues arising from the presentation and during discussion the following points were raised:

- A point was raised about the importance to a child or young person of having the continuity of contact with one social worker. In response it was noted that it may not always be possible to avoid the need to change social workers however, consideration was being given to the systems available to and support provided to social workers in order to retain officers in this area
- In response to a point raised about the transition of young people into adult services, it was recognised that this needed to be a respectful process which considered the important role of parents
- A point was made that there was no reference to access to doctors and dentists, as it was thought that a large proportion of looked after children were not registered with either. In response, the Executive Director referred to work undertaken through the Corporate Parenting Board, working with partners, to aim to ensure that the majority of children were registered
- It was noted that there were two locality bases in the North area as this was the largest area in terms of population and this also took into account school clusters and links to other service areas. This also took into account the amount of travel undertaken by social workers
- In response to a question, the Executive Director provided information on the time availability of youth workers, urgent care teams and social workers
- A discussion was held with regard to the support being provided to staff going through the transformation programme and information was provided on upskilling opportunities, looking at best practice, training for staff and the opportunity that this provided to listen to staff
- The transformation programme aimed to provide £1m of savings through the delivery of services more efficiently
- The presentation made reference to ‘needs not thresholds’ which related to the need to have a conversation when a referral was first made in order to understand what a child’s needs were and who would be best to meet them. There was a need for ownership from the person making the referral

- The presentation provided an overview of the work to be undertaken to get the foundations in place and noted that further work would then have to be done. This was not just about the role of Children's Services, but how the directorate communicated with and worked with many other council services, for example, parks or apprenticeships
- Reference was made to the need to look at an earlier intervention model in terms of success rates and the need to reduce costs
- In response to a comment made about the vision statement, it was explained that children, young people and staff had had an input
- A comment was made as to how Sherborne fitted into the service localities? In response it was reported that work had been undertaken to identify where partners were located and where current asset resources were. It was a priority to get the locality teams together so that work could continue, however it was recognised that further work would need to be done when the asset plan was considered
- The position with staff morale in the service was raised and it was noted that staff were being supported through the process by the leadership. In general good feedback was being received from staff
- It was noted that staff had a voice in the process and they were able to feed in their comments. This was important as they had good knowledge of the children within the service
- The programme included a particular focus on the adolescent service, where a real impact could be made. In addition to supporting all children up until the age of 18, the service had a responsibility for children with special educational needs and looked after children up until they were 25
- The Chairman asked that when the consultation period was completed, for the committee to see the plan for the service moving forward. The Chairman also requested that user numbers for Children's Services be included in the quarterly report produced for Cabinet.

34. **Dedicated Schools Grant (DSG)**

The Service Manager for Finance provided an overview of the Dedicated Schools Grant (DSG) which included what it was, how it was controlled, the role of the council and the current position for the council. As part of the presentation, the Service Manager for Finance noted that the slide titled 'DSG – what do we do?' should include a note to say that the council was able to put a school in special measures.

Councillors discussed the issues arising from the presentation and comments were made as follows:

- Reference was made to the way that the DSG was distributed to the council in four blocks, with the funding then being passed onto schools. It was noted that the Government was setting the schools budget below the schools minimum standards

- In response to a question it was noted that the Government had announced increases to the blocks which represented of the order of £200 per child per primary school, based on a particular formula, including deprivation factors. Some background to the High Needs Block deficit was provided and reference was made to a current Department for Education consultation around a proposal for deficits to sit within the school rather than with the council. The outcome of this consultation was awaited
- Councillors discussed the budget issues in this area and the Portfolio Holder for Children, Education and Early Help provided background to previous financial forecasting that had been undertaken and noted that the forecasting mechanism needed to be looked at again. There was recognition that every child had a right to mainstream education although some would require special education provision in an appropriate setting
- It was noted that this was a demand driven process
- The challenge in setting the budget in this area was that notification of DSG was usually received late in the process
- It was noted that coverage in the Press was suggesting that the additional funding to be provided by Government, could take the budget back to the position in 2015
- In response to a question, it was reported that the pay increase for new teachers was just a proposal at present
- A discussion was held in respect of the way that deprivation factors were measured and it was noted that a number of factors were taken into consideration and could vary by council. The experience was that there was undeclared deprivation which could impact on the funding provided to the council in this area. The Portfolio Holder encouraged councillors to communicate and seek understanding from local MPs of the needs of Dorset in terms of funding. The situation in Dorset was considered against the situation in other areas such as London and although the issue was recognised by the Department for Education, there was currently no solution
- In response to a question, it was reported that there was no provision to allow the council to charge the deficit back to the Department for Education
- The council funded the top up of schools' budgets in respect of education, health and care plans.

35. People Services - Adults and Housing Transformation Programme Update

The committee received a presentation with regard to the People Services – Adults and Housing Transformation Programme. An updated version of the presentation was provided at the meeting which gave the latest basis for the transformation plan. The Portfolio Holder for Adult Social Care and Health gave an overview of the areas covered by the presentation. She also noted that a technology room would be opening on 17 October 2019 and councillors were invited to an event to mark the opening on the lunchtime of this day. A

report with regard to the transformation plan would be provided to the People Scrutiny Committee and Cabinet in due course.

The committee considered the issues arising from the presentation and during discussion the following points were raised:

- Reference was made to the Building Better Lives Programme and the need to link into Children's Services and the council's assets programme as well as looking at issues from an Adults' Services perspective. In addition it was noted that the methodology used for the scheme in Purbeck had been taken into account when looking at other areas and specific reference was made to mapping exercises that had been undertaken in respect of sites in Gillingham
- Staffing issues in this area were discussed and particular reference was made to issues around the recruitment of social workers, the nomination of design champions from across the directorate to assist with designing the programme, the need to look at how people worked including flexible working and ways to grow the workforce including the use of apprenticeships
- The use of assistive technology was discussed and issues around broadband and mobile coverage were being looked at
- Reference was made to housing issues including the need for appropriate accommodation provision in order to retain younger people in the area.

