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DORSET COUNCIL - AUDIT AND GOVERNANCE COMMITTEE

MINUTES OF MEETING HELD ON MONDAY 16 NOVEMBER 2020

Present: Cllrs Matthew Hall (Chairman), Richard Biggs (Vice-Chairman), Susan Cocking, Rod Adkins, Janet Dover, Barry Goringe, Mike Parkes, Bill Pipe, Clare Sutton and Bill Trite

Also present: Cllr Jon Andrews, Cllr Gary Suttle and Ian Howse (Deloitte)

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

Paul Ackrill (Service Manager (Finance)), Aidan Dunn (Executive Director - Corporate Development S151), Lee House (Service Manager for Finance), Richard Ironside (Service Manager for (Finance) Policy and Compliance), Heather Lappin (Head of Strategic Finance), Theresa Leavy (Executive Director of People - Children), Jonathan Mair (Corporate Director - Legal & Democratic Service Monitoring Officer), Jim McManus (Corporate Director - Finance and Commercial), Tony Meadows (Head of Commissioning), David Wilkes (Service Manager for Treasury and Investments), Sian White (Service Manager, Finance) and Fiona King (Democratic Services Officer)

29. Apologies

No apologies for absence were received at the meeting.

30. Minutes

The minutes of the meeting held on 12 October 2020 were confirmed and signed.

31. Declarations of Interest

No declarations of disclosable pecuniary interests were made at the meeting.

32. Public Participation

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

33. Dorset Council Statement of Accounts

The Committee considered a report and received a presentation on the outturn and the accounts.

Members were advised that despite an overspend during the year, the delivery of more than £10m of savings from the reorganisation had been

achieved. COVID-19 was also likely to have a long and sustained impact on the council's finances and officers were still unclear about the levels of funding the Council would receive from Government in the future.

Members received a presentation from the Corporate Director for Finance and Commercial explaining the background to the achievement of producing the first set of accounts for Dorset Council. This presentation is attached as an annexure to these minutes.

Following a question about earmarked reserves, the Corporate Director explained these included insurance reserves, PFI reserves and reserves to support particular risks and mitigation. Money in reserves included grant income that hasn't yet been spent.

In respect of continued assets, the Corporate Director confirmed that Section 106 monies was money that has not been received yet but if everything proceeded as expected it will.

The Service Manager for Finance, Policy and Compliance explained the 'reduction in current assets' mostly related to changes in how the Council has accounted for the collection funds, and the reduction of temporary investments in which all short-term investments were reduced except for those with UBS Global Asset Management and CCLA Diversified Income Fund which have both increased.

Following a question from the Chairman regarding whether all the LGR costs had now been paid out, the Corporate Director confirmed they had but some would continue as arrangements were in place between councils on how some things were done.

Members received a presentation from the external auditors, Deloitte, on their audit the year ending March 2020. The audit was on track to be signed by the end of November. The officer congratulated the finance team for preparing a complex set of accounts in difficult circumstances. He highlighted the key messages and significant risks within the report. Members were advised that when this audit is completed Deloitte would produce a report to outline the final conclusions.

One member expressed concern about uncollected revenue and what percentage was owed by council tax-payers and what measures were being taken to recover these debts. The Executive Director for Corporate Development highlighted a general point about collecting council tax in that at present we were in exceptional times and officers were tracking but not actively pursuing collections given the economic frailty. The Council needed to wait until a more normal time to actively pursue. Officers were forecasting around £13m worth of council tax and business rates could be at risk but would continue to be monitored.

In response to a concern about the under estimated spend in Adults and Children, the Executive Director explained that demand forecasting was something the team were working on. There was a huge degree of volatility in

these areas and when setting up for Dorset Council there clearly wasn't enough put in for Adults and Children and officers were working on this.

