



Date of Meeting: 26 July 2019

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

Local Member(s): N/A

Lead Officer: Aidan Dunn

Executive Summary:

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

The report summarises the performance against budget and the impact this has had on each council's closing position. It also sets 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.

The report also describes work in progress to transition the six sovereign councils' financial positions into a single system and a target date for achieving this.

A presentation will be provided on the day to talk Committee members through the key aspects of the approval process.

Equalities Impact Assessment:

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

Budget:

The performance against budget for each council for 2018/19 is summarised in the report. It is important that the Committee understands any continuing financial considerations for 2019/20 and/or which need to be considered when building the medium-term financial plan (MTFP).

Risk Assessment:

Current Risk: LOW

Residual Risk MEDIUM

There are some matters to pick up as part of 2018/19 outturn that will need to be managed proactively in future and which need appropriate risk mitigations. These are discussed further in the body of the report.

Climate implications:

N/A

Other Implications:

N/A

Recommendation:

It is recommended that the 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 of the six councils for the period ending 31 March 2019.

Reason for Recommendation:

Under the Accounts and Audit (England) Regulations 2015, the Statement of Accounts and Annual Governance Statement must be approved by the Council, or a Committee to which the Council has delegated authority by 31 July.

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

Appendices:

Statements of accounts for each of the predecessor councils.

Background Papers:

Accounts and Audit (England) Regulations 2015

CIPFA Code of Practice on Local Authority Accounting in the UK 2018/19

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1. Introduction

- 1.1 The Accounts and Audit (England) Regulations 2015 require the annual statement of accounts to be certified as representing a true and fair view by the Authority's Chief Financial Officer and then submitted to the external auditor by 31 May. The accounts must then go through the audit process and be approved by the Council, or by a Committee to which it has delegated authority, by 31 July.
- 1.2 All six of Dorset Council's predecessors met this timeline for certification by the S151 Officer, Aidan Dunn and have been audited. The accounts are now presented for approval by the Audit & Governance Committee on behalf of Dorset Council.
- 1.3 The Regulations also require consideration of the findings of reviews that underpin the Annual Governance Statement, as well as the statement itself. The Annual Governance Statements for each of the councils have been reviewed according to the governance arrangements that were in place for each of the councils during 2018/19.
- 1.4 The six sets of accounts for 2018/19 that accompany this report have been reviewed by the councils' external auditor, Deloitte LLP. The Auditor's reports appear elsewhere on this agenda and committee members will be able to ask the Auditor about the work carried out and the conclusions drawn.
- 1.5 2018/19 is a unique and challenging year in that it deals with the accounts for six councils which legally ceased to exist at the 31 March 2019. This will therefore be the only meeting at which members are asked to approve six sets of accounts. From 2019/20 there will be a single statement of accounts for Dorset Council.
- 1.6 The accounts have been prepared in line with International Financial Reporting Standards (IFRS) as incorporated into the CIPFA Code of Practice on Local Authority Accounting 2018/19. Details of specific IFRS and Code requirements and how the councils applied them are explained in the *accounting policies* sections of the accounts and in the relevant notes to the accounts.

2. Approach to the approval process

- 2.1 Committee members should satisfy themselves that the accounts are accurate, complete and contain all relevant information required to be reported and disclosed for transparency and fiduciary purposes. The accounts are public documents and are often accessed by the public as well as being used by research groups and reporters to ask questions and to inform local and national reporting agendas. It is therefore important that sufficient and proportionate consideration is given to the accounts and that members understand the substance of what they are approving.
- 2.2 However, balance is needed. The accounts are technical and complicated documents containing a raft of information that is often difficult to access, understand and interpret. It is key that we focus on the important aspects of the accounts and that members understand how the organisation fulfils its financial and statutory responsibilities and how this translates to the

successful management of a sustainable organisation in future. This report – and the presentation to be delivered on the day – will therefore try to address the key issues and answer the more important questions.

- 2.3 As well as giving an overall position, this report addresses the relevant issues to be brought to the Committee's attention for the individual councils.

3. Summary of overall performance and position

- 3.1 The overall financial performance for the councils was pleasing. All councils delivered underspends against their revenue budgets before transfers to reserves. Individual analysis for each Authority follows.
- 3.2 Despite the overall underspend, it is clear that overspends in some of the demand-led services for children's and adults social care will continue to need focus. Additional resources were put into 2019/20 but the budget report still recognised that there would be pressure beyond that level of resource with additional demands arising. More information is set out in the Cabinet report for 30 July and once Cabinet has considered and responded to that information, Audit & Governance Committee can return to the 2019/20 position.

