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Audit and Governance Committee

Date: Monday, 14 November 2022
Time: 10.00 am
Venue: Council Chamber, County Hall, Dorchester, DT1 1XJ

Members (Quorum)
Richard Biggs (Chairman), Susan Cocking (Vice-Chairman), Rod Adkins, Barry Goringe, Bill Pipe, Bill Trite, Belinda Bawden, Simon Christopher, Robin Legg and David Gray

Chief Executive: Matt Prosser, County Hall, Dorchester, Dorset DT1 1XJ

For more information about this agenda please contact Democratic Services
Meeting Contact 01305 252216 - susan.dallison@dorsetcouncil.gov.uk

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Agenda

Item		**Pages**
1.	**APOLOGIES**	
	To receive any apologies for absence.	
2.	**MINUTES**	5 - 12
	To confirm the minutes of the meeting held on 22nd June 2022.	
3.	**DECLARATIONS OF INTEREST**	
	To disclose any pecuniary, other registrable or non-registrable interest as set out in the adopted Code of Conduct. In making their decision councillors are asked to state the agenda item, the nature of the interest and any action they propose to take as part of their declaration. If required, further advice should be sought from the Monitoring Officer in advance of the meeting.	

4. PUBLIC PARTICIPATION

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

When submitting a question please indicate who the question is for and include your name, address and contact details. Questions and statements received in line with the council's rules for public participation will be published as a supplement to the agenda.

The deadline for submission of the full text of a question or statement is 8.30am on Wednesday 9th November 2022.

5. MINUTES OF THE AUDIT & GOVERNANCE SUB-COMMITTEE 13 - 18

To note the minutes of the Audit & Governance Hearing Sub-committee on 18 August 2022.

6. DRAFT 2021/22 OUTTURN REPORT 19 - 62

To receive a report by Jim McManus Corporate Director, Finance and Commercial.

7. QUARTER 2 FINANCIAL MANAGEMENT REPORT 63 - 80

To receive a report by Jim McManus Finance and Commercial.

8. TREASURY MANAGEMENT ANNUAL REPORT 2021/22 81 - 96

To receive a report by David Wilkes, Service Manager for Treasury and Investments.

9. TREASURY MANAGEMENT MID-YEAR UPDATE REPORT 97 - 112

To receive a report from David Wilkes, Service Manager for Treasury and Investments.

10. QUARTERLY RISK MANAGEMENT UPDATE 113 - 138

To receive a report from David Trotter, Risk and Resilience Officer and Marc Eyre, Service Manager for Assurance.

11. SWAP UPDATE REPORT 139 - 152

To receive a report by Sally White Assistant Director SWAP.

12. FORWARD PLAN 153 - 156

To consider the work programme for the Committee.

13. 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.

14. EXEMPT BUSINESS

To move the exclusion of the press and the public for the following item in view of the likely disclosure of exempt information within the meaning of paragraph 3 of schedule 12 A to the Local Government Act 1972 (as amended).

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

There is no exempt business.

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AUDIT AND GOVERNANCE COMMITTEE

MINUTES OF MEETING HELD ON WEDNESDAY 22 JUNE 2022

Present: Cllrs Matthew Hall (Chairman), Richard Biggs (Vice-Chairman), Susan Cocking, Barry Goringe, Bill Pipe, Belinda Bawden, Simon Christopher and Robin Legg

Apologies: Cllrs Rod Adkins and Bill Trite

Officers present (for all or part of the meeting):
Aidan Dunn (Executive Director - Corporate Development S151), Jonathan Mair (Director of Legal and Democratic), Jim McManus (Corporate Director - Finance and Commercial), Marc Eyre (Service Manager for Assurance), Sally White (Assistant Director SWAP), Antony Bygrave (Senior Assurance Officer Complaints), Kate Critchel (Senior Democratic Services Officer) and David Northover (Democratic Services Officer)

Jacqui Andrews (Service Manager, Democratic and Electoral Services) attended by remote link.

Neil Wedge – Chief Executive of Dorset Association of Parish and Town Councils – attended the meeting and with the agreement of the Chairman spoke on the item concerning Learning from Code of Conduct and Localism Act Complaints.

63. **Apologies**

Apologies for absence were received from Cllrs Rod Adkins and Bill Trite.

The Chairman took the opportunity to welcome Cllrs Simon Christopher and Robin Legg to the Committee.

64. **Minutes**

The minutes of the meeting held on 11 April 2022 were confirmed.

With reference to a matter arising from Minute 53 – Risk Management Update – the Executive Director Corporate Development would bring a paper to a future Committee on value for money and information compliance and governance as part of an update.

65. **Declarations of Interest**

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

66. **Public Participation**

There were no statements or questions from Town and Parish Councils, nor public statements or questions at the meeting.

67. **Report of Internal Audit Activity Progress Report 2022/23**

The Internal Audit Plan Progress 2022/23 report by the South West Audit Partnership (SWAP) was considered by the Committee setting out what progress had been made as well as the Audit Opinion; Significant Risks; Audit Follow Up Work; SWAP Internal Audit Plan Coverage; what SWAP Performance Measures were; and Limited Opinion Audits and their findings also being detailed

Members were advised of what constituted added value: particularly with regard to benchmarking – to determine how the Council was doing compared with other similar authorities for which SWAP had responsibility.

The Internal Audit Rolling Plan – and specifically the coverage and assurance tabulation - reflected the outcomes of recent reviews completed. Based on these reviews, SWAP recognised that, generally, risks were well managed, although some gaps, weaknesses and areas of non-compliance had been identified. However, SWAP had reasonable, to high, levels of confidence that the agreed actions would be implemented and, as such, was able to offer a reasonable opinion.

Since the last progress report in January 2022, three Limited assurance opinions had been issued on the areas and activities being audited, but none had been classified as a significant risk.

SWAP continued to have effective follow up of agreed audit actions being undertaken directly within directorates themselves, with actions being updated by directorate key contacts. As previously reported, there was still focus on a small number of long overdue actions to ensure these were updated and signed off as soon as possible, with officers committed to achieving this. However, whilst 'less than significant' issues did still remain, the prioritising of those more significant issues was achieving results. For clarity, SWAP confirmed the arrangements for how their audit programme was devised, what it was designed to do and what they were committed to look at.

Officers confirmed that they continued to pursue the recovery of debt, but that was being done more sympathetically given the current financial circumstances. However, the Authority had a commitment to doing all it could to achieve this.

One member asked if there was reason to believe the level of debt was because of errors with overcharging – as had been identified in other authorities – but officers were confident that there was no reason to believe that was the case. Finance officers – whilst dealing with the recovery of debt as effectively as they could - also had recently taken on additional commitments in terms of the Council Tax rebate and other duties associated with the pandemic. An assurance was provided that as the Council was returning to more familiar methods and processes to ensure the best outcomes were achieved. Levels of debt, and its recovery, were anticipated to return to levels seen prior to the pandemic.

Members were pleased to see that considerable progress had been made to address outstanding issues identified and hoped that this could be maintained so as to ensure those issues of consequence were all dealt with effectively. They recognised that there would be certain issues that were more of a challenge than others to address but had confidence in officers that this would be achieved over time. Never the less, they asked that they be provided with regular updates on debt recovery, what risks needed to be addressed and the progress being made.

Noted

68. **Honorary Aldermen/Alderwomen of the Dorset Council Area**

The Committee considered a report on proposals to enable the Council to confer the title of Honorary Alderman/Alderwoman in recognition of previous service by elected members, with the mechanism to be able to do this – and the criteria to be met - set out in detail, namely:-

- former members of Dorset Council who had given a period of public service for a minimum of 16 years,
- had served on either Dorset Council, or its predecessors - Dorset County Council or one of the six former District Councils now comprising the Dorset Council area, and
- were considered to have made an outstanding contribution to the area in their role as elected member.

The process for bestowing to honour was detailed and explained by the Service Manager for Democratic and Electoral Services in that it was proposed to establish a panel of members who would consider nominations and make recommendations to a specially convened meeting of Full Council – to precede a scheduled meeting of Council. The Panel's composition was explained and what proportion of the Full Council would be required to endorse that nomination.