The Executive Director for Children reminded colleagues the service just had a SEND visit which reflected very positively on a number of areas. She highlighted the need to really profile carefully in budget setting. The Acting Director for Commissioning added that projections were quite difficult at times especially with regard to self-funders. There had been a lot of work with Public Health around different sets of data which gave officers an insight into areas of future need.

One member felt that it seemed every year there were overspends in Children's and Adults Services and the external auditor's report highlighted Children's Services in their value for money section which she felt appeared more qualitative rather than quantitative. The officer from Deloitte advised that the report was a backward looking report, looking at the arrangements and tracking the expenditure. Deloitte looked at the financial and non financial arrangements. This was not unusual or unique to Dorset, forecasting demand was a concern for a number of local authorities.

The Vice-Chairman highlighted that previously in the County Council estimating was very difficult and demand led and this still seemed to be an issue. He queried if demand led budgets needed to be separated somehow. The Executive Director advised that the budget in Adults was £114m although there was lots of detail that sat behind that. The volatility was around the commissioning and the level of detail was monitored by officers. The key point was the need to find a way of meeting the demand when it was there.

Following a question about whether there were any plans to increase borrowing in the future, the Service Manager for Treasury and Investments advised that long term borrowing was inherited from the predecessor councils. The council borrowed from a range of counter parties and if opportunities arose to refinance or repay officers would look at these. At times it was difficult to get out of some long-term liabilities as there could be penalties incurred. There were no immediate plans to take out any further long-term borrowing. Short term borrowing was an area of consideration. It was suggested that the Committee looked at borrowing at a future meeting.

The Chairman made reference quite a lot of money being saved by managing staff vacancies and asked for further details of savings in this regard. The Executive Director undertook to provide further information on this outside of the meeting. He added that the Cabinet in October made reference to the removal of a number of posts.

It was noted that in the Deloitte report there was mention about where the council could improve and the Chairman asked how this could be tracked or brought forward. The Executive Director advised there was a tracker set up for such action for Internal Audit and something similar could be set up for External Audit.

Following a question about a couple of high value exit packages that were not compulsory, the Executive Director advised that redundancies were made as a consequence of bringing the councils together, and these included the cost of the pension strain. The Corporate Director for Finance and Commercial undertook to check that the analysis was correct and update the Chairman further outside of the meeting.

The Chairman thanked all the Finance team and Deloitte for all their work in putting the accounts together.

Decision

That members noted:-

1. the outturn position for Dorset Council for its first year of operation;
2. the impact this had on the Council's general fund and other reserves;
3. the Auditor's qualified opinion on arrangements for securing economy, efficiency and effectiveness in Children's Services;
4. the content of the Auditor's ISA260 report (separate report);
5. to delegate authority to the Chairman of the Audit and Governance Committee and the Section 151 Officer to approve and sign the financial statements for the period ending 31 March 2020, once the external audit has been concluded. If the external audit identifies the requirement for any material amendments to the statements these should be reported to the Audit Committee prior to signature.

Reason for Decision

Under the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, the statement of accounts and annual governance statement (AGS) must be approved by the Council, or a committee to which the Council has delegated authority by 30 November. It was also important for the Committee to understand any issues that need to continue to be monitored, challenged or scrutinised in future.

34. Annual Audit Letters

The Executive Director for Corporate Development explained that this item had been debated in the previous item as part of the Council's Statement of Accounts.

35. Banking and Treasury Management Update

Members considered a report from the Executive Director for Corporate Development which summarised the treasury management performance and position information for Dorset Council for the year to 30 September 2020. It also provided an update on the transition of banking services to one provider.

Following a question from the Chairman regarding LEP balances the Service Manager for Treasury and Investment advised that the LEP had its own bank accounts but as Dorset was the administering authority for this group they formed part of the interest group with Nat West. In response to a question regarding the levels of borrowing in Table 3 of the report, the Service

Manager advised that the interest rates were not known but could be presented at a later date.