36. Dorset Council Workforce Data and People Strategy

The Chairman noted that the presentation on Dorset Council Workforce Data and People Strategy would now be given at the next meeting of the committee on 7 November 2019.

37. Minutes of the Audit and Governance (Assessment) Sub-committee

The minutes of meetings of the Audit and Governance (Assessment) Sub-committee held on 28 June, 17 September and 25 September 2019 were noted.

38. Audit and Governance Committee Work Programme

The committee noted the work programme and items expected at future meetings. The Dorset Council Workforce Data and People Strategy presentation would be given at the meeting on 7 November 2019.

The Chairman noted that the committee had received a series of presentations over the last few meetings in order to provide background to a number of council areas. After November, the committee would need to give consideration as to any in-depth reviews they would like to undertake.

A point was raised with regard to the issue of asset management which was currently included on the work programmes for both Audit and Governance

Committee and Resources Scrutiny Committee. This would be clarified following the meeting. It was noted that the review of the Constitution was also included on both committee's work programmes and this would be discussed at the meeting of the scrutiny and audit and governance chairmen.

39. Exempt Business

There was no exempt business.

Duration of meeting: 10.00 am - 12.35 pm

Chairman

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Audit Committee Workforce Data

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Current Monitoring Arrangements

- Workforce data incorporated into scorecard of data monitored by SLT on a monthly basis
- HR Business Partners regularly report data to directorate leadership teams to help understand performance and identify trends
- Managers have direct access to information via SAP reports*

*information to be accessible to all managers by February 2020 following system convergence

Dorset Council Overview

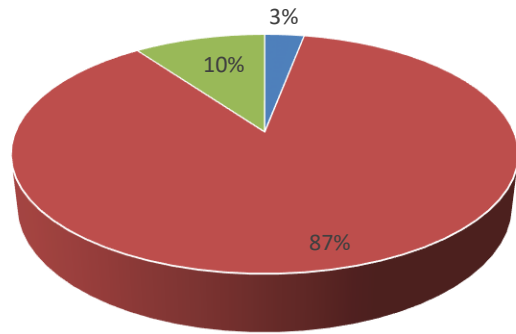
Turnover



Sickness Absence (Average Days Lost per FTE)



Establishment Overview



■ Recruiting - FTE ■ Occupied - FTE ■ Vacant - FTE

Children's Services

Measure	Comments
Annual Turnover (Sept 19)	14.89% - Turnover has reduced monthly over last 6 months, closer to DC average. It may increase from Jan – March with the outcomes of the whole service redesign (Blueprint for Change) where posts change/are reduced.
Vacancies: hard to recruit roles	Reliance on agency workers (mainly Social Workers & Social Care Managers) increased March - June then stabilised. Agency Workers will be shed as people are appointed to posts in the new structure. The HR Business Partner is currently working on a Recruitment & Retention Strategy for Social Workers.
Sickness (last six months)	March 2019: 8.27 days per FTE pa vs. September 2019: 10.13 days per FTE pa. 13.7% of absence = Mental Health (related). 39% Short term, 61% Long term.
Knowledge Management	Blueprint for Change consultation ends on 22 November. Proposed structures are based on multi-disciplinary locality teams and will retain maximum knowledge as core teams will change location/function rather than reduce.
Succession Planning	There are no formal arrangements for succession planning, but this activity is currently being discussed by Workforce Development Group and the HR Business Partner, in conjunction with Children's SLT.
Other Comments	An advert for Corporate Director – Care & Protection is live, with the selection event on 4 November. OFSTED visited on 1 & 2 October; results pending.

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Adults & Housing

Measure	Comments
Annual Turnover (Sept 19)	13.79 % - a steady and normal level of turnover
Vacancies: hard to recruit roles	Adults have reduced reliance on agency workers, by directly recruiting Social Workers (SW) and Occupational Therapists (OT) into a peripatetic team and flexibly deploying to cover absences. Vacancies for SW and OTs are currently low and well managed.
Sickness (last six months)	March 2019: 7.48 days per fte pa. September 2019: 10.04 days per fte pa. 31% of absence = mental health. 46% short term, 54% long term.
Knowledge Management	Adults and Housing have a transformation programme with a number of projects that will contribute to service improvement. The directorate is introducing a strengths based approach to their working practices which will contribute to a wide cultural change. Another area of focus is the assistive technology training which will transform the way some care packages are offered
Engagement Survey	A formalised employee engagement survey will be part of the DC People Strategy
Succession Planning	There are no formal arrangements for succession planning, but this activity is planned for the future
Comment	It has not been possible to include the data from the housing service as the information is held on district legacy IT databases. It is hoped to have a more accurate picture going forward but team managers are able to monitor and manage sickness at a local level.



Place

Measure	Comments
Annual Turnover (Sept 19)	**13.46 % - a high level of leavers as would be expected due to the departure of employees through redundancy
Vacancies: hard to recruit roles	Place are beginning to review hard to fill vacancies in line with agency usage. Regular agency review meetings have been established already resulting in a potential saving of up to £1000 pw identified in Building Control. Place hope to reduce reliance on agency workers through these reviews and by reviewing the approach to recruitment in key areas e.g. Planning & Building Control
Sickness (last six months)	* March 2019: DWP 10.05 days per fte pa. Environment & Economy 8.53 days per fte pa **September 2019: 8.89 days per fte pa. 9% attributed to stress related absence 43% Short Term Absence 58% Long term Absence
Knowledge Management	A number of operational and transformational digital technology projects are in progress across Place. These will assist with knowledge sharing across newly converged teams. Individuals in tranche 1 roles where knowledge loss was a high risk to the organisation have been deferred to ensure knowledge transfer and capture
Succession Planning	There are no formal arrangements for succession planning, however discussions around growing talent through apprenticeships and flexible organisational moves have commenced in Planning and are being built into future organisational plans.
Comment	*This is the only workforce data available in SAP at this time. ** This data does not include ex PDC or DCP employees who have not yet migrated to SAP