Any person who was bestowed the title would receive a badge and a certificate in recognition of the honour, funded through the Chairman's Fund.

The Committee discussed the arrangements and criteria as being proposed and, whilst they were pleased to see such recognition being proposed, asked how the 16 years' service had been arrived at. Officers confirmed that this was seen to be an optimum length of service which would reflect a member's commitment to public service and provide the opportunity for outstanding achievements to be recognised and evaluated.

Some members considered the 16 year qualifying period too long, and a member serving for less time could still make an outstanding contribution. They asked that a shorter period be considered.

The Director – Legal and Democratic recognised this and suggested that the criterion could be amended to include the word “ordinarily”, so that there was scope for any nominations that fell into that category having the opportunity to be considered too.

Discussion took place as to how “outstanding contribution” would be assessed and officers explained the role of the Nomination Panel.

One member asked what opportunity there would be for town and parish councillors to become Honorary Alderman/Alderwoman. Officers confirmed that by law, Dorset Council could only bestow this distinction on members who had served on Dorset Council or its predecessor councils.

With the suggested amended wording by the Director – Legal and Democratic and, it being proposed by Cllr Bill Pipe and seconded by Cllr Robin Legg, it was

Resolved

1)That Full Council be asked to agree to amend the Constitution to include the criteria and process for awarding the title of Honorary Alderman/Alderwoman to former members of Dorset Council.

2) the wording of the second bullet point in paragraph 3.2 of the report as to the criteria to be met for any nominations for Honorary Aldermen/Alderwomen be amended to read “The nominee shall **ordinarily** have served a minimum of 16 years……”

Reason for Decisions

Inclusion of the process and criteria for conferring an honorary title on a former member within the Constitution will make the process more open and transparent.

69. **LGA Finance Peer Challenge Update**

The Committee received and reviewed the letter from the LGA finance peer challenge team that revisited Dorset Council to consider the work done to implement the action plan following the original finance peer challenge visit.

Given Dorset Council was committed to continuous learning and improvement, the peer review was an important and valued component in achieving that, with the report endorsing the progress made in establishing the Council and making a series of recommendations to further develop the council’s financial arrangements. The progress made and an action plan were contained in the letter.

The Committee were pleased to see what progress had been made and had confidence in that what remained to be done would be as soon as practicable.

Resolved

That the letter from the LGA finance peer challenge team be received, welcomed and its findings endorsed.

Reason for Decision

To ensure that the council has acted upon the peer team's recommendations.

70. Learning from Code of Conduct and Localism Act Complaints

The Committee were being asked to consider the level of resources that Dorset Police and Dorset Council were expending on responding to code of conduct and complaints and allegations of offences committed under the Localism Act 2011 by town and parish councillors. Officers explained the process involved in responding to code of conduct and complaints and allegations and what this entailed.

Whilst it was recognised that most town and parish councils were well-run, and operated effectively, with councillors and employees exemplifying the seven principles of public life.

From the report it was apparent that Shaftesbury had a significantly greater proportion of recorded complaints than any other parish or town council and Members asked the reasoning for this and how this was being addressed.

Officers confirmed that there had been particular longstanding issues with allegations about the conduct of certain Town Councillors, but this was being addressed with the support of the DAPTC.

However, given the disproportionate resources necessary to assess those allegations, the Director considered a different approach was needed. The Chairman considered that the LGA might have a view on how best to assist in addressing this issue so as to benefit the Town Council, its reputation and the residents of the town. In any event he asked that he, the Director, Dorset association of Parish and Town Councils (DAPTC) and relevant officers meet to address this particular issue so a satisfactory resolution could be found.

Members were concerned that available sanctions were insubstantial to meaningfully deter poor behaviour and should be strengthened. The Director explained that the Localism Act limited the sanctions that could be imposed.

Officers confirmed that more emphasis was being placed on the use of social media by councillors and training was available to them on this; designed to raise their self-awareness.

The opportunity was given to the Chief Executive of DAPTC, Neil Wedge, to provide his view on how the Code of Conduct could be best applied. He acknowledged that the majority of parish and town Councils were self-compliant with little cause for concern, but a training programme was available to all new Councillors so that they were readily aware of what expectations were. This programme would be made available to the Committee. It was his intention to raise the profile of the suite of training and advice available to councils, designed to prevent such issues arising.

He hoped too that the interventions mentioned would better manage the issues being experienced in Shaftesbury and looked forward to a close working relationship with Council officers to address any issues that arose.

The Committee hoped that the behaviour of members could be addressed by early and preventative interventions as described as it was in the interest of all that the reputation of those public bodies were maintained and confidence in what they did and how they did it was preserved.

Resolved
That the number and origin of Councillor Code of Conduct complaints and allegations, the resulting resource impacts and additional costs incurred through investigation – having been scrutinised – be noted and what was being done to resolve this, endorsed.

Reason for Decision
To have an awareness of the numbers and origins of Councillor Code of Conduct complaints and the limited scope for organisational learning, and to challenge whether the Code of Conduct policy is genuinely being used in the public interest.

71. **Fraud and Whistleblowing**

The Committee received its annual report on fraud and whistleblowing, which provided an update on the Councils approach, including a summary of cases reported in the preceding twelve months. The opportunity had been taken to review the supporting policy framework, with a number of minor amendments have been made to reflect changes to legislation and lessons learnt from incidents.

The Committee appreciated what was being done to, educate, discourage - and eliminate - fraud and support whistleblowing as necessary and considered the revised policies would go a long way to achieving this.

In being proposed by Cllr Bill Pipe and seconded by Cllr Susan Cocking it was

Resolved
1) That the annual update on fraud and whistleblowing activity be noted;
2) That the following updated policies be approved:

- Whistleblowing Policy and Procedures;
- Anti-Fraud, Corruption and Bribery Strategy;

...

- Anti-Money Laundering Policy

Reason for Decisions
To support the Council's zero tolerance to fraud and support those cases where whistleblowing was justified.

72. **Data Protection and Other Mandatory Training**

The Committee received an oral update from the Service Manager for Assurance on Data Protection and other Mandatory Training, how this was being monitored and what completion rate there was.

All necessary training for employees and Councillors alike was encouraged, with emphasis being placed on the importance of mandatory training. However, some 30% of those obliged to complete mandatory training courses and exercises had yet to do so. Whilst it was acknowledged that it was the for the individual to meet this obligation, line managers had a responsibility to endure this was done.

Where Councillors had been identified as needing to complete this too, it would be for Group Leaders to encourage this to be done.

The committee understood the importance of ensuring data protection and other mandatory training was fully completed to ensure the Council was not unduly exposed to risks. An update on progress would be made at the next meeting.

Noted

73. **Forward Plan**

The Forward Plan was considered and noted.

74. **Urgent items**

There were no urgent items for consideration.

75. **Exempt Business**

There was no exempt business to consider.

Duration of meeting: 10.00 am - 12.30 pm

Chairman

....

Dorset Council

AUDIT AND GOVERNANCE (HEARING) SUB-COMMITTEE

MINUTES OF MEETING HELD ON THURSDAY 18 AUGUST 2022

Present: Cllrs Matthew Hall, Richard Biggs and Susan Cocking

Apologies: There were no apologies for absence.

Also present: Mr N Maton **(**Independent Person)

Officers present (for all or part of the meeting):
Grace Evans (Head of Legal Services and Deputy Monitoring Officer), Roger Greene (Litigation Lawyer and Investigating Officer), Susan Dallison (Democratic Services Team Leader) and John Miles (Democratic Services Officer Apprentice)

57. **Election of Chairman**

It was proposed by Cllr S Cocking seconded by Cllr R Biggs

Decision

That Cllr M Hall be elected Chairman.

58. **Apologies**

There were no apologies for absence.

59. **Declarations of Interest**

There were no declarations of interest.

60. **Hearing Sub-Committee Terms of Reference and Dorset Council Member Complaint Process**

The committee received the terms of reference and the Member Complaint Process.

61. **Urgent Items**

There were no items of urgent business.

62. **Exempt Business**

To move the exclusion of the press and the public for the following item in view of the likely disclosure of exempt information within the meaning of 1 & 2 of schedule 12 A to the Local Government Act 1972 (as amended).