4. Dorset County Council

Outturn vs revenue budget

- 4.1 For Dorset County Council service budgets were overspent by £5.245m. There were underspends in corporate and central budgets of £5.766m, meaning that overall, there was a net underspend of £0.521m. The analysis of performance against budget and how this feeds through to movements in the general fund is shown in the *expenditure and funding analysis* and covered in the narrative statement to the County Council's accounts.
- 4.2 In arriving at these totals, the County Council was also able to make a further provision for costs for schools with deficits which are known to be converting to sponsored academies.
- 4.3 An underspend of more than £0.5m on Dorset Waste Partnership budgets has also been transferred to the Budget Equalisation Reserve, principally to hedge against future volatility in recyclate and fuel prices. Further funds have also been added to the medium-term strategy reserve as disclosed in note 52 on earmarked reserves. The impact of this activity was a reduction in the County Council's share of the general fund from £18.5m to £17.9m as set out in note 53.

Outturn vs capital budget

- 4.4 The capital budget was underspent by £17.8m. However, this does not translate into savings per se, it is simply projects in progress which have slipped into 2019/20 so the funding will need to be carried forward. This was the approach agreed by the Budget Working Group for establishing the 2019/20 capital programme. The Group agreed a new programme for 2019/20 and agreed to review that alongside slippage from 2018/19, during the year.

- 4.5 The County Council spent £53.8m during the year on its capital programme. More detail on this is set out in note 26 to the accounts. The programme included significant expenditure on projects including Blackwater Interchange (£4.4m), replacement of Wimborne First School (£3.6m) and replacement of Dorset Waste Partnership vehicles (£1.7m).
- 4.6 Financing for the programme came mainly from grants and other contributions (£27.2m), borrowing (£18.4m) and capital receipts (£5.6m).

General fund balances and reserves

- 4.7 The level of usable reserves (those which the Council can use to deliver services) reduced from £100.5m to £91m during the year. The movement is mainly the result of the continuing overspend on the Dedicated Schools Grant.
- 4.8 The level of the Council's general balances (usable reserves which have not been specifically earmarked for a particular purpose) is set out in note 53. The balance of the County Council's share of general fund decreased from £18.5m to £17.9m. The general fund and the reserves are subject to disaggregation between the two new councils according to principles which have been established.
- 4.9 As noted elsewhere, there is currently a process in place to review the nature and purpose of all reserves which will be reported back to Cabinet when the work concludes.

Balance sheet/statement of financial position

- 4.10 The County Council closed the year with £0.837bn of long-term assets on its balance sheet. Investment in assets was managed carefully through the *Managing Our Assets Group* and reported quarterly to Cabinet. Assets identified as surplus and assets held for sale amount to nearly £11.9m and plans are at various stages of development for these assets to be disposed of as part of the capital strategy and asset management programme.
- 4.11 There is traditionally a net current liabilities position at year end. This is generally a timing issue for areas like payroll deductions (£11m) and accruals (£27m - including £5m of accrued untaken staff leave). Any grant received in advance of the new year must also be shown here and we also hold nearly £8m on behalf of whole system Integrated Care System (ICS) funds.

Cash flow, treasury management, investments and borrowing

- 4.12 Liquidity was maintained at adequate levels during the year with no concerns over the ability to pay creditors and make other payments as they fell due.
- 4.13 There was a reduction in cash balances during the course of the year, to £3.5m. This was mainly due to a decision to use cash to repay net, short-term borrowing, and a net cash outflow of £16.1m on investing activities (principally the element of the capital programme which was not funded by grants and contributions).
- 4.14 At 31 March 2019 the County Council's capital financing requirement was £346.2m (2018 £340.6m) with £32.1m (2017 £34.9m) relating to PFI schemes

and finance leases. Total external borrowing was £211.0m (2018 £226.9m) with the remaining borrowing requirement financed from internal balances.