In the light of recent events, the Vice-Chairman asked about insurance and queried where this sat and how it was reviewed. The Corporate Director Finance and Commercial, advised that insurance provision was reviewed independently by internal audit and also by the external auditors. He thought it might be helpful to add an item about insurance to a future agenda to aid members' understanding. The Chairman felt this would be helpful and asked that some form of the 'what's' and 'whys' to the self-insure system would also be helpful.

Noted

36. EU Exit - Update

Members considered a report from the Executive Director for Place which summarised the challenges and actions taken by the Council during this transition period, which was due to end on 31 December 2020.

Unfortunately, the Executive Director for Place was unable to attend due to a family bereavement and had asked that members forward any questions direct to him for response.

Noted

37. Constitutional Changes

The Corporate Director for Legal and Democratic advised members of a change to the Constitution that he had made using his delegated authority. The Corporate Director advised that he could use this authority to make changes to the Constitution where necessary to provide alignment and changes to procedures.

This change related to the new Overview and Scrutiny Committees. Following discussion with the relevant Chairmen it was agreed that the monitoring of the performance of services should sit with the Scrutiny Committees rather than with the Overview Committees.

Noted

38. Financial Report - Quarter 2 2020/21

The committee reviewed the Quarter 2 Finance Report, which had been presented to Cabinet on 3 November 2020.

The Cabinet paper reported an overspend of £27.6m for 2020/21; an improvement of £15.5m since quarter 1. The report itself summarised the main changes since the previous quarter and set out analysis by individual directorate for the Committee's review.

Despite the improvement in the period, only a small amount of this reduced financial pressure for 2021/22 – because for example, underspends on the contingency budget were already built into the budget process.

The Executive Director for Corporate Development explained that there were also additional items affecting the finance teams during the current pandemic including receiving significant funding from the Government to pass on to others.

Following a question regarding the forecasting of overspends, The Executive Director advised that in Adults and Children in particular there had been additional demand especially in relation to the process of securing places for people coming out of hospital. In Legal and Democratic, currently the costs of PPE and storage in respect of excess deaths had been charged to this service as their budget was quite small. In respect of the Place Directorate, there had been a loss of income in respect of car parking as a result of the current pandemic. Cllr Sutton thanked the Director for the explanation which she felt would be useful in trying to manage the public's expectations.

In response to a question from the Chairman regarding whether there was an early indication that the second lockdown will have an adverse effect of the figures, the Executive Director for Corporate Development highlighted the differences between Covid and non Covid spend. The majority of pressures the Council was experiencing were Covid related. In terms of the impact of the second lockdown the Government were providing additional funding, but the key variable was business rates and council tax and whether the lockdown carried on beyond early December. If not he felt there was enough cautionary measures in place to manage.

In respect of unachievable savings, the Acting Corporate Director of Commissioning advised that £2m of savings were significantly impacted due to Covid, efficiencies had been made in respect of utilisation and the changes to how services were delivered. The service had already gone through a significant amount of change and a number of areas were highlighted in respect of increased workflow. The CCG received additional funding for hospital discharges and plans were in place to recover this. It was important to ensure that the correct support and rehabilitation took place at the right time.

In terms of the cost of agency staff, the Executive Director for Corporate Development undertook to provide details outside of the meeting.

In response to a question regarding the amount of funding town and Parish Council were likely to receive, the Corporate Director for Finance and Commercial advised that officers were working with the DAPTC and had agreed that information would be shared with them by 3 December 2020. Returns would need to be back by 31 January 2021 to enable the Council to review in February 2021.

The Vice-Chairman asked about capital receipts and the potential for savings with home working. The Executive Director for Corporate Development

advised that the Cabinet had agreed in October the Asset Management Strategy. There was a surplus of properties as a result of the councils coming together. There were limited assumptions for this year but there would be a plan coming forward in respect of property rationalisation in the near future.