...

The public and the press were asked to leave the meeting whilst the item was considered.

It was proposed by Cllr Hall seconded by Cllr Biggs

Decision

That in line with legal advice from the Deputy Monitoring Officer the press and public be excluded for consideration of points of process in view of the likely disclosure of exempt information withing the meaning of paragraph 1 & 2 of schedule 12A to the Local Government Act (as amended).

The Investigating Officer, Roger Greene and the Solicitor representing the councillor were consulted in advance of and agreed to the decision.

At that point, the Sub-committee moved into Committee Room 1 to continue the meeting in exempt business.

63. **Code of Conduct Complaint**

After considering all of the points of process submitted by both Roger Greene and the Solicitor representing the councillor the members of the Sub-committee adjourned to consider their decision.

On returning to the Council Chamber the Chairman announced the following decision:

Decision

Having heard, in exempt session, the submissions from the Investigating Officer, the representative of the councillor and the relevant points of process, lawfulness and fairness, having considered relevant papers and the views of the independent person, this sub-committee concludes that it is not appropriate or possible to continue with this code of conduct complaint to a full hearing. Accordingly, the code of conduct complaint is dismissed without hearing or any finding on the substantive points of complaint.

Although the hearing today cannot proceed and the sub-committee has dismissed the complaint without finding, it has a number of concerns arising from the submissions that it will raise with the monitoring officer for attention.

Decision Notice

Duration of meeting: 2.00 - 5.00 pm

Chairman

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Appendix

DORSET COUNCIL
DECISION NOTICE

Date of Hearing: 18 August 2022
Audit and Governance (Hearing) Sub-Committee

1. The Hearing Sub-Committee's Decisions

1.1 The Hearing Sub-Committee's decision is detailed in the appended minutes. However, the Hearing Sub-Committee's key conclusion is also set out below.

1.2 Having heard, in exempt session, the submissions from the Investigating Officer, the representative of the councillor and the relevant points of process, lawfulness and fairness, having considered relevant papers and the views of the independent person, the sub-committee concluded that it was not appropriate or possible to continue with the code of conduct complaint to a full hearing.

1.3 Accordingly, the code of conduct complaint was dismissed without hearing or any finding on the substantive points of complaint.

1.4 Although the hearing could not proceed and the sub- committee dismissed the complaint without finding, it had a number of concerns arising from the submissions to raise with the monitoring officer for attention.

……………………………………….
Jonathan Mair
Monitoring Officer
Right of Appeal: There is no right of appeal against the decision of the Audit and Governance (Hearing) Sub-Committee.

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Audit & Governance Committee
14 November 2022
Draft 2021/22 outturn report

Choose an item.

Portfolio Holder: Cllr G Suttle, Finance, Commerical & Capital Strategy

Local Councillor(s): Cllr

Executive Director: A Dunn, Executive Director, Corporate Development

Report Author: Jim McManus
Title: Corporate Director, Finance & Commercial
Tel: 01305 221235
Email: jim.mcmanus@dorsetcouncil.gov.uk

Report Status: Public

Brief Summary:

All financial management reports come to the Committee for review following the Cabinet meeting at which they are presented.

The draft (unaudited) outturn report for 2021/22 was seen by the Cabinet on 21 June 2022 but it has not been seen by Audit & Governance Committee as the meeting where it was due to be reviewed was cancelled. The timeliness of the report therefore makes it of limited value, but it is still important from a financial governance perspective that the Committee is able to review and comment upon the report.

A further, short update is also provided on the progress of the audit of the draft accounts and other matters.

Recommendation:

Members are asked to note the small overspend against the Council's net budget for the year. This was significantly lower than had been forecast earlier in the year and reflects significant work across the Council to reduce costs and generate additional income.

Members are also asked for any further comments on either the financial strategy statement, the arrears position on local taxes or progress against the peer review recommendations.

Members are also asked to note the progress on the completion of the accounts and the position regarding the audit of the financial statements. The external auditor, Ian Howse, from Deloitte will also be present to give an update on the position.

Reason for Recommendation:

Review of the organisation's financial performance, strategy and processes is a key aspect of this Committee's role.

1. **Financial Implications**

The Council's performance against budget is detailed in the attached Cabinet report.

2. **Climate Implications**

None specific.

3. **Well-being and Health Implications**

None specific.

4. **Other Implications**

None.

5. **Risk Assessment**

5.1 HAVING CONSIDERED: the risks associated with this decision; the level of risk has been identified as:

Current Risk: Medium

Residual Risk: Medium

A risk assessment of previous financial performance is of very limited value. However, the fact that there was an overspend is an indicator that residual risk will be carried into ensuing periods.

There is also risk around the audit work until such times as all the work is completed and signed by Deloitte.

6. **Equalities Impact Assessment**

The quarterly financial management report does not have any equalities impacts.

7. **Appendices**

Cabinet draft outturn report 2021/22

8. **Background Papers**

[Budget strategy report 2021/22]

[Qtr1 financial management report 2021/22]

[Qtr2 financial management report 2021/22]

[Qtr3 financial management report 2021/22]

9. **Accounts and audit progress**

The Council's draft 2021/22 statement of accounts has not yet been made available for public inspection. The deadline was 1 August 2022, as required by the Regulation 10 paragraph (1) of the Accounts and Audit regulations 2015 as amended by The Accounts and Audit (Amendment) Regulations 2021.

The Council has not been able to complete the draft Statement of Accounts due to update of the CIPFA Code of Practice on Local Authority Accounting to deal with changes to accounting for infrastructure assets, which has caused a delay in the audit, approval, and publication of the 2020/21 Statement of Accounts. This issue is affecting many Councils across the country.

A verbal update on the progress to date will be given at the Committee.

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Cabinet
21 June 2022
Draft outturn report 2021/22

Choose an item.

Portfolio Holder: Cllr G Suttle, Finance, Commerical & Capital Strategy

Local Councillor(s): All

Executive Director: A Dunn, Executive Director, Corporate Development

Report Author: Jim McManus
Title: Corporate Director, Finance & Commercial
Tel: 01305 221235
Email: jim.mcmanus@dorsetcouncil.gov.uk

Report Status: Public

Brief Summary:

This report comes to Cabinet with information about the Council's draft, unaudited financial performance for the year ended 31 March 2022 and the financial position at that date.

Recommendation:

Cabinet is asked to

1. Note the draft outturn and the financial performance for the year ended 31 March 2022; and
2. agree the revised financial strategy statement set out in appendix 1 and reserves position set out in the main body of this report; and
3. note and agree the position and actions around the arrears of council tax, business rates and other income;
4. note the progress made against the action plan that was developed following the finance peer challenge review; as summarised in the update letter at appendix 2.

Reason for Recommendation:

Although this report does not seek formal approval from Cabinet for the reported outturn, the financial performance for the year and the financial position at 31 March 2022 are important aspects of financial management as they mark the start of the next medium-term financial plan update (MTFP) and budget strategy development for 2023/24.

In addition to reporting outturn, with the financial performance for the year materially complete, it is important for Cabinet to review the risks the organisation now faces and to consider areas where it wishes to make strategic investments and/or to repurpose and prioritise its reserves to facilitate these aims.

1. Financial Implications

The financial performance for the year and the position at year-end are set out in this document. The report also summarises the impact on the 2022/23 budget and the MTFP.

The actions to reduce the balance and age of debt and arrears following the increases in these numbers during the pandemic and more recently the cost of living rises, are critical to reducing debt as well as supporting residents and businesses to pay what is due. Most of the charges levied by the Council – and all local taxes – are underpinned by national, legal requirements so they must be supported by appropriate and proportionate recovery action by all local authorities.

2. Climate Implications

The outturn for the year and the position at 31 March 2022 have no impact on financial or other assumptions around the Council's climate and ecology strategies.

3. Well-being and Health Implications

The Council has continued its focus on keeping people safe and well, particularly during the pandemic but also in managing the transition out of national restrictions.

The Council continued to play an essential role in distributing Government grants to individuals, businesses and other qualifying groups during the year.

4. Other Implications

None specific.

5. Risk Assessment

5.1 HAVING CONSIDERED: the risks associated with this decision; the level of risk has been identified as:

Current Risk: Low

Residual Risk: Low

Reporting draft outturn against budget has very limited risks.