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Corporate Development

Measure	Comments
Annual Turnover (Sept 19)	14.1% .
Vacancies:	A review of any remaining vacancies will take place on conclusion of Tranche 2 Transitional Structures.
Sickness:	In September 2019 the working days lost due to sickness absence per FTE is 6.88 (3.89 due to short terms absence and 2.99 due to long term absence).
Knowledge Management	Transitional structures tranche 2 will address duplication of roles performing the following functions: Finance, Procurement, Legal, Democratic, HR & OD, IT, Digital, Change and Project Management, Communications and Business Insight. Tranche 2 structures will be effective from 1 January 2020.
Succession Planning	There are no formal arrangements for succession planning, but this activity is planned for the future.
Comment	

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Business Insight and Corporate Communications

Measure	Comments
Annual Turnover (Sept 19)	20.93% .
Vacancies:	A review of any remaining vacancies will take place on conclusion of Tranche 2 Transitional Structures.
Sickness:	In September 2019 the working days lost due to sickness absence per FTE is 1.86 (1.86 due to short terms absence and 0.00 due to long term absence).
Knowledge Management	Transitional structures tranche 2 will address duplication of roles performing the following functions: Finance, Procurement, Legal, Democratic, HR & OD, IT, Digital, Change and Project Management, Communications and Business Insight. Tranche 2 structures will be effective from 1 January 2020.
Succession Planning	There are no formal arrangements for succession planning, but this activity is planned for the future.
Comment	

Legal & Democratic Services

Measure	Comments
Annual Turnover (Sept 19)	15.87% .
Vacancies:	A market forces supplement remains in place for the post of solicitor. This is subject to review as per Dorset Council's policies and procedures. A review of vacant posts will take place on conclusion of Tranche 2 Transitional Structures.
Sickness:	In September 2019 the working days lost due to sickness absence per FTE is 7.71 (3.95 due to short terms absence and 3.75 due to long term absence).
Knowledge Management	Transitional structures tranche 2 will address duplication of roles performing the following functions: Finance, Procurement, Legal, Democratic, HR & OD, IT, Digital, Change and Project Management, Communications and Business Insight. Tranche 2 structures will be effective from 1 January 2020.
Succession Planning	There are no formal arrangements for succession planning, but this activity is planned for the future.
Comment	

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Dorset Council's People Strategy

- Why are we doing this?
- The role of HR & OD
- People Strategy & Workforce Profile
- Key projects
- Peer review

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Dorset Council's People Strategy

- A People Strategy for the council is currently being developed
- Our People Strategy sets out our ambition to be an employer of choice, where we can do our jobs well and make a difference to the people of Dorset
- The People Strategy has been developed collaboratively with managers, employees and trade unions

People Strategy Goals

- Becoming an employer of choice
- Developing our people
- Engaging our people
- Supporting our people
- Creating a positive workplace culture
- Rewarding and recognising performance

Becoming an employer of choice

- Promote and proactively work towards enabling a diverse and healthy workforce
- Develop an employer brand
- Review our processes to improve the 'employee journey'

Developing our people

- Maximise the apprenticeship levy to develop our existing employees and attract our employees of the future
- Develop a coaching and mentoring culture
- Learning and development roadshows and masterclasses

Engaging our People

- Introduce tools to help us with regular, two way engagement
- Establish a leadership forum to bring together our people leaders on a regular basis
- Internal communications strategy

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Supporting our People

- Create a strategic employee wellbeing programme
- Make sure our employees are aware of risks, and these are managed well
- Build understanding and reduce stigma of mental health conditions

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Rewarding and Recognising Performance

- Succession planning and talent management
- Launch and develop an employee offer
- Review our approach to performance management, moving towards regular developmental and performance conversations

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Date of Meeting: 7 November 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 for the financial year to 30 September 2019.

Treasury management is defined by the Chartered Institute of Public Finance and Accountancy (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.”

Treasury management at the Council is 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 then, as a minimum, to receive a mid-year update (this report) and a year-end review of activity and performance compared to this strategy.

Treasury management decisions made by the Council must take into consideration external factors, particularly the wider economic backdrop and the outlook for financial markets and interest rates. Markets remain concerned about the global economic outlook, and this suggests that interest rates will continue to remain relatively low. However, there was a sharp reminder of the risk that interest rates can move upwards too, when HM Treasury unexpectedly announced in October that the margin above gilts yields applied to lending to local authorities would increase from 0.8% to 1.8%.

The combined Capital Financing Requirement (CFR) inherited by Dorset Council from the six predecessor councils at the end of last financial year was £364m. If Private Finance Initiative (PFI) and other finance leases are excluded, the combined underlying borrowing need was £327m.

The Council’s actual external borrowing at 30 September 2019 was £197.5m, a net reduction of £35m from the inherited position at the start of the year of £232.5m. The difference between the underlying borrowing need and actual borrowing was approximately £130m, up from £94m at the start of the year, financed temporarily by ‘internal borrowing’ from reserves and balances that would otherwise have been available for investment.

As at 30 September, the Council held cash and cash equivalents of £30.6m plus investments of £83.0m, together totalling £113.6m, compared to £147.5m at the start of the financial year.

The cost of borrowing is forecast to be below budget for the year, as a result of the early repayment of two loans, and by delaying the replacement of short-term loans that have matured this year. This has, however, meant that balances available for investment have been lower than expected, which has therefore reduced the expected level of interest receivable and investment income. The forecast net cost of treasury management activities (including Minimum Revenue Provision) is £13.6m compared to the budget of £14.9m.

The predecessor councils all had different providers of banking services. Now we have come together as one organisation, having multiple bankers is not the most efficient and effective way to operate, therefore we wish to appoint a single banker. On 17 October 2019 the contract opportunity was advertised on the Official Journal of the European Union (OJEU), with contract award expected late December 2019 and the implementation of changes starting in January 2020.

Later this financial year, a training session open to 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.

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 monitoring 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 Annual Treasury Management Strategy approved by Council. 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:

None.