Noted

39. Forward Plan

The Committee's Forward Plan was reviewed and the following additions noted:-

Additions:

- Insurance strategy – an overview to be provided in January
- Item on borrowing, Cllr Parkes to email further information to the Chairman
- An update on points raised by Deloitte in their report

Noted

40. Urgent items

There were no urgent items of business.

Duration of meeting: 10.00 am - 12.30 pm

Chairman

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Audit & Governance Committee

Consideration of the audited
financial statements for the year
ended 31 March 2020

16th November 2020



What we'll cover in this session

- LGR and local context
- Statutory/regulatory background
- Approving the accounts
- Performance for the year, CIES, MIRS and context
- Impact on reserves
- Balance sheet
- Cash flow
- Future prospects
- Audit opinion (briefly)
- Work still in progress



What happened last year?

- First set of accounts for Dorset Council
- SI2018/648 – The Bournemouth, Dorset and Poole (Structural Changes) Order 2018
- Reorganisation of local government in Dorset
- Six councils into one (nine into two)
- Proposal submitted on 9 February 2017
- Approved on 26 February 2018
- New Council to be delivered on 1 April 2019



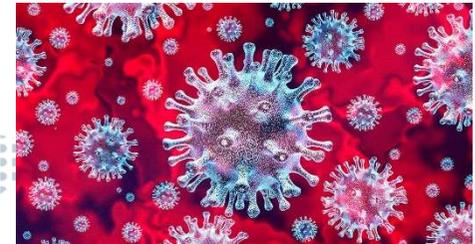
What did the finance team do?

- Supported delivery of £10m+ staff savings
- Reorganisation of staffing into leaner structure
- Appointed new auditor
- Managed all financial and tax compliance
- Disaggregation of County Council budgets and balance sheet – 181 templates, £0.9bn assets
- Established Weymouth Town Council
- Consolidation of six opening balance sheets
- Harmonisation council tax
- Harmonisation of fees and charges
- Built a budget for a brand new council
- Consolidated treasury management arrangements



What happened next?

- Consolidated processing into a single general ledger system
- Harmonised accounting policies and processes
- Further rationalisation of systems and phased shut-down of legacy solutions/integration to SAP
- Consolidation and convergence of contracts and purchasing
- Delivered training to all finance staff
- Finance training programme for budget holders
- Delivered new council financial reports from 1 April 2019
- Set revenue and capital budgets for 2020/21 and developed a new MTFP which members can access
- Closed the accounts 2019/20
- Covid-19...



Statutory context

- CIPFA Code of Practice on Local Authority Accounting 2019/20 (the Code)
- International Financial Reporting Standards
- Local Government Acts
- Accounts & Audit Regulations 2015 as amended by Accounts & Audit (Coronavirus) (Amendment) Regulations 2020
- CIPFA Service Reporting Code of Practice (SeRCOP)
- LAAP bulletins



Approving the accounts

- Required by regulations (Regulation 9)
- By Council or by delegation to committee
- Approval by 30 November
- CFO (S151) certification by 31 August
- Published as unaudited
- Audit and (public) inspection
- Delivering assurance
- Timing and delegated authority

Performance for the year

Overspend of nearly £5.0m

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

CIES

(comprehensive income and expenditure statement)

- Prepared on the same basis as a company
- It includes all costs and revenues for the service lines shown
- Format is predefined but aligns with our services
- Shows net cost of delivering services is £400m
- Other operating items (not service-line specific)
- Analysis of funding – CT, NDR etc - £365.6m
- Revaluation & actuarial gain/loss
- Bottom line - £34.7m net expenditure



Movements in reserves

- CIES compiled on IFRS basis – like a company
- Local Govt isn't a company, it has council tax payers and other types of funding
- Accounting needs to reflect that
- MIRS analysis the movement in the performance for the year between reserves
- Supported by detailed notes
- General fund started at £15m, closed at £30.8m
- Note 52 shows the analysis