6. Equalities Impact Assessment

No specific equalities issues have emerged in drafting the Council's various reports on financial performance and position.

7. Appendices

1. Financial strategy statement
2. Finance peer review challenge update

8. Background Papers

2021/22 budget strategy report

Financial management report Qtr1 2021/22

Financial management report Qtr2 2021/22

Financial management report Qtr3 2021/22

2022/23 budget strategy report

9. Budget setting 2021/22 and context

9.1 2021/22 was Dorset Council's third year and once again involved setting a strategic budget and MTFP against a one-year settlement from Government. The early years of the Council have proved challenging yet positive as the organisation continues to deliver savings from reorganisation into a single unitary authority at the same time as dealing with a global pandemic and now experiencing and supporting residents and businesses through a periodic of sustained inflation, affecting almost all prices for businesses and individuals.

9.2 The Council's budget requirement was £312.4m and was funded from rural services delivery grant (£2.5m), new homes bonus (£1.7m), business rates (£44.3m) and council tax (£263.9m). More detail is set out in the budget strategy report at the link above.

9.3 Members will recall that the Council had been anticipating an overspend against its budget for much of the year. During 2020/21, reserves were realigned to sit within a new financial management strategy and were better aligned with risks facing the organisation as well as to take advantage of opportunities to invest in areas where pressures on the revenue budget can be reduced.

9.4 Risk remains and needs careful monitoring and reporting during the year. At the time of writing, inflation in the UK has reached 9% and most commentators expect this to rise further. Whilst the Council made some provision for inflation in its 2022/23 budgets, and also has a contingency budget to support price fluctuations, it is also important to remember that the pressure on costs could not and should not be dealt with by the Council alone.

9.5 The Council's budget is essentially fixed in cash terms and its ability to raise income is limited. There are national controls in place around council tax and business rates and ability to generate income from trading is relatively limited in the short-term as well as potentially at odds with wider economic development ambitions.

9.6 Despite the risk around this report being deemed low, and in spite of the financial risk being downgraded to medium at the time of the budget report, pressures are building in the economy and the Council is not impervious to these.

10. Financial performance for the year

Overall performance

10.1 The financial performance for the year was an overspend of £571k. This overspend falls to be financed from the general fund. Headline performance against budget is summarised in the table below.

Directorate	Net Budget	Forecast Outturn	Forecast (Overspend)/ Underspend	
	£k	£k	£k	%
People - Adults	115,843	118,062	(2,219)	(1.92%)
People - Children's	71,432	72,256	(824)	(1.15%)
Place	72,961	72,716	245	0.34%
Corporate Development	23,844	23,364	480	2.01%
Legal & Democratic Services	5,703	5,379	324	5.68%
Public Health	3,356	3,356	0	0.00%
Total Service Budgets	293,139	295,133	(1,994)	(0.68%)
Central Finance	(273,171)	(274,594)	1,423	(0.52%)
Whole Authority	19,968	20,540	(571)	(2.86%)

10.2 The draft outturn is within 3% of the revised net budget but contextually is perhaps better expressed as a proportion of the £293.1m net budget ie 0.19%. This is a significantly better performance than had been predicted earlier in the year and one which reflects positively on the Council's performance in response to covid and other operating and cost pressures arising during the year.

10.3 Directorate-specific narrative is set out in the following paragraphs.

Children's Services

10.4 The Children's Services outturn was £72.256m compared with a net budget of £71.432m, an overspend of £0.824m (1.15%). This is a positive outcome for a demand-led directorate operating in an ever-changing environment.

10.5 The Quarter 3 forecast indicated a £2.75m overspend, so there was an improvement of £1.93m between the last predictions reported to Cabinet and the draft outturn. The narrative below considers major variances from budgets during the year as well as any risks or other factors that need to be considered in the next iteration of the MTFP.

10.6 There were two main structural budget issues that were reported during the year occurred as forecast: external placements (£2.27m overspend) and lost trading income due to a change in operating model (£1.2m shortfall in income).

10.7 These have been offset by carefully managing vacancies and agency budgets, increases in grants and other funding and underspending non-pay budgets, for example in-house fostering underspent by £1.38m.

10.8 Examples of unbudgeted grants and funding during the year include the Covid Winter grant (£0.279m), Monitoring and Brokering Grant (£0.242m) and Aiming High funding (£0.08m).

10.9 Non-pay budgets include a £0.07m underspend on training costs. The Directorate also delivered £4.75m (97%) of targeted transformation and tactical savings during the year.

10.10 Both structural issues (external placements and lost trading income) have largely been addressed during the 2022/23 budget build. External placement budgets have been remodelled to reflect the November cohort, expected demand and savings. £1.2m lost trading income for 2022/23 is £0.6m with transformational funding for new posts to achieve this target.

10.11 However, there are risks within the 2022/23 budget that will require careful monitoring and management. Risks include capital project delays and the subsequent impact on revenue budgets, inflation (particularly for placements and externally provided services) and the delivery of transformation and tactical savings.

Dedicated Schools Grant (DSG)

10.12 The DSG was overspent by £16.088m. The grant is split into four blocks, with the High Needs Block (HNB) overspending by £16.2m, and underspends in the Early Years Block (£0.05m) and Central Services to Schools Block (£0.065m). The Schools Block had no variance.

10.13 The 2021/22 overspend is in line with the February forecast, presented to March Schools Forum. The outturn position is also slightly below the required *Safety Valve* 2021/22 DSG outturn position. In March 2022, the Department for Education (DfE) and Dorset Council signed a £42m agreement to eradicated Dorset's cumulative DSG deficit by 2025/26. The first year of the agreement required Dorset's in-year DSG deficit to be £16.1m to receive £17.5m of DfE support.

10.14 The cumulative DSG deficit, including the 2021/22 overspend, application of the first tranche of *Safety Valve* funding and Dorset Council funding, is £27.7m. Without the support this would be £55m.

10.15 For future years, to receive the remaining £24.4m DfE funding, Dorset Council is required to keep within specified, maximum in-year DSG deficits, use £10m of reserves and build £13m of DSG support into the Medium-Term Financial Plan.

10.16 The collective effort above, plus potentially a transfer between blocks within the DSG, would eliminate what was forecast to be a DSG cumulative deficit projection of £77.5m. In other words, if Dorset Council had not reached agreement with the DfE, then it would potentially be exposed to a £77.5m liability.

10.17 The historical DSG deficit is a long and well-documented risk stemming from a change in government legislation in 2014. The number of children who require an Education Health and Care Place (EHCP) continues to rise and coupled with Dorset Special Schools reaching capacity, has seen an increase in the use of generally more expensive special school places.

10.18 In March 2022, the government launched a SEND (Special Educational Needs and Disabilities) Review: *Right support, right place, right time*. The green paper outlined three main challenges facing SEND and alternative provision (summary from the Society of County Treasurers briefing paper):

- outcomes for children and young people with SEND or in alternative provision are consistently worse than their peers across every measure;
- navigating the SEND system and alternative provision is not a positive experience for too many children, young people, and their families;
- despite the continuing and unprecedented investment, the system is not financially sustainable. The green paper states that "Two thirds of LAs (local authorities) have deficits in their DSG budgets as a result of high needs cost pressures" and stated that the national total deficit was over £1bn in 2020-21.

10.19 The outcome of the SEND review will likely influence SEND practices, Dorset's future DSG outturn positions, and therefore the *Safety Valve* agreement. It is too early to quantify this risk.

Adults Services & Housing

10.20 The Adults Services & Housing outturn was £118.062m compared with a net budget of £115.843m, an overspend of £2.219m (1.92%).

10.21 The Qtr3 forecast indicated a £7.557m overspend, so there was an improvement of £5.337m between the last predictions reported to Cabinet and the draft outturn. The final quarter's improved performance was achieved through the consolidation of health funding towards support for hospital discharge over the pandemic, several in-year grants and improved savings delivery. The narrative below considers major variances from budgets during the year as well as any risks or other factors that need to be considered in the next iteration of the MTFP.