<p>Other Implications:</p> <p>Not none.</p>
<p>Recommendation:</p> <p>That the Committee note and comment upon the report.</p>
<p>Reason for Recommendation:</p> <p>To better inform members of Treasury Management process and strategy, in accordance with the corporate requirement to ensure money and resources are used wisely.</p>
<p>Appendices:</p> <p>Appendix 1: External Context and Economic Outlook (Arlingclose) Appendix 2: Borrowing at 30 September 2019 Appendix 3: Cash and Investments at 30 September 2019</p>
<p>Background Papers:</p> <p>Treasury Management strategy Statements 2019/20 Capital Programme Budget and Monitoring reports 2019/20</p>
<p>Officer Contact:</p> <p>Name: David Wilkes, Service Manager for Treasury and Investments Tel: 01305 224119 Email: david.wilkes@dorsetcouncil.gov.uk</p>

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 the Chartered Institute of Public Finance and Accountancy (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 The Council has adopted CIPFA’s *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code). The Code recommends that local authorities produce for each financial year, as a minimum:
 - An annual strategy in advance of the year;
 - A mid-year update describing activity for the year to date compared to the strategy (this report), and;
 - An annual review of activity following the end of the year.
- 1.5 The Council’s treasury management strategy for 2019/20 was approved by the Shadow Dorset Council on 20 February 2019. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council’s treasury management strategy.
- 1.6 The 2017 CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council’s Capital Strategy, complying with CIPFA’s requirement, was also approved by the Shadow Dorset Council on 20 February 2019.

2. Treasury Management Advisers

- 2.1 The Council employs professionally qualified and experienced staff with responsibility for making borrowing and investment decisions. Officers are supported by external advisers who are specialists in their fields. The Council currently employs Arlingclose Limited as treasury management advisers.
- 2.2 This approach ensures that the Council has access to a wide pool of relevant market intelligence, knowledge and skills, that would be very difficult and costly to replicate internally. However, whilst advisers provide support to the internal treasury function,

final decisions on treasury matters always remain with the Council.

3. External Context (Economic Background and Outlook)

- 3.1 Treasury management decisions made by the Council must take into consideration external factors, particularly the wider economic backdrop and the outlook for financial markets and interest rates. Appendix 1 provides further details of the views of Arlingclose.
- 3.2 The UK economy has displayed a marked slowdown in growth largely due to both Brexit uncertainty and the downturn in global activity. In response, expectations of interest rate rises have eased dramatically. The Bank of England has maintained Bank Rate at 0.75%, noting the deterioration in global activity and sentiment but confirmed that monetary policy decisions related to Brexit could be in either direction. Arlingclose expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy.
- 3.3 Returns on government bonds (gilt yields) have fallen to historic lows as investors look for 'safe havens'. Arlingclose expects gilt yields to remain at low levels for the foreseeable future. This has direct implications for the Council's treasury management decisions as many financial instruments are priced in relation to gilt yields, for example, loans from the Public Works Loans Board (PWLB).
- 3.4 Borrowing from the PWLB is priced at a fixed margin above the government's cost of borrowing, as measured by gilt yields. On 9 October 2019, HM Treasury announced that the margin on any new borrowing would increase by 1.0% from 0.8% to 1.8%, with immediate effect. So, for example, on 8 October Dorset Council could have borrowed from the PWLB for 20 years at approximately 1.7%, but on 9 October the rate for the same borrowing would have been 2.7% (assuming no other changes in gilts markets).
- 3.5 This change has no immediate direct impact for the Council as it only applies to new borrowing, and there are no plans to take out any long-term borrowing from the PWLB or any other source this financial year. It is unlikely that we will be looking to take out any long term borrowing in 2020/21 either, but this may depend on the final capital programme agreed.
- 3.6 However, it is likely that the changes will exert some upward pressure on rates available from other sources of long-term and short-term borrowing, and possibly on investment returns too. Officers are due to meet with Arlingclose on 11 November to discuss treasury strategy, and the implications of this change will be taken into consideration
- 3.7 The scheduled date for the UK to leave the EU is 31 October 2019 and there remains uncertainty as to whether a deal will be agreed by this date. As 31 October approaches the Council will ensure there is sufficient access to liquid funds in UK-domiciled banks and Money Market Funds.

4. Local Context

- 4.1 The six predecessor councils all had different balance sheets and different treasury management priorities and therefore each had developed different treasury

management strategies to suit their individual circumstances. For example, the county council had a relatively high borrowing requirement so it had prioritised reducing the cost of debt by using reserves and balances to 'offset' this borrowing need in order to reduce risk and keep interest costs low. In contrast, the district and boroughs tended to have relatively low or no borrowing requirement, so their strategies had focused on using their reserves and balances to generate higher returns from their investment portfolios. Dorset Council will now need to develop its own strategy, fit for its needs, and officers will be meeting with Arlingclose to discuss options on 11 November 2019.

- 4.2 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. 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. The results of this exercise will have an impact on Dorset Council's capital financing requirements.
- 4.3 Extracts from the Council's opening balance sheet are summarised in Table 1 below. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) less Private Finance Initiative (PFI) and other finance lease liabilities. Usable reserves and working capital are the underlying resources available for investment or to temporarily offset the borrowing need.

Table 1: Balance Sheet Summary

	01/04/2019 Actual £m
Total Capital Financing Requirement (CFR)	364
Less PFI and other lease finance liabilities	37
Underlying Borrowing Requirement (UBR)	327
External borrowing	233
Internal borrowing	94
Balances available for internal borrowing:	
Usable reserves	170
Working capital	71
Total available for internal borrowing	241
Surplus available for investment	147

- 4.4 The treasury management position at 30 September 2019 and the change during the year is summarised in Table 2 below.

Table 2: Treasury Management Summary

	31.03.19 Balance £m	Net Movement £m	30.09.19 Balance £m	30.09.19 Rate %
Long-term borrowing	201.1	-20.1	181.0	3.9%
Short-term borrowing	31.4	-14.9	16.5	1.0%
Total Borrowing	232.5	-35.0	197.5	3.7%
Investments	80.5	2.5	83.0	2.8%
Cash and cash equivalents	67.0	-36.4	30.6	0.8%
Total Cash and Investments	147.5	-33.9	113.6	2.24%
Net Borrowing	85.0	-1.1	83.9	

- 4.5 On 31 March 2019, the Council had net borrowing of £85m arising from its revenue and capital income and expenditure, and by 30 September this had fallen marginally to £84m.