Issues for Dorset Council to consider

- 4.15 People services that transfer from Dorset County Council to Dorset Council are the highest value, have the highest risk profile and are most sensitive to changes in planning assumptions. A small change in the numbers of looked-after children, for example, can trigger significant increases in costs and there are national trends towards increasing demand pressures and costs in these service areas.
- 4.16 Whilst additional funding has been provided for 2019/20 during the budget setting round, cost pressures continue to be significant and it is therefore imperative that savings targets built into the budget are delivered on time.
- 4.17 Dorset Council also takes responsibility from Dorset County Council for dealing with a qualified value for money opinion. The Executive Director of People Services – Children will be attending the committee meeting to provide an update on plans to address this finding.

5. East Dorset District Council

Outturn vs revenue budget

- 5.1 East Dorset District Council had a net revenue budget of £10.2m, actual net expenditure was £9.8m, hence an underspend of £0.37m. The underspend arose across a number of budget headings, none of which were material in themselves. This performance coupled with surplus NDR income of £0.269m gave an overall underspend against the budget of £0.639m.
- 5.2 The main areas contributing to the positive outturn position were:
 - increased income within development management (£0.120m), car parking (£0.090m) and Moors Valley Country Park (£0.180m);
 - increased income relating to retained business rates (£0.269m).

Outturn vs capital budget

- 5.3 The Council's approved capital programme was £5.2m for the two years beginning 1 April 2018. A further £0.25m of variations and budget virements was approved during the last quarter of the financial year and nearly £1.5m of this was spent during the year. The remaining programme being carried into 2019/20 (fully financed) is therefore just over £4m. Further work on consolidating the 2018/19 programme being carried into 2019/20 is currently in progress and will be reported back to Cabinet when the work is complete.
- 5.4 In addition to incurring expenditure on asset maintenance and awarding capital grants to local schools, youth & sports clubs and village halls, the Council spent £0.58m on refurbishing the Heatherlands Community Centre.

General fund balances and reserves

- 5.5 The performance for the year enabled the general fund to be maintained at £0.993m and the level of unallocated reserves was able to be increased from £4.2m to £4.7m

- 5.6 All reserves and general funds are currently being reviewed as part of the evaluation of Dorset Council's opening reserves position.

Balance sheet/statement of financial position

- 5.7 East Dorset District Council had a net worth of £17.693m as at 31 March 2019, an increase of £2.446m from the previous year.
- 5.8 Within this increase is a £1.514m reduction in the pension fund deficit as estimated by the Council's Actuary. The total deficit has reduced from £32.276m to £30.762m, largely due to the performance of pension fund assets during the year.
- 5.9 The Council's property, plant and equipment assets have increased in value by £1.228m to £33.799m. This is mainly as a result of the Council's rolling programme of asset revaluations plus expenditure at Heatherlands Community Centre.

Cash flow, treasury management, investments and borrowing

- 5.10 The Council was debt-free at the end of the year and had investments totalling £20.5m. All of these were in arrangements which were available at short notice. Investment income during the year was £124k and an average rate of 0.45% was earned on investments. This was ahead of the £56k budget due to an increase in rates during the year.

Issues for Dorset Council to consider

- 5.11 There were no areas of concern or significance which the ceasing Council wished to bring to the attention of Dorset Council.

6. North Dorset District Council

Outturn vs revenue budget

- 6.1 North Dorset District Council had a net revenue budget of £5.01m, actual net expenditure was £4.58m, therefore creating a revenue underspend, before transfers to earmarked reserves, of £0.43m against budget. Favourable and adverse variances occurred across all service areas, but none being material in themselves.
- 6.2 The main areas contributing to the favourable variance were transformational savings in Business Improvement (£0.27m) and increased income in Planning Development Management & Building Control (£0.16m).
- 6.3 The council made approved net transfers into earmarked reserves totalling £222,000. These transfers will be reviewed by the Cabinet as part of the general review of reserves currently in progress.

Outturn vs capital budget

- 6.4 The Council incurred capital expenditure of £168,000 during the year. The Council funded this capital spending from useable capital receipts.
- 6.5 The approved capital programme was made up of Leisure Centre Improvements (£41,130) and Vehicle Loan Repayment (£254,100). No leisure centre works were identified in the year and the remaining vehicle loan repayment will be made in 2019/20.

General fund balances and reserves

- 6.6 Useable reserves remained static at £7.79m from £7.82m a year earlier.

- 6.7 Detail of the General Fund and Earmarked reserves held are available at Note 11 to the Accounts.
- 6.8 The Capital Receipts Reserve increased from £2.13m to £3.13m in year. The Council disposed of its interest in a small car park, a depot and the cattle market in Shaftesbury during 2018/19. The Council received £994k from these sales that have been added to the Useable Capital Receipts Reserve to fund future capital expenditure.