10.22 The Adult Care Packages budget ended the year with an overspend of £3.662m. The main drivers for the overspend were as follows:-

- Adults and Housing had a challenging savings target of £7.982m in year, of this £5.485m was achieved but savings of £2.370m could not be delivered.

- £1.292m overspend due to the continuation of the Hospital Discharge Programme following Covid-19. This was caused through a mixture of increased complexity of packages as well as increases in price.

10.23 The Adult Care Budget ended the year with an underspend of £1.085m. There were a number of vacancies across the Directorate in the year, particularly within Locality and Specialist Teams which were the primary cause of this.

10.24 Commissioning and Improvement had an underspend of £0.6m due to some staff vacancies being unfilled and underspends on contracts including the Integrated Equipment Store, Dorset Accessible Homes, major adaptations and supported employment. Some of these underspends are the result of Covid-19 and the delays in progressing works.

10.25 Housing overspent by £0.292m due to higher bad debt provision. The rest of the budget was broadly in balance. The bad debt provision related to rent arrears, and where tenant contributions, in excess of the element paid by Housing Benefit, have not been recovered. Good progress is being made in improving former tenant and current arrears.

10.26 The main risk factors that will impact Adult Social Care over the next 12 months are the introduction of the care cap, the market sustainability and fair cost of care exercise and any ongoing increase in hospital discharges.

10.27 The impact of the pandemic has been that we now support an additional 400 people receiving long-term care over our normal profile of demand. The additional people receiving service were also placed at a period of pandemic escalation when additional health funding for care fees was available which has increased our average prices for this year. Clarity over ongoing additional health support for the long-term impacts of the pandemic on the Adult Social Care budget will be important in helping us meet new demand within the available funding envelope.

10.28 The number of people Local Authorities are required to fund will increase as well as the rates paid as they become responsible for a greater percentage of the market.

10.29 Alongside this there will be an increase in the number of assessments that will need to be undertaken resulting in additional workforce requirements. The Government also requires Local Authorities to move towards paying providers a fair cost of care and to prepare their markets for adult social care reform.

10.30 Dorset Council is currently making arrangements to end its contract arrangements with Tricuro Ltd and transfer its business to Care Dorset Ltd. The costs of the transition to the new arrangements fall to the Adults Services budget.

<u>Public Health</u>

10.31 The public health grant for 2021/22 for BCP council was £20.052m and for Dorset council was £14.214m. Agreed local authority contributions for the year gave a shared service budget of £25.036m.

10.32 Final outturn was £24.331m, resulting in a £0.706m underspend which has been added to reserves. The figures in the table, above are net, so they do not reflect the numbers shown in this analysis, which are gross grant income and expenditure and transfers to reserves. The £3.3m budget and actual reflect carry forward and spend of COMF grant from previous years.

Place Directorate

10.33 The Place Directorate outturn was £72.716m compared with a net budget of £72.961m, an underspend of £0.245m (0.34%). The figures include the final three-month payment of a grant from central government to mitigate the impact of lost income (*sales fees and charges grant*), at a value of almost £896k across the Place Directorate.

10.34 The Qtr3 forecast indicated a £2.426m overspend, so there was an improvement of £2.181m between the last predictions reported to Cabinet and the draft outturn. The narrative below considers major variances from budgets during the year as well as any risks or other factors that need to be considered in the next iteration of the MTFP.

10.35 The Assets and Property budget ended the year with an overspend of £14k. Assets and Property budgets were affected by a wide range of issues including:

- savings targets that were included in the budget and not achieved (and budget adjusted for 2022/23)
- shortfall of income from staff car parking and café
- underspend in the Repairs and Maintenance (R&M) budget due to new operating model and difficulty with engaging with contractors in the post-covid/post-lockdown market
- underspends in the postage budget and County Hall utility costs
- a major staffing restructure early in the financial year achieved savings as planned, and some ongoing vacant posts
- the change of operating model did not facilitate the full recovery of budgeted costs from capital schemes (there is ongoing work to address this, and budgets have been adjusted for 2022/23).

10.36 Growth and Economic Regeneration now also sits within Assets and Property and ended the year with an underspend of £219k, largely due to vacant posts and other minor underspends.

10.37 The Highways service ended the year at £141k overspent:

- Parking Services underachieved the income target by £1.165m, but it is acknowledged that income targets were ambitious against the background of continued covid-19 restrictions and increased working from home. Actual car park income was £365k higher than the previous year. 57% of car park income was cashless, compared to 33% in the previous year. Car park expenditure was up but staffing costs were £260k down compared to prior year.

- Highways Infrastructure and Assets ended the year at just over £1m underspent. In addition to the previously reported one-off rebate on the Streetlighting PFI contract, there were also savings from streetlighting energy costs (due to LEDs), additional contributions from the Transforming Cities Fund and reduced expenditure across a number of budget headings.
- Highways Operations ended the year at just £2.1k overspent, although this does include higher costs in Construction Delivery and Winter Maintenance offset by additional income from road closures and permitting.

10.38 The Planning Service ended the year at £967k overspent, broadly in line with the forecast. The Planning Service has experienced a number of financial issues in 2021/22 including unachieved savings, shortfalls against income targets and difficulties with recruitment resulting in high agency costs. These issues are addressed as far as possible in the 2022/23 budget.

10.39 Dorset Travel ended the year £1.565m overspent, again broadly in line with predictions. Transformational savings targets could not be achieved although tactical savings initiatives were implemented to offset most of this. The main overspend – and main continuing concern – is the SEND transport budget, which transferred to Place Directorate part way through the year, and which overspent by £1.85m. Considerable additional funding has been put into the 2022/23 budget against this heading.

10.40 Environment and Wellbeing budgets ended the year £224k underspent, made up of £492k underspend against Country Parks (largely from additional income) and £256k overspend for Leisure Services which have been impacted by post-pandemic reduced income all year. Harbour finances are ringfenced, with any underspends or overspends being applied to their respective reserves, and hence do not affect the figures being reported here.

10.41 Community and Public Protection (CPP) budgets ended the year at £82k underspent. CPP contains a wide range of services, with a wide range of outcomes: pan-service savings of £100k have not been achieved, and Bereavement Services and Licencing experience adverse income budgets with outturn positions of £51k adverse and £155k adverse respectively. However, the Registration Service experienced a positive income situation in relation to the wedding market, coming in at £172k favourable. The Coroner and Mortuary Service, a partnership with BCP council, was able to return £129k of funds to the Dorset Council corporate centre.

10.42 Waste – Commercial Waste and Strategy ended the year at almost £2.5m favourable. As noted previously, the market for waste recyclate has provide extremely positive income prices during 2021/22, which together with some other budget adjustments means that the waste disposal budget ended up at almost £2.2m favourable variance. Positive variances from the Commercial waste service, the Garden Waste service, and the Container Charging service account for the balance. The waste disposal budget has been adjusted accordingly in 2022/23.

10.43 Waste Operations including Dorset Council fleet services ended the year at £434k adverse. This is largely caused by the fleet budget, with overspends against vehicle parts and R&M, and reduced external income through MOTs.

10.44 Customer Services, Archives, and Libraries collectively ended the year at £487k underspent, largely in the areas of Customer Services and Libraries due to vacancies.

10.45 In summary, there were no new issues emerging in the closing stages of the year. The concern for the 2022/23 budgets are as stated previously; the extent to which the budget is reliant upon customer income and the associated wider economic issues, and inflation.

Corporate Development

10.46 The Corporate Development outturn was £23.364m compared with a net budget of £23.844m, an underspend of £0.48m (2.01%).

10.47 The Qtr3 forecast indicated a £0.19m underspend, so there was an improvement of £0.29m between the last predictions reported to Cabinet and the draft outturn. The narrative below considers major variances from budgets during the year as well as any risks or other factors that need to be considered in the next iteration of the MTFP.

10.48 Finance & Commercial was £0.3m overspent, caused principally by loss of court costs income.

10.49 Human Resources was £0.15m underspent, mainly relating to vacancies, lower corporate training spend and increased income.

10.50 Digital and Change was £0.13m underspent through vacancies across the service and additional income.

10.51 ICT Operations was £0.13m underspent mainly through a cost that was incorrect applied in the previous year.

10.52 Community Grants were £0.13m underspent due to repurposing spend against an alternative external funding source within the remits of the funding conditions.