5 Borrowing

- 5.1 At 30 September 2019 the Council held £197.5m of loans, a decrease of £35m from 31 March 2019, as part of its strategy for funding previous and current years' capital programmes. Two long-term loans of £10m each were repaid in full in April 2019. Three short-term loans for £30m in total matured in the first half of 2019/20, and three new short-term loans totalling £15 m were drawn down in the year to date.
- 5.2 Outstanding loans at 30 September 2019 are summarised in Table 3 below, with further detail in Appendix 2.

Table 3: Borrowing Position

	31.03.19 Balance £m	Net Movement £m	30.09.19 Balance £m	30.09.19 Average Rate %	30.09.19 Average Maturity (years)
Public Works Loan Board	86.4	0.0	86.4	4.0	17.7
Banks (fixed-term)	25.6	0.0	25.6	4.7	57.1
Banks (LOBO)	31.0	-20.0	11.0	4.6	56.6
Local authorities (long-term)	15.0	0.0	15.0	4.4	39.7
Local authorities (short-term)	30.0	-15.0	15.0	0.8	0
Other lenders (fixed-term)	25.0	0.0	25.0	3.9	45.7
Other lenders (LOBO)	19.5	0.0	19.5	2.6	12.6
Total Borrowing	232.5	-35.0	197.5	3.7	28.3

- 5.3 The chief objective of the Council (and its predecessors) when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should long-term plans change being a secondary objective.

- 5.4 With short-term interest rates remaining much lower than long-term rates, the Council considers it to be more cost effective in the near term to use internal resources or borrow rolling short-term loans instead. This strategy has enabled the Council to reduce net borrowing costs (despite foregone investment income) and to reduce overall treasury risk. The Council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long-term borrowing has been maintained.
- 5.5 The Council holds LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No lenders have exercised their options during the year to date.
- 5.6 On assessment of the LOBO portfolio with Arlingclose, some loans presented restructuring opportunities with substantial value from a negotiated settlement with the lender. The risks and benefits, including restructuring savings, were assessed and £20m of LOBOs were repaid in April 2019, which has also helped reduce exposure to the risk of options being exercised in the longer term.
- 5.7 Three short-term loans have matured in the year to date, totalling £30m - £5m from Essex County Council repaid in May 2019, £15m from the Greater London Authority in June 2019 and £10m from Middlesbrough Council in July 2019. These loans have been replaced in part by the following three new short-term loans totalling £15m:

Lender	Drawdown Date	Maturity Date	Amount £	Interest Rate
Essex County Council	20/09/2019	20/01/2020	£5,000,000	0.72%
Derbyshire Pension Fund	25/09/2019	27/04/2020	£5,000,000	0.80%
Leicester City Council	26/09/2019	26/05/2020	£5,000,000	0.82%

- 5.8 In November 2017, Dorset County Council entered into a forward commitment to borrow £20m Council has also entered into a forward commitment to borrow £20m in November 2019 at a rate of 2.52% for a minimum period of 23 years, and a maximum of 48 years. This reduced exposure to the risk of interest rate rises in the intervening two year period at a rate lower than the comparable PWLB rate available, without incurring the cost of borrowing for that period.

6. Treasury Investments

- 6.1 The Council holds significant levels of invested funds, representing income received in advance of expenditure plus balances and reserves held. Cash, cash equivalents and investments held on 30 September 2019 are detailed in Appendix 3 and summarised in Table 4 below.

Table 4: Treasury Investments Position

	31.03.19 Balance £m	Net Movement £m	30.09.19 Balance £m	2019/20 Income Return (p.a.)
Cash and Cash Equivalents:				
Banks & Building Societies (unsecured)	46.2	-36.1	10.1	0.40%
Covered bonds (secured)	0.0	0.0	0.0	0.00%
Government (including local authorities)	19.4	5.7	25.1	0.50%
Corporate bonds and loans	0.0	0.0	0.0	0.00%
Money Market Funds	33.7	-2.1	31.5	0.73%
Less 'co-mingled' Dorset LEP Balances*	-32.3	-3.8	-36.1	0.40%
Total Cash and Cash Equivalents	67.0	-36.4	30.6	0.82%
Investments:				
Short-dated bond funds	3.0	0.0	3.0	1.97%
Strategic bond funds	10.7	0.2	10.9	2.30%
Equity income funds	42.0	0.0	42.0	2.89%
Property funds	18.1	2.2	20.4	2.28%
Multi asset income funds	6.7	0.0	6.7	4.55%
Real Estate Investment Trusts (REITS)	0.0	0.0	0.0	0.00%
Total Investments	80.5	2.5	83.0	2.77%
Total Cash and Investments	147.5	-33.9	113.6	2.24%

*The Dorset Local Enterprise Partnership balances are co-mingled with Dorset Council's.

- 6.2 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 6.3 Table 5 below summarises the risk and return metrics of the Council's investments and compares them with the averages for all the local authority clients of Arlingclose.

Table 5: Treasury Investments Benchmarking

	Credit Rating	Credit Score	Bail-in % Exposure	Weighted Average Maturity (days)	Rate of Return %
Dorset Council	AA-	3.97	62%	11	1.4%
English unitaries (21)	AA-	4.31	74%	39	1.2%
All authorities (139)	AA-	4.27	62%	28	1.2%

- 6.4 Arlingclose calculate the credit score by applying a score to each investment (AAA = 1, AA+ = 2 etc.) and taking the average, weighted by the size of each investment. Unrated

investments are assigned a score based on their perceived risk. Arlingclose also calculate the proportion of investments exposed to 'bail-in' risk. (A bail-in provides relief to a financial institution on the brink of failure by requiring the cancellation of debts owed to creditors and depositors. In comparison, a bailout involves the rescue of a financial institution by external parties, typically governments, using taxpayers' money for funding.)