Balance sheet/statement of financial position

- 6.9 North Dorset District Council had a net worth of £4.301m at year end, an increase of £0.483m from the previous year. This includes a pension liability of £19.514m which reduced by £0.07m in the year.
- 6.10 The balance sheet also shows a reduction to long term assets due to other disposals in addition to the planned sale of the cattle market, an increase in short term investments (£4.840m) with a decrease in assets held for sale (see disposal note above). An increase in short term creditors due to greater than estimated Non-Domestic Rates (NDR) income owed to precepting/billing bodies and Central Government.

Cash flow, treasury management, investments and borrowing

- 6.11 The Council was debt free at year end and held total investments of £23.4m, of which £14.3m were invested in strategic pooled funds with £9.1m held in readily available cash investments with AA- as the average credit rating.
- 6.12 Total investment income was £661,288 against a budget of £261,288 at an income return of 2.76%.

Issues for Dorset Council to consider

- 6.13 Members should note that the External Auditors have raised concerns with the approach that has been taken to the valuation of assets in each of Weymouth and Portland Borough Council, West Dorset District Council and North Dorset District Councils. This may impact on their overall assessment of the account and the value for money judgement for each of the three Councils. Deloitte will update the Committee at the meeting.

7. Purbeck District Council

Outturn vs revenue budget

- 7.1 Purbeck District Council had a net revenue budget of £7.8m. After transfers to reserves, actual net expenditure was £7.9m, hence an overspend of £0.106m. This was mainly the result of an increase in housing benefit payments that did not attract benefits subsidy.
- 7.2 The overspend was after the Council transferred nearly £250k into reserves to meet future expenditure. These transfers will be reviewed by the Cabinet as part of the general review of reserves currently in progress. Programmed maintenance funds of £125k were also added to reserves because the work was not completed in 2018/19.

Outturn vs capital budget

- 7.3 The Council's approved capital programme covered a period of five years with a total value of £7.15m.
- 7.4 During 2018/19 the Council incurred capital expenditure of £1.85m, meaning there was an underspend against the budget of £0.59m. There are several projects were not completed at year-end and these will roll forward for consideration by Dorset Council as part of the evaluation of the total capital programme. The expected costs for former Purbeck District Council projects are £0.53m.
- 7.5 The largest projects undertaken during the year were:
- Property purchase fund £0.540m
 - Westminster Road Depot redevelopment £0.318m
 - East Boro Housing Trust Grant £0.282m
 - Purchase of 15 Davenport Close £0.175m
 - Prospect Business Park £0.122m
 - Norden - Phase 3 works £0.104m.

General fund balances and reserves

- 7.6 Including the revenue budget overspend noted earlier, the Council generated a net deficit of £1.46m. However, this figure includes a significant number of accounting entries that are adjusted out so that they do not impact on the general fund.
- 7.7 Adjusting for these means the net increase in the general fund was £0.50m. The balance brought forward was £3.2m, so the surplus of £0.50m and the distribution of £0.48m into reserves, leaves the balance on the General Fund at 31 March 2019 at £3.22m.
- 7.8 As noted elsewhere, all reserves transferring to Dorset Council will be subject to review and report back to Cabinet.

Balance sheet/statement of financial position

- 7.9 The balance sheet shows the Council has a net worth of £0.56m, after meeting a pension scheme deficit of £18m. This is an improvement of £0.44m since 31 March 2018m. The movement is mainly due to a reduction in the pension fund deficit of £0.4m and an increase in long-term assets of £1.5m.
- 7.10 Current assets have decreased by £7m in the year, due to a reduction in short term investments of £2.7m and cash and cash equivalents of £3.7m. Creditors have also reduced by £5.3m, in the main this relates to a refund of business rates following the settlement of an appeal, which was assessed in 2017/18 but not paid until early in 2018/19.

Cash flow, treasury management, investments and borrowing

- 7.11 The Council remained debt free. During 2018/19, the Council widened its use of money market funds to spread its exposure to individual institutions and improve its return. It also increased its use of short-term, fixed-rate investments with banks on its counterparty list and other local authorities.