10.53 Chief Executive's Office was £0.09m underspent through vacancies and reduced subscriptions.

10.54 A further £0.15m underspent across the other services within Corporate services, mainly through vacancies.

Legal & Democratic Services

10.55 The Legal & Democratic outturn was £5.379m compared with a net budget of £5.703m, an underspend of £0.324m (5.68%).

10.56 The Qtr3 forecast indicated a £0.078m overspend, so there was an improvement of £1.102m between the last predictions reported to Cabinet and the draft outturn. The narrative below considers major variances from budgets during the year as well as any risks or other factors that need to be considered in the next iteration of the MTFP.

10.57 Democratic Services were £0.15m underspent which was related to reduced travel spend, associated costs for Member meetings and vacancies across the team.

10.58 Legal Services were £0.12m underspent through vacancies and lower software costs/general supplies and services.

10.59 A further £0.05m underspent across Assurance and Land Charges through increased income/additional funding received.

Central budgets

10.60 The outturn on central budgets was £274.594m compared with a net income budget of £273.171m, a net shortfall of £1.423m (0.52%).

10.61 During the year, £4.6m of grant was received to support local collection funds. Much of that was used to support the budget for the year while the remainder has been added to reserves to mitigate any continuing risk that collection rates may still not fully recover during 2022/23.

10.62 The contingency budget was also taken into an “overdrawn” position to add to reserves where commitments had been made in 2021/22 but these costs will fall in 2022/23 and to increase the balance on the general fund as agreed by Council when agreeing the 2022/23 budget strategy in February 2022.

10.63 Capital financing costs were well within budget and around £1m of funding has also been transferred into a reserve in case this is needed to support the financing of the capital programme in 2022/23. If the capital programme is not fully delivered in 2022/23 and there is slippage, this reserve can be released.

Collection funds

10.64 The in-year council tax collection rate was 95.96%. This compared favourably with the previous year (95.15%) but was still lower than 2019/20 at 97.94%. There was a shortfall against budget as a result of this and the ensuing higher provision for bad debts, and £0.644m of the £4.3m grant to support local tax collection has been used to bring this back into line with budget. The remainder of the grant has been added to reserves to mitigate potential further shortfalls with a small realignment of reserves that the Council retains to support collection funds.

10.65 April 2022 saw a significant increase in the number of council tax customers signing-up to pay by direct debit. We suspect this was partly driven by Government indicating that direct debit customers would be the earliest to benefit from the £150 support payments that would be made to help with the cost of living. Whatever the reason, the April collection rate was 10.75% - the highest for Dorset Council.

10.66 The in-year business rates collection rate was 93.24%. Again, this compared well with the previous year (88.34%) but was still some way behind the pre-pandemic 2019/20 collection rate of 97.67%. There was a shortfall of £2.293m against the budget as a result of this and the collection fund reserve was used to support this. The reserve itself has been returned to the £5m level agreed by Council, through rationalisation of other reserves, as described elsewhere in this report and appendices.

10.67 The April 2022 collection rate for business rates was 12.1%, significantly higher than the preceding two years and almost at pre-pandemic levels of 12.56% for April 2019.

10.68 During the year, arrears of council tax and business rates increased, as did the provision for bad debts. This was inevitable given the national and global economic situation and the slow and gradual return to regular collection processes through the courts service. More detail is included in the debt management section of this report.

11. General fund position and other earmarked reserves at year-end

11.1 The overspend of £571k for the year falls to the general fund to finance. The Qtr3 finance report indicated a £1.297m overspend, so there was an improvement of £726k between the last forecast reported to Cabinet and the draft outturn.

11.2 As well as covering the overspend, Council agreed that the general fund should be increased to £33.2m when approving the budget strategy in February 2022. The fund started the year with a balance of £31.5m so taken together, the £2.27m required to do this must be funded from the reorganisation of other reserves.

11.3 The impact of the outturn position on the Council’s general fund and its earmarked reserves is set out below. The same analysis is used as in last year’s outturn report, albeit the numbers vary marginally between the draft outturn reported to Cabinet and the audited figures.

	31/03/2021 £000	31/03/2022 £000
General fund	(31,515)	(33,207)
Reserves purpose/use		
Risk mitigation/alignment	(55,795)	(53,053)
Deferred grants	(25,401)	(24,293)
For investing/service provision	(14,990)	(14,055)
Accounting requirements	(30,173)	(30,521)
Funding (restricted eg S278)	(9,038)	(25,401)
PFI reserves	(8,357)	(7,727)
Partnerships/joint reserves	(2,386)	(2,261)
Traded services	(415)	(483)
Total earmarked reserves	(146,554)	(157,794)

11.4 Members might recall that the outturn for 2020/21 involved around £15m of reserves being repurposed, so the ability to add further to reserves at the end of 2021/22 is a reflection of progress that the Council made against the potential financial performance that was reflected in quarterly progress reports. This addition to reserves improves the Council's resilience and is necessary to mitigate some of the continuing risks to the budget, such as inflation.

11.5 During 2021/22, the Council also applied £10m of its reserves to support the High Needs Block (HNB) of the Dedicated Schools Grant (DSG) as part of the arrangements agreed with the Department for Education that led to DfE agreeing to a further £42m of grant across the MTFP period. As well as the £10m application in 2020/21, another £10m has been set aside to match the DfE funding commitment.

11.6 A summary of the reserves set aside for risk mitigation/alignment is set out below. The Council has relatively less flexibility around the use of the remainder of its reserves, so these are not analysed further, here.

	31/03/2021 £000	31/03/2022 £000
Risk mitigation/alignment		
CT collection fund	(6,000)	(6,000)
NNDR collection fund	(4,236)	(5,000)
Sponsored academy conversions	(2,533)	(1,478)
Organisational restructure	(2,500)	(2,500)
Emergency measures (winter)	(1,000)	(1,000)
MTFP equalisation	(29,694)	(17,487)
General insurance	(6,097)	(6,370)
Project costs mitigation	(2,300)	(2,300)
DSG/HNB strategy support	0	(10,000)
Other risk-aligned reserves	(1,435)	(918)
	(55,795)	(53,053)

11.7 More information on the Council's reserves and strategy is set out in the financial strategy statement in Appendix 1.

12. Capital outturn and financing

12.1 The approved capital programme for the year was £181.8m, including carry-in of slippage from previous years. The total spend was significantly less, at £85.6m.

12.2 The slippage against individual projects, and the detailed financing arrangements were reviewed as part of budget setting for 2022/23, and further work to restate the capital programme approved by Council in February is nearing completion, now the outturn for 2021/22 is clearer. This process is overseen by the Capital Strategy and Asset Management Group (CSAMG) and will be reported to Cabinet at the end of Qtr1.

12.3 £63.7m of the capital expenditure during the year was externally financed (mainly grants from Government). The Council funded the remaining £21.9m from its own cash resources. The Council had sufficient cash balances to avoid borrowing for the capital programme in 2021/22 and actually reduced the balance of borrowing to £182.3m compared with £221.2m at 31 March 2021.

12.4 In December 2021, changes were made to the CIPFA Prudential Code for Capital Finance in Local Authorities. These made clear that any new borrowing requirement must be directly and primarily related to the functions of the authority, with any financial returns either related to the financial viability of the project or incidental to the primary purpose. The revisions also set out that local authorities must not borrow to acquire assets primarily to generate an income stream.

13. Sundry debt management

13.1 The net sundry debt position at 31 March 2022 grew by £4.91m to £33.37m. £12.57m (38%) of this is less than 30 days old.

13.2 The Council had been expecting increases in the level of overall debt given the economic circumstances. The introduction of *breathing space* and the limited capacity of the Courts Service over the past two years led the Council to commission SWAP internal audit services to review debt policy and process. Officers are now working on the implementation of the auditors' recommendations and progress will be monitored through Audit & Governance Committee.

14. Local taxation

Council tax

14.1 The value of council tax unpaid at 31 March 2021 was £27.545m. During 2021/22 £7.798m of this was collected and the balance of historic arrears was therefore reduced to £19.747m.