Context of financial performance

- The Council had been predicting an overspend throughout the year
- Additional funding was put into front-line services following LGR
- Convergence and restructured support services delivering savings
- More action has followed since 2019/20:
- Current year budget for Children's Services is £75.1m - increase of £10.1m (15.5%)
- Current year budget for Adults & Housing £122.3m - increase of £8.1m – (7.1%)
- Budget decrease for Corporate Development £9.8m



Impact on reserves

- Overspends fall to be financed from the general fund
- Other reserves have been rationalised and reorganised as a result of Dorset Council being established
- The general fund was topped up to £28.2m as a result of this
- Notes 51 and 52 analyse the movements in reserves and general fund in the year
- We continue to review reserves in light of the 20/21 challenge
- General fund £28.2m, other earmarked reserves £86.2m
- DSG deficit required to be shown as a negative usable reserve
- Using our reserves will affect our resilience



Balance sheet

- The result was the establishment of Dorset Council with total assets of nearly £1.3bn – note 22 shows movements in year
- Long-term borrowing has reduced by nearly £21m, borrowing overall is down by £15m, analysis of maturity in note 39 and separate TM report on the agenda
- Leasehold obligations continue to reduce, reflecting the Council's policy of acquiring assets rather than leasing
- There is £51m of capital grants to be applied to future expenditure identified in the capital programme
- Other unusable reserves reflect accounting or other statutory requirements and are not available to support service delivery
- There is no prior year to compare with



Cash flow

- £10.3m positive cash flow from operating activities
- £18.8m cash outflow from investing activities
- £35m positive cash flow from movements in short-term lending and borrowing
- £110k net outflow in longer-term financing
- £2.5m net outflow on PFI and leasing contracts
- Closing balance of cash of £31.5m, an increase of £10.9m



Future prospects

- 2019/20 was final year of a 4-year spending review
- 2020/21 was a one-year settlement
- 2021/22 will also be single-year
- Significant uncertainty over future funding, much is one-year “rollover” including IBCF
- Net public sector borrowing has breached £250bn for the first six months of this year
- Total Govt debt exceeds £2trillion
- No fair funding review or business rates retention clarity
- Continuing impact of coronavirus
- The future remains challenging



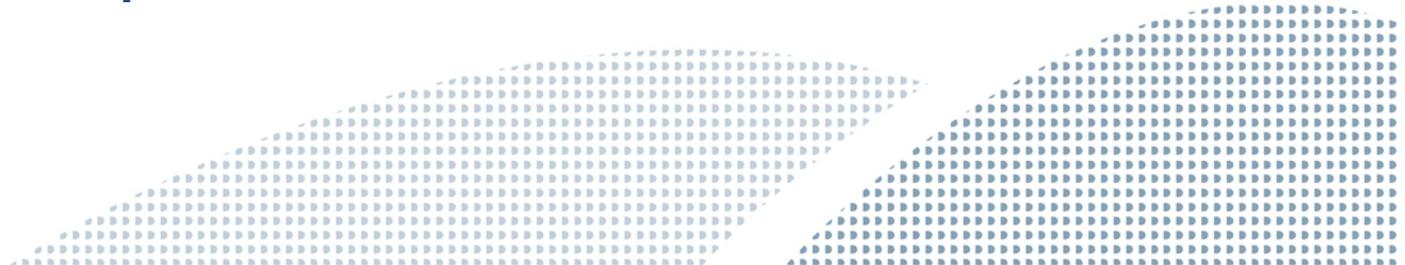
Audit opinion

- Unqualified – except VFM Children’s Services
- Previous qualification issues around the financial statements have been dealt with
- Recommendations made by the Auditor and responses
- Also audit findings communicated to officers already and these will also be dealt with
- Reflections on these?
- More from Deloitte separately on this agenda



Work still in progress

- Auditor will report on WIP
- Audit opinion and timing
- Audit issues requiring attention – responses and plans
- Developing 2021/22 budget strategy and MTFP
- Finalising the capital programme
- Monitoring current year spend and savings plans/development



Questions/thoughts?