- 6.5 £83m of the Council's investments are held in externally managed strategic pooled investment vehicles (bond, equity, multi-asset and property funds) where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.
- 6.6 These funds have no defined maturity date, but are available for withdrawal after a notice period, and their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the expectation that over a three to five-year period total returns should exceed cash interest rates.

7. Non-Treasury Investments

- 7.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 7.2 As at 30 September 2019, the Council held no such investments.

8. Treasury Performance

- 8.1 The Council measures the financial performance of its treasury management activities in terms of its impact on the revenue budget as shown in table 6 below.

Table 6: Treasury Performance

	Budget £m	Forecast £m	Variance £m
Interest Payable	10.5	7.9	2.6
Debt Rescheduling Charges	0.1	0.3	-0.2
Minimum Revenue Provsion (MRP)	8.6	9.2	-0.6
Total Payable	19.2	17.4	1.8
Interest and Investment Income	-4.3	-3.8	-0.5
Net Payable / (Receivable)	14.9	13.6	1.3

- 8.2 The cost of borrowing is forecast to below budget for the year, largely as a result of the early repayment of the two LOBO loans, and by delaying the replacement of the short-term loans that have matured this year. This does, however, mean that balances available for investment have been lower than expected, which has therefore reduced the expected level of interest and investment income.

9. Compliance (with the CIPFA Code and the Council's Treasury Management Strategy)

- 9.1 All treasury management activities undertaken during the period complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific debt and investment limits is demonstrated below.
- 9.2 Debt Limits: 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. The Council has complied with the authorised limit and operational boundary for external debt as demonstrated in table 7 below.

Table 7: Debt Limits

	Maximum to date £m	31.09.19 Actual £m	Operational Boundary £m	Authorised Limit £m	Complied Yes/No
Borrowing	232.5	197.5	388.0	398.0	Yes
PFI & Finance Leases	37.0	36.0	37.0	37.0	Yes
Total Capital Financing	269.5	233.5	425.0	435.0	

- 9.3 Investment Limits: All investments during the financial year to 30 September 2019 were compliant with the parameters for approved investment counterparties and limits. Appendix 3 summarises the positions as at 30 September 2019.

10. Treasury Management Indicators

- 10.1 The Council measures and manages its exposures to treasury management risks using the following indicators.
- 10.2 Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Table 8: Security

	31.09.19 Actual	2019/20 Target	Complied Yes/No
Portfolio average credit rating or score	4.0	6.0	Yes

- 10.3 Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period. In addition, the Council aims to hold a minimum of £10m readily available in same day access bank accounts and Money Market Funds.

Table 9: Liquidity

	30.09.19 Actual	2019/20 Target	Complied Yes/No
Total cash available within 100 days	50%	36%	Yes

- 10.4 Interest Rate Exposure: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Table 10: Interest Rate Exposure

	30.09.19 Actual £000s	2019/20 Target £000s	Complied Yes/No
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	230	300	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	230	300	Yes

- 10.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.
- 10.6 Sums invested for longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 11: Investments beyond year end

	2019/20 £m	2020/21 £m	2021/22 £m
Actual principal invested beyond year end	0.0	0.0	0.0
Limit on principal invested beyond year end	20.0	20.0	20.0
Complied (Yes/No)	Yes	Yes	Yes

- 10.7 Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing in the Treasury Management Strategy agreed by the Shadow Dorset Council set the upper limit for all periods at 100%. Therefore, the following table compares the maturity structure against the percentage limits used by Dorset County Council in 2018/19.

Table 12: Maturity Structure of Borrowing

	30.09.19 Actual £m	% of Total Borrowing	Upper Limit	Lower Limit	Complied Yes/No
Under 12 months	27.5	13.9%	25%	0%	Yes
12 Months to 2 Years	21.0	10.6%	25%	0%	Yes
2 Years to 5 Years	31.6	16.0%	25%	0%	Yes
5 Years to 10 Years	10.0	5.1%	35%	0%	Yes
10 Years to 15 Years	0.0	0.0%	35%	0%	Yes
15 Years to 20 Years	0.0	0.0%	35%	0%	Yes
20 Years to 25 Years	0.0	0.0%	45%	0%	Yes
25 Years to 30 Years	0.0	0.0%	45%	0%	Yes
30 Years to 35 Years	41.8	21.2%	45%	0%	Yes
35 Years to 40 Years	15.0	7.6%	45%	0%	Yes
40 Years to 45 Years	0.0	0.0%	45%	0%	Yes
45 Years to 50 Years	25.0	12.7%	45%	0%	Yes
50 Years and above	25.6	13.0%	75%	0%	Yes
Total	197.5	100.0%			

10.8 Time periods start on the first day of each financial year, so borrowing maturing “under 12 months” is all borrowing that may mature before the end of this financial year. The maturity date used is the earliest date on which the lender can demand repayment or the borrower has the option to repay without penalty. The next option dates on LOBOs have therefore been treated as the potential repayment date.

11. Member and Officer Training

11.1 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.

11.2 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.

12. Procurement of Banking Services

12.1 The predecessor councils all had different providers of banking services – Dorset County Council banked with NatWest, Purbeck District Council with Lloyds, and East Dorset District Council, North Dorset District Council, West Dorset District Council and Weymouth and Portland Borough Council with HSBC.

12.2 Now that the predecessor councils have come together as one organisation, having multiple bankers is not the most efficient and effective way to operate, so we wish to appoint a single provider of banking services for Dorset Council.

12.4 An open tender process will be followed, and on 17 October 2019 the contract opportunity was advertised on the Official Journal of the European Union (OJEU). Contract award is expected late December 2019, with the implementation of changes starting from early January 2020. Full details of the implementation plan will be agreed with the successful tenderer.