14.2 The value of all council tax levied in 2021/22 was £338.9m and the unpaid amount at the end of the year was £12.548m, giving an effective, in-year collection rate of 96%.

14.3 These headline figures need to be taken in the context of the wider economic realities that local taxpayers have lived through, although of course there is a legal requirement on all taxpayers to pay what is due. The collection and recovery processes are now resuming after significant periods of closure during the pandemic and the Council remains confident that arrears will reduce, and collection rates will continue to improve. Further updates on collection rates are provided quarterly to Cabinet in financial management reports.

Business rates (non-domestic rates – NDR)

14.4 The value of business rates unpaid at 31 March 2021 was £10.195m. During 2021/22 £3.839m (net) of this was collected and the balance of historic arrears was therefore reduced to £6.356m.

14.5 The value of all business rates levied in 2021/22 was £80.3m and the unpaid amount at the end of the year was £5.362m, giving an effective in-year collection rate of 93%.

14.6 The situation with business rates is similar to council tax and again has been a common theme for councils nationally in the circumstances we have experienced.

14.7 The Council recognises the impact that Covid-19 and the cost of living increases have had and continue to have on many residents and businesses. Local taxation is at the heart of the Council's revenue stream and we recognise the importance and legal requirements placed upon residents and businesses to pay their liabilities. On the whole Dorset residents and businesses conduct their local tax affairs effectively but the Council also recognises the need to support those in our communities who are facing financial difficulties, some for the first time ever.

14.8 The Revenues and Benefits teams work with residents and businesses to make sure they are accessing all available forms of financial support and are maximising the income they are entitled to, which in turn supports affordability. Officers also support residents and businesses to agree payment arrangements and plans to make sure liabilities are paid and outstanding amounts are recovered. For many customers, this is all that is required but some other debts need to move through the set stages of recovery and eventually, when appropriate, into more formal forms of enforcement.

14.9 The service maintains a recovery program but is also currently reviewing the action to be taken during 2022/23 as we manage full recovery cycles and the increase in customers showing signs of requiring support with the added pressures of the current cost of living increases. All stages of recovery will be undertaken during the year where appropriate, but it is right to help customers reposition where they need to with reminders so that we can support and signpost at the earliest opportunity and help people set new plans when required to make payments, catch up or adjust existing payment plans.

15. Financial planning, strategy and the MTFP

15.1 The Council will shortly start the process of refreshing the MTFP and developing the budget strategy for 2023/24. Recent budget rounds have seen significant turbulence and volatility, and the backdrop to setting the budget for next year to be very similar, with uncertainty around prices, markets and labour conditions.

15.2 There are significant and sustained inflationary pressures building in the UK economy and globally, driven principally by fuel and energy prices but the knock-on effect of these is increasingly apparent across other commodities and supply chains. Labour is also a significant concern, especially in the care sector although this is spreading to other areas where the Council needs to engage significant human resources in coming months, such as in gearing-up to meet the challenges of adult social care reform.

15.3 The first update of the refreshed update of the MTFP financial model will come to Cabinet in October for endorsement of the planning assumptions for the year ahead as well as the longer-term financial planning horizon.

16. Peer review and follow-up

16.1 Dorset Council is committed to continuous learning and improvement. During the Spring of 2021, the council invited the Local Government Association (LGA) to undertake a peer review of the council’s financial arrangements and in particular, the approach to managing the high needs block element of the dedicated schools grant (DSG).

16.2 The LGA peer challenge team spent three days speaking to Councillors, officers and partners. Before that, the team reviewed a range of documents, including a financial position statement the council had provided. At the end of the site visit, the team provided a presentation setting out their findings and a full report was submitted to Cabinet on 5 October 2021.

16.3 The report was accompanied by a set of key recommendations alongside responses from the Council; effectively forming an action plan. Council officers have taken this action plan forward and the work done since the initial visit was carried out has been considered again by the peer team and is the subject of the letter attached at Appendix 2.

17. Summary, conclusions and next steps

17.1 2021/22 was another challenging year financially with Covid-19 continuing to impact on income, expenditure, and in particular the collection funds. Financial support from Government was available to mitigate some of the impacts and further funds for these purposes have been used to strengthen reserves to mitigate the same pressures in future, should they persist.

17.2 The Council also continued to provide significant amounts of support for businesses and residents in Dorset through various forms of financial support from Government. This took significant resource alongside much of the other routine work that was going on and impacted on key Council teams meaning some regular areas of work (arrears and credit control for example) did not perform as well as previously.

17.3 The Council has also reprofiled its remaining reserves to prepare for any further financial and economic shocks and more detail on this is set out elsewhere in this paper. Cabinet's approval for the further realignment of reserves with the revised financial strategy statement (appendix 1) is therefore sought.

17.4 The medium term continues to be of concern. 2021/22 concluded in a much better financial position than had been anticipated, and despite the short-term risk being downgraded from high to medium in the budget strategy paper, since then, inflationary pressures have been building in the economy and the Council will need to manage this as effectively as possible.

Aidan Dunn

Executive Director of Corporate Development

Dorset Council financial strategy statement

Update for draft outturn 31/03/2022 and MTFP 2023/24 preparations

Preamble

This document was previously refreshed for the budget and MTFP for 2022/23, and this update takes account of the draft outturn position being reported to Cabinet in June 2022 and other events since the budget was approved by full Council.

Dorset Council's first financial strategy was agreed by members in August 2018 and was intended to inform the basis of the budget and MTFP for 2019/20. Since then, we have experienced Covid-19 and development of a more refined financial strategy was impacted by response to and recovery from the pandemic and the unquantifiable impact this would have on our balance sheet.

Early financial strategy therefore developed in a less programmed way than the Council would have liked but we are back on track with this work and much has already been done and is referenced in this financial strategy statement for Cabinet approval. The revisions included in this update include reflections on the peer review follow-up visit in April 2022.

Purpose and scope

The Chief Finance Officer (CFO) has responsibility for leading development and implementation of the financial strategy to deliver the Council's strategic objectives sustainably. This involves working closely with decision makers to establish a medium to long-term corporate strategy and plans that ensure financial sustainability.

In managing financial resources to optimise service outputs and community benefits, within funding constraints and any tax raising limits, the CFO must take into account future commitments, resources available and the desirable levels of reserves to ensure that the Council's finances remain sustainable. The CFO must ensure that the financial and risk implications of policy initiatives are analysed and addressed, and measures applied should encompass partnership working, alternative delivery models, capital investment programmes and annual operations, as well as financial targets and benchmarks. The Prudential Code also requires that Councils ensure that capital investment plans are affordable, prudent and sustainable.

The role of the Chief Finance Officer and the Finance & Commercial Team

Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and to appoint a CFO to have responsibility for those arrangements.

The work of the Finance & Commercial Team mirrors and supports the role of the CFO

- key members of the Council's leadership teams helping them to develop and implement strategy and to resource and deliver the organisation's objectives sustainably and in the public interest
- actively involved in and able to bring influence to bear on, all material business decisions
- leading the promotion and delivery by the whole organisation of good financial management
- delivering and developing a finance function that is resourced to be fit for purpose and continuously improving
- appropriately qualified, suitably experienced, competent, confident and authoritative.

The Team aims to deliver consistently high-quality financial support and advice to the Council.

Member engagement and ownership

Member engagement in financial management is positive and this was reflected in the report and subsequent follow-up correspondence from the LGA finance peer challenge team.

The S151 Officer has weekly briefings with the Finance Portfolio Holder and there are formal, quarterly finance reports to Cabinet. These reports then go to the Audit & Governance Committee and are regularly supported by presentations from Executive Directors, Finance Business Partners and other officers to support activity and financial performance/projections.

The development of the budget strategy and MTFP is also heavily influenced by members through informal briefings and seminars as well as formal, pre-Cabinet scrutiny, group briefings and for 2022/23, plans to examine base budgets as well as incremental proposals for change. The Council also has several hands-on members who regularly take copies of our financial model and carry out their own scenario modelling and other testing.

The Council is still relatively new and the next stage of development is for members to have a clearer understanding of the organisation's emerging financial strategy as a cornerstone of their understanding of risk for the future and transparency around how resources support delivery of key plan outcomes. This is critical on the back of announcements around *build back better* and other Government programmes.