- 7.12 The Council has one long-term investment of £0.5m in the CCLA Property Fund. The value of the CCLA Property Fund investment had increased to £0.55m by the year-end, in addition to the dividends received. The Council has also invested £1.5m in 2018/19 in a medium-term investment with the CCLA Diversified Income Fund.
- 7.13 Dorset Council will be reviewing its treasury management strategy and policy once there is greater clarity of the opening position (consolidation of all councils). We will take advice from our treasury management advisers, Arlingclose, to do this so we take an appropriate approach to risk and reward.

Issues for Dorset Council to consider

- 7.14 There were no areas of concern or significance which the ceasing Council wished to bring to the attention of Dorset Council.

8. West Dorset District Council

Outturn vs revenue budget

- 8.1.1 West Dorset District Council set a net budget of £9.51m for the 18/19 financial year. Actual net revenue expenditure in year, before any transfers to or from reserves, was £9.40m. This created an underspend against budget of £0.11m.
- 8.2 The net underspend was generated across all service areas. Significant savings were generated by transformational activity in Business Improvement (£0.23m) and Financial Services (£0.28m). Overspends occurred in Assets & Infrastructure (£0.30m) due to higher than expected level of works completed in year.
- 8.3 The council made approved net transfers into earmarked reserves totalling £3.66m. These transfers will be reviewed by the Cabinet as part of the general review of reserves currently in progress. Following all statutory accounting adjustments there was a net increase in total usable reserves (being the sum of general fund and earmarked reserves) of £0.91m.

Outturn vs capital budget

- 8.4 The Council set an original capital expenditure budget of £8.470m with an increase to £10.369m mainly resulting from the purchase of Napoleon House (£1.884m).
- 8.5 Actual expenditure in the year totalled £3.156m. Other schemes included Housing Initiatives of £397k, Dorchester Leisure Centre retention (£253k), Lyme Regis Harbour Office (£125k) and West Bay Coastal Improvements (£165k).
- 8.6 The approved capital programme can cover several years, and a consolidated programme will be reported to Cabinet when complete.

General fund balances and reserves

- 8.7 Useable reserves increased to £27.681m from £26.774m a year earlier.
- 8.8 Detail of the Earmarked reserves held are available at Note 11 to the Accounts.
- 8.9 The Capital Receipts Reserve decreased from £7.836m to £5.224m in year. The Council used capital receipts to fund the capital outturn schemes above.

- 8.10 The Council did not sell any assets during the year. However, the Council did receive £337,041 under an agreement with Aster Housing Association (formerly Synergy) in respect of preserved Right To Buy former Council Houses. These sums are added to the Useable Capital Receipts Reserve to fund future capital expenditure.

Balance sheet/statement of financial position

- 8.11 West Dorset District Council had a net worth of £66.44m at year end, a decrease of £6.04m from the previous year.
- 8.12 Long term assets have decreased by £8.2 in value. This was mainly due to long term investments reducing by £3.0m due to maturing investments and changes to the portfolio. Heritage Assets, which last year recognised the full fair value of the Shire Hall, was revalued in year leading to a valuation loss of £3.3m.
- 8.13 Current assets have increased due to increases in short term investments (£2.9m) and growth in cash and cash equivalents held (£2.1m). Current liabilities have increased by £2.8m following an increase in short term creditors and additional transfer into the NDR provision against future appeals.

Cash flow, treasury management, investments and borrowing

- 8.14 As at 31st March 2019 the Council's external debt stood at £600,000 following scheduled debt repayments of £600,000 in the year. This will be fully repaid within the new financial year. Interest payments totalled £30,555.
- 8.15 Total investments were £53m, of which £33m was invested in strategic pooled funds and £20m held in readily available cash investments with AA- as the average credit rating.
- 8.16 Total investment income was £2,024,470 against a budget of £632,900 at an income return of 2.53%.

Issues for Dorset Council to consider

- 8.17 Members should note that the External Auditors have raised concerns with the approach that has been taken to the valuation of assets in each of Weymouth and Portland Borough Council, West Dorset District Council and North Dorset District Councils. This may impact on their overall assessment of the account and the value for money judgement for each of the three Councils. Deloitte will update the Committee at the meeting.

9. Weymouth & Portland Borough Council

Outturn vs revenue budget

- 9.1 Weymouth & Portland Borough Council had a net revenue budget of £8.42m and incurred net expenditure before transfer to or from reserves of £7.69m. This created an underspend of £0.73m against budget.
- 9.2 The underspend is comprised of mostly favourable and some adverse variances across all service areas. Significant savings were generated by transformational activity in Business Improvement (£0.31m) and Economy, Leisure & Tourism (£0.31m).