Aidan Dunn
Executive Director of Corporate Development
October 2019

Appendix 1: External Context and Economic Outlook (Arlingclose September 2019)

Economic background: UK Consumer Price Inflation (CPIH) fell to 1.7% year/year in August 2019 from 2.0% in July, weaker than the consensus forecast of 1.9% and below the Bank of England's target. The most recent labour market data for the three months to July 2019 showed the unemployment rate edged back down to 3.8% while the employment rate remained at 76.1%, the joint highest since records began in 1971. Nominal annual wage growth measured by the 3-month average excluding bonuses was 3.8% and 4.0% including bonuses. Adjusting for inflation, real wages were up 1.9% excluding bonuses and 2.1% including.

The first estimate of Q2 GDP growth showed the UK economy contracted by 0.2% following the 0.5% gain in Q1 which was distorted by stockpiling ahead of Brexit. Only the services sector registered an increase in growth, a very modest 0.1%, with both production and construction falling and the former registering its largest drop since Q4 2012. Business investment fell by 0.5% as Brexit uncertainties impacted on business planning and decision-making.

Politics, both home and abroad, continued to be a big driver of financial markets over the last quarter. Boris Johnson won the Conservative Party leadership contest and has committed to leaving the EU on 31st October regardless of whether a deal is reached with the EU. Mr Johnson prorogued Parliament which led some MPs to put forward a bill to block the UK from leaving without a deal. The move was successful and having been approved by the House of Lords will now pass into law.

Tensions continued between the US and China with no trade agreement in sight and both countries imposing further tariffs on each other's goods. The US Federal Reserve cut interest rates in a pre-emptive move to maintain economic growth amid escalating concerns over the trade war and a weaker economic environment leading to more pronounced a global slowdown. These elevated concerns have caused government yield curves in the US and UK to invert, something seen by many commentators as a predictor of a global recession. Market expectations are for further interest rate cuts from the Fed and in September the European Central Bank reduced its deposit rate to -0.5% and announced the recommencement of quantitative easing from 1st November.

The Bank of England maintained Bank Rate at 0.75% and in its August Inflation Report noted the deterioration in global activity and sentiment and confirmed that monetary policy decisions related to Brexit could be in either direction depending on whether or not a deal is ultimately reached by 31st October.

Financial markets: After rallying early in 2019, financial markets have been adopting a more risk-off approach in the following period as equities saw greater volatility and bonds rallied (prices up, yields down) in a flight to quality and anticipation of more monetary stimulus from central banks. The Dow Jones, FTSE 100 and FTSE 250 are broadly back at the same levels seen in March/April.

Gilt yields remained volatile over the period on the back of ongoing economic and political uncertainty. From a yield of 0.63% at the end of June, the 5-year benchmark gilt yield fell to 0.28% at the start of September before recovering to 0.49% by the middle of the month. There were falls in the 10-year and 20-year gilts over the same period, with the former dropping from 0.83% to 0.43% before bouncing back to 0.71% and the latter falling from 1.35% to 0.84% before rising again to 1.06%. 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.65%, 0.75% and 1.00% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth remains a global risk. The US yield curve remains inverted with 10-year Treasury yields lower than US 3-month bills. History has shown that a recession hasn't been far behind a yield

curve inversion. Following the sale of 10-year Bunds at -0.24% in June, yields on German government securities continue to remain negative in the secondary market with 2 and 5-year securities currently trading around -0.71 and -0.72% respectively.

Credit background: Credit Default Swap (CDS) spreads rose and then fell again during the quarter, continuing to remain low in historical terms. After rising to almost 120bps in May, the spread on non-ringfenced bank NatWest Markets plc fell back to around 83bps by the middle of September, while for the ringfenced entity, National Westminster Bank plc, the spread fell slightly from 40bps to 38bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 32 and 66bps at the end of the period.

There were minimal credit rating changes during the period. Moody's upgraded The Co-operative Bank's long-term rating to B3 and Fitch upgraded Clydesdale Bank and Virgin Money to A-.

Outlook for the remainder of 2019/20

The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.

Prime Minister Boris Johnson has pledged to exit the EU on 31st October with or without a deal. It is unlikely the UK will be able to negotiate a different withdrawal deal before the deadline. The probability of a no-deal EU exit has therefore increased, which has implications for the future path of interest rates.

There appears no near-term resolution to the trade dispute between China and the US, a dispute that the US appears comfortable exacerbating further. With the 2020 presidential election a year away, Donald Trump is unlikely to change his stance

Our treasury advisor Arlingclose expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy. Arlingclose judges that the risks are significantly weighted to the downside.

Bank Rate	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Upside Risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside Risk	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

Gilt yields have fallen to historic lows. The risks to economic growth from global political uncertainty appear to have crystallised, dampening rate expectations and dragging yields lower. Arlingclose expects gilt yields to remain at low levels for the foreseeable future and see the risks as broadly balanced. Volatility will continue to offer longer-term borrowing opportunities.

Readiness for Brexit: The scheduled leave date for the UK to leave the EU is now 31st October 2019 and there remains little political clarity as to whether a deal will be agreed by this date and, unless the exit date is pushed back yet again, the potential of a no-deal Brexit has increased significantly. As 31st October approaches the Authority will ensure there are enough accounts open at UK-domiciled banks and Money Market Funds to hold sufficient liquidity and that its account with the Debt Management Account Deposit Facility (DMADF) remains available for use in an emergency.