- 9.3 The council made approved net transfers into earmarked reserves totalling £1.17m. These transfers will be reviewed by the Cabinet as part of the general review of reserves currently in progress. Following all statutory accounting adjustments there was a net increase in total usable reserves (being the sum of general fund and earmarked reserves) of £0.70m.
- Outturn vs capital budget
- 9.4 Capital expenditure in the year totalled £853k and was funded by Government and other capital grants of £127k, revenue funding of £27k and the use of capital receipts of £699k.

- 9.5 The expenditure against the original budget of £3.461m included Local Housing Need Scheme of £430k, Pavilion Improvement Grant (£238k), Weymouth Harbour Walls (£82k), Harbour Walls condition survey (£33k), Weymouth Beach Management Study (£24k), Weymouth Breach Analysis (£20k) and Weymouth Harbour Tidal Defence scheme (phase 1a) at £27k.

General fund balances and reserves

- 9.6 Useable reserves increased to £16.02m from £15.550m a year earlier.
- 9.7 Detail of the Earmarked reserves held are available at Note 11 to the Accounts.
- 9.8 The Capital Receipts Reserve decreased from £3.202m to £2.916m in year. The Council received £210k from the sale of assets, namely land at Emerson Road and Ind at Littlemoor. In addition, the Council received £203k under an agreement with Astar Housing Association (formerly Synergy) in respect of preserved Right to Buy Council Houses. These sums are available to fund future capital expenditure.

Balance sheet/statement of financial position

- 9.9 Weymouth & Portland Borough Council had a net worth of £8.89m at year end, a decrease of £0.54m from the previous year. This includes a pension liability of £44.09m which reduced by £1.18m in the year.
- 9.10 The Council has seen a reduction in its long term investments of £5.888m but has also seen a reduction in its long term borrowing of £6.810m following the debt repayment (see below).
- 9.11 Property, Plant & Equipment has decreased by a net of £2.0m. Revaluations losses of £2.9m have been incurred across Land and Buildings (£2.01m) and Infrastructure (£0.92m) while reclassification of some assets has seen an increase in Surplus Assets (£0.83m).

Cash flow, treasury management, investments and borrowing

- 9.12 As at 31st March 2019 the Council's external debt stood at £21m, made up of an £11m LOBO and £10m fixed rate debt. This was a reduction of £6m having taken the opportunity to repay a LOBO loan. Interest payments totalled £1,237,099 against a budget of £1,315,574.
- 9.13 Total investments were £42.3m, of which £25.8m was invested in strategic pooled funds and £12.5m held in readily available cash investments with AA- as the average credit rating.
- 9.14 Total investment income was £1,304,684 against a budget of £582,864 at an income return of 2.77%.

Issues for Dorset Council to consider

- 9.15 Members should note that the External Auditors have raised concerns with the approach that has been taken to the valuation of assets in each of Weymouth and Portland Borough Council, West Dorset District Council and North Dorset District Councils. This may impact on their overall assessment of the account and the value for money judgement for each of the three Councils. Deloitte will update the Committee at the meeting.

10. Review of reserves

- 10.1 It is good practice for any business to review the level of its reserves from time to time to ensure that they are still adequate for the changing risk profile of the organisation. Councils are subject to a wide range of risks given the diverse nature of their activities. Regular review is crucial.
- 10.2 The closing reserves of each of the former councils reflect their own risks and sovereign judgements. In bringing together the new Council, it is important to carry out a more fundamental review than any of the predecessor councils would have carried out individually.
- 10.3 This review will ensure that reserves are still needed for the purposes for which they were provided and that the value of those reserves is adequate. Where this is no longer the case, reserves can be re-purposed or released to support the general fund. It will also be worth considering risks that have arisen as a result of creation of Dorset Council which might not previously have been relevant for either county or district councils and which might therefore require the establishment of new reserves.
- 10.4 Responsibility for the overall level and use of reserves rests with the Cabinet, so when the current review work is complete, a separate report will be submitted setting out the results and recommendations. A desk-based piece of benchmarking work will also be carried out to compare proposals for Dorset Council's reserves with other unitary authorities.

11. Disaggregation (and aggregation) and timing

- 11.1 The creation of two unitary councils in Dorset means we need to divide the closing assets, liabilities and financing of Dorset County Council into component parts to transfer to Dorset Council and BCP.
- 11.2 Principles for this disaggregation were agreed as part of preparations for the two new councils. Officers from both councils are currently working through the 31 March 2019 Dorset County Council balance sheet detail to ensure the principles are applied correctly and consistently. There will be a formal agreement process at councillor level for the outcomes of this work in due course. Officers are aiming to have the work completed by the end of September.
- 11.3 The disaggregation process needs to sit alongside the review of reserves to ensure the principles and processes result in the right outcomes for both councils and other stakeholders where appropriate.

12. One council, one team, one system

- 12.1 Following disaggregation and the review of reserves, the balance sheets for all six predecessor councils will be consolidated. This will be a tightly controlled piece of work which will need careful management at the same time as so many other things are moving.
- 12.2 We will earmark specific people to carry out this task and will share the process, working papers, methods and results with the Auditor before and whilst the work is being done so we do not end up with significant amounts of reconciliation and substantive testing work during the 2019/20 closedown process.
- 12.3 Dorset Council already does its revenue and capital budget monitoring, forecasting and reporting through SAP so the assimilation of all balance sheet information onto this application is consistent with the single system approach agreed by the Finance Officer Group as part of the Shaping Dorset Council programme.
- 12.4 As we harmonise our systems, policies and processes, we also make progress through the restructuring work. As posts are filled, our service plan objectives are being allocated to specific officers for delivery, knowing that they have authority and responsibility to deliver the work required to manage the finances in 2019/20 and start to build the MTFP.

13. Audit and the Auditor

- 13.1 Deloitte LLP became Dorset Council's statutory auditor through "opting-in" to the Public Sector Auditor Appointments Ltd process. Deloitte was therefore appointed as part of a national procurement process and the firm is auditing all six predecessor councils for the 2018/19 accounts as well as being the auditor for Dorset Council from 1 April 2019.
- 13.2 Officers deemed this continuity of auditor to be essential in the appointment process, so we can ensure a smooth transition from six authorities to one working alongside a single auditor to ensure a continuous and proactive assurance process and to avoid any duplication of effort and cost that might have resulted from a change in auditor during the convergence process.
- 13.3 Deloitte appear elsewhere on the agenda to report their findings to those charged with governance of the Council, so the content or purpose of that item is not repeated here.
- 13.4 Earlier in this report, mention was made of the fact that the accounts production process is a complex, lengthy and resource-hungry piece of work and the end result is often difficult to understand or challenge. The Auditor therefore plays an essential part in the Council's governance and stewardship arrangements in providing assurance to councillors that the appropriate accounting standards, methods, policies and procedures have been selected, described and applied to the council's activity to ensure the accounts give a true and fair view of the financial performance and position.

14. Summary, conclusion and recommendations

- 14.1 Closing the accounts for the predecessor councils is an important part of the transition process from six organisations to one. Although these councils no longer exist, the transfer of assets and liabilities, and the delivery of crucial public services constitutes an effective transfer of going concern businesses. It is therefore important to give proper, proportionate consideration to the closing position and performance so an effective handover to Dorset Council is ensured and understood.
- 14.2 Dorset Council is not unique in facing challenging service delivery and demand pressures. Budgets have been increasingly challenging since 2011 and more than £130m of savings have been taken out of revenue budgets in that time. However, as noted earlier, the new council begins business with a higher level of earmarked and general reserves than anticipated when the budget was set and that is a positive position to be in.
- 14.3 Although there are pressures to be dealt with in 2019/20 as we establish a sustainable position upon which to build the MTFP, a number of actions are already in train to make best use of the resources that we have. Not least of these is the savings we are already delivering as a result of our journey to Dorset Council and the convergence of teams, systems and processes.
- 14.4 Committee members will continue to be kept informed of the 2019/20 financial performance through Cabinet and other governance arrangements. The emerging MTFP will also be available in due course as our modelling progresses and we have greater clarity about our funding and transformation ambitions in support of the emerging corporate plan priorities.
- 14.5 Members are asked to consider and support the recommendations of this report so that work can continue the management of the budget and development of the MTFP and longer-term financial strategy.

Aidan Dunn

Executive Director Corporate Development

Chief Financial Officer (S151).