Appendix 2: Borrowing as at 30 September 2019

Ref	Lender	Loan Type	Drawdown Date	Next Option	Date Matures	Years Remaining	Amount O/S £000s	Rate %	
Loan 2	PWLB	Annuity	25/07/2003	n/a	25/03/2023	3.50	3,960	4.70	
Loan 3	PWLB	Annuity	21/12/2004	n/a	25/03/2023	3.50	70	4.65	
Loan 10	PWLB	Maturity	01/03/2006	n/a	25/03/2051	31.50	8,820	3.95	
Loan 11	PWLB	Maturity	09/10/2006	n/a	25/03/2052	32.50	15,000	4.10	
Loan 12	PWLB	Maturity	02/08/2007	n/a	25/09/2052	33.00	8,000	4.55	
Loan 14	PWLB	Maturity	23/08/2007	n/a	25/09/2053	34.00	10,000	4.45	
Loan 28	PWLB	Maturity	07/09/2010	n/a	25/02/2025	5.40	10,000	3.74	
Loan 29	PWLB	Maturity	07/09/2010	n/a	25/03/2030	10.50	10,000	3.98	
Loan 30	PWLB	Maturity	03/11/2011	n/a	25/03/2021	1.50	20,000	3.30	
Loan 13	Barclays	Maturity	30/07/2007	n/a	30/07/2077	57.800	15,600	4.625	
Loan 24	Lancashire CC	Maturity	25/09/2011	n/a	25/11/2059	40.20	15,000	4.39	
Loan 31	Siemens	LOBO	25/09/2012	25/09/2022	25/09/2032	13.00	10,000	2.60	
Loan 32	Siemens	LOBO	16/11/2011	21/12/2022	21/12/2032	13.24	9,500	2.53	
Loan 48	BAE Systems	LALN	11/12/2017	07/11/2042	11/12/2065	46.20	25,000	3.90	
Loan 57	Essex County Council	Maturity	20/09/2019	n/a	20/01/2020	0.30	5,000	0.72	
Loan 58	Derbyshire Pension Fund	Maturity	27/04/2019	n/a	27/04/2020	0.60	5,000	0.80	
Loan 59	Leicester City Council	Maturity	26/09/2019	n/a	26/05/2020	0.65	5,000	0.82	
Loan 61	Barclays Bank	Maturity	14/11/2006	n/a	16/11/2076	57.10	10,000	4.79	
Loan 62	KBC Bank N.V.	LOBO	14/11/2006	14/11/2019	16/11/2076	57.10	11,000	4.59	
Loan 63	PWLB	Maturity	16/10/2009	n/a	16/10/2019	0.14	50	2.66	
Loan 64	PWLB	Maturity	05/03/2010	n/a	05/03/2020	0.40	500	2.96	
Total / Weighted Average							28.84	197,500	3.73

Appendix 3: Cash, cash equivalents and investments as at 30 September 2019

	Holding £s	Credit Rating	Limit £s	Complied Yes/No
Banks & Building Societies				
HSBC	2,682,000	AA-	10,000,000	Yes
Leeds Building Society	4,017,766	A-	10,000,000	Yes
Lloyds Account	1,667,859	A+	10,000,000	Yes
NatWest	713,000	A+	10,000,000	Yes
Santander	1,005,000	A+	10,000,000	Yes
Sub-Total	10,085,625			
UK Government (including Local Authorities)				
UK Debt Management Office	25,100,000	n/a	Unlimited	Yes
Sub-Total	25,100,000			
Money Market Funds				
Aberdeen Standard MMF	9,176,000	AAA	20,000,000	Yes
Blackrock MMF	2,754,000	AAA	20,000,000	Yes
DB MMF	2,755,000	AAA	20,000,000	Yes
Federated Prime Rate MMF	12,125,000	AAA	20,000,000	Yes
Goldman Sachs MMF	2,215,000	AAA	20,000,000	Yes
HSBC MMF	2,518,000	AAA	20,000,000	Yes
Sub-Total	31,543,000		100,000,000	Yes
Short-Dated Bond Funds				
Threadneedle Sterling Short-Dated Corporate Bond Fund	3,007,776	n/a	20,000,000	Yes
Sub-Total	3,007,776			
Strategic Bond Funds				
M&G Strategic Corporate Bond Fund	4,943,287	n/a	20,000,000	Yes
Threadneedle Strategic Bond Fund	5,947,063	n/a	20,000,000	Yes
Sub-Total	10,890,350			
Equity Income Funds				
CCLA Diversified Income Fund	2,031,512	n/a	20,000,000	Yes
Host Capital Charteris Premium Income Fund	2,818,225	n/a	20,000,000	Yes
Investec Diversified Income Fund	6,274,905	n/a	20,000,000	Yes
M&G Global Dividend Fund	9,640,189	n/a	20,000,000	Yes
Payden Sterling Reserve Fund Gbp Distributing	7,070,414	n/a	20,000,000	Yes
Royal London Enhanced Cash Plus Fund	1,992,968	n/a	20,000,000	Yes
Schroders Income Maximiser Fund	6,293,239	n/a	20,000,000	Yes
Threadneedle UK Equity Income Fund	5,911,447	n/a	20,000,000	Yes
Sub-Total	42,032,899			
Property Funds				
Lime Property Fund Unit Trust	2,778,985	n/a	40,000,000	Yes
CCLA Local Authorities' Property Fund (LAMIT)	17,580,267	n/a	40,000,000	Yes
Sub-Total	20,359,252			
Multi Asset Income Funds				
UBS Multi Asset Income Fund	6,730,920	n/a	20,000,000	Yes
Sub-Total	6,730,920			
Total	149,749,822			
Less Dorset LEP co-mingled balances	-36,108,000			
Net Total	113,641,822			

Audit and Governance Committee Work Plan

Date of Meeting	Item	Purpose / Key lines of Enquiry	Lead councillor / officer
7 November 2019			
	Presentation – Dorset Council Workforce Data & People Strategy	To receive a presentation in respect of Dorset Council’s Workforce Data and People Strategy as requested by the committee.	Portfolio Holder – Deputy Leader / Corporate Development & Change Lead Officer – Corporate Director HR/OD
	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.	Portfolio Holder – Leader of Council Lead Officer – Executive Director - Place
	Treasury Management 2019/20 Mid-Year 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
3 December 2019			
	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
	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

Date of Meeting	Item	Purpose / Key lines of Enquiry	Lead councillor / officer
Reserve - 16 January 2020			
	Asset Management & Disposal Governance Arrangements	To review the Council's emerging asset management and disposal governance arrangements.	Portfolio Holder - Finance, Commercial & Assets Lead officer - Executive Director - Corporate Development S151 & Executive Director - Place
Reserve - 11 February 2020			
24 March 2020			
	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
	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

Date of Meeting	Item	Purpose / Key lines of Enquiry	Lead councillor / 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
Reserve - 23 April 2020			