A financial model

Dorset Council maintains a rolling, ten-year, financial model which incorporates the key variables needed as part of the process of developing the MTFP and budget strategy. The model is kept up to date as part of a continuous financial management approach.

The model is formally rolled forward each year after the accounts are closed. The assumptions are revisited and SLT is consulted about the budget timetable and the assumptions being used in the model. These assumptions are then subject to challenge and review as part of the MTFP development as well as engagement with Directorates to include further budget pressures and opportunities in the model.

The model was newly built for Dorset Council but is informed by principles that were inherited from the predecessor councils. It has been significantly simplified compared with predecessor models but retains the ability to reflect a range of variables which are regularly updated. The model is shared beyond the finance team, including with councillors, so that those that are interested in the detail are able to use the tool themselves to carry out changes to variables to evaluate scenarios that they may wish to explore.

Clearly articulated plan and objectives

For the Council's financial strategy to be effective, it must support the delivery of our corporate objectives. Dorset Council's Plan sets out the organisation's ambitions for the next four years. It incorporates the political vision of the new councillors and was developed following a conversation with residents, town and parish councils, businesses and representatives from the public, private and voluntary sectors.

Dorset Council aims to be at the heart of the community. The reorganisation of local government in 2019 simplified administrative structures, which was a big step forward, but there are still some very significant challenges locally, nationally and globally.

The Council wants Dorset to be a great place to live, work and visit and is enabling this by focusing on five priorities

- economic growth – we will deliver sustainable economic growth, increasing productivity and the number of high-quality jobs in Dorset, creating great places to live, work and visit

- unique environment - we will help to deliver sustainable development while protecting and enhancing Dorset's environment
- suitable housing - we will work with registered housing providers, community land trusts and local housing partners to deliver affordable, suitable and decent housing
- strong, healthy communities - we will work with residents and partners to build and maintain strong communities where people get the best start and lead fulfilling lives
- staying safe and well - we will work with all our residents to have a good quality of life.

Additionally, the Council has emerging priorities for its mission statement over the final two years of the current administration as well as to set the strategic context for the organisation's future.

More information on the Council's plan can be found here.

Measuring performance & value for money

The Council continues to develop its approach to performance management and to value for money. Whilst progress has been made, there is more to do. Resource issues linked mainly to the pandemic response have meant that we have not made all the progress that we would have wanted at this stage, but we are on the right track.

Performance management

Dorset Council's Senior Leadership Team (SLT) receives a monthly summary of performance of the council's key service areas on a PowerBI dashboard. This has recently been modified to include more detailed financial information so that SLT are looking at performance alongside financial monitoring. The next stage of development is to include better strategic risk performance monitoring.

An informal meeting of cabinet – Performance Leadership Board – meets monthly to review the same scorecards that SLT sees. These are sessions where elected members hold each other to account for performance. Each month includes a review of performance and a deep dive into an area of interest, reflecting what the performance information is showing.

Performance is also reviewed by the scrutiny committees, which meet six times each year. Performance is reviewed at every other meeting with a view to informing forward plan items to scrutinise areas where there are any issues that need to be better understood (good or bad). The intention is to make dashboards available on the council's internet site.

A variety of performance monitoring tools are in place and being worked on at the service and directorate levels and Cabinet also receives quarterly reports of progress against the council plan priorities.

Value for money

The proposal is to develop a value for money framework and timeline setting out how to implement value for money benchmarking of all services to feed into a prioritisation exercise for conducting fundamental value for money reviews of the all the council's services. The fundamental service reviews will need to include activity around

- comparing ourselves to the best in terms of both performance, cost and value for money
- challenging whether Dorset Council is best placed to provide the service and also the best way to provide the service including different ways of working; different service delivery options and exploring commercial market options. This could also include reviewing any currently outsourced services

- consulting our customers (internal and/or external) to find out what they want from the service.

A key piece of work is a systematic benchmarking exercise across all of the Council's services to identify strong and weak areas of performance and cost. This will enable a prioritisation exercise to deliver a timeline for fundamental service review. This work has started but progress has been slow due to staffing resource and we are currently reviewing how we might progress this work.

The approach to fundamental service review will be overseen by the Portfolio Holder for Corporate Development and the Council's Corporate Leadership Team. It will be worked up by officers from finance, business intelligence & performance and digital & change.

Strategy for reserves

Local authorities have two types of reserves, usable and unusable. Unusable reserves are those which are established for specific accounting or regulatory purposes, such as the revaluation reserve or the capital adjustment account. Their purposes are clearly prescribed, and they are not available for the Council to use.

Usable reserves, however, are available for the Council to use for discretionary or specific purposes - such as supporting service delivery, mitigating risk or providing for future investment or other expenditure. These reserves fall into two broad categories, earmarked reserves and the general fund.

The Council's strategy for its usable reserves, approved by Cabinet, is in three parts:

- setting a balanced budget
- alignment with risks
- allowing opportunity for investment.

The first element of the Council's strategy is not to use any of its reserves to balance its budget strategy. The in-year budget must be sustainable and balanced without using one-off sources of finance. Reserves can only be spent once and if used, consideration will need to be given to how they are replenished.

The second part of the strategy is to align reserves with strategic risks and the general risk of unforeseen and pressing activity causing short-term budget pressures. To a certain extent, this latter part is what the general fund is for, but other earmarked reserves are established for specific risk mitigation – insurance being the most commonly quoted example.

The third part of strategy is establishing funds which the Council can use to invest. There are many opportunities for investment and the Council will need to consider carefully how and in what ways it wishes to invest. This could be as simple as a piece of treasury management activity, or a more complex project where the Council invests in spend-to-save initiatives because it will have a positive impact on the revenue base budget. Parameters for potential investment decisions are not considered here, only the establishment of the fund.

<u>Earmarked reserves</u>

Earmarked reserves are set aside for specific purposes and each of these is set out clearly in the Cabinet outturn report for 2021/22. Responsibility for advising Council on the adequacy of reserves rests with the S151 Officer. The level of earmarked reserves is reviewed at least twice each financial year, once during closedown/accounts production and once during budget setting.

The S151 Officer is required to give an assessment of the adequacy of reserves as part of the assurance work around the budget each year. That assessment will have regard to the Council's reserves strategy statement.

General fund

The general fund is unearmarked and is therefore available for any purpose that the Council deems appropriate. Councils will generally establish for themselves, a lower limit on their general fund as well as an upper limit, and by default, therefore, an operating range in between the lower and upper limits.

Dorset Council's strategy is to set its lower limit at 5% of the budget requirement and its upper limit at 10%. For 2022/23, the budget requirement was £331.6m giving rise to a lower limit of £16.6m and an upper limit of £33.2m. The Council closed the year ended 31 March 2022 with a balance of £33.2m on the general fund, the balance being increased as part of the reserves review at 31/03/2022. The operating range and limits are revisited each year as part of budget strategy and medium-term financial planning.

Outturn 2021/22 (context)

The draft outturn for 2021/22 (unaudited) is being reported to Cabinet in June 2022 and will include this document as an appendix. There was a small overspend for the year which fell to be funded from the general fund, this in turn was topped-up to £33.2m as set out in the approved budget strategy for 2022/23.

As part of the emerging financial strategy response, Cabinet also declared it necessary to set aside significant reserved funds for potential risks around council tax and business rates collection in future. Moving out of lockdown does not mean everything will return to normal for collections (for example). 2021/22 saw use of the Council's collection fund support grant to bolster income from council tax during the year.

Contingency budget

As well as reserves, the Council has a contingency budget as part of its arrangements to manage risk in any particular year. As well as helping to address unforeseeable costs that arise during the year, the contingency budget also supports short-term changes in corporate policy, such as the suspension of automatic inflationary uplifts on contracts, where an amount was held in contingency to manage any price pressures which were essential.

In the early years of Dorset Council, the risks were inherently higher, so the contingency fund was maintained at a relatively high value to reflect this. As the organisation matures, it is reasonable to expect that departmental base budgets will be able to be set on a much more sustainable basis and the need for contingency would therefore reduce. This theme was developed further during the 2022/23 budget round, but at the same time it also became clear that significant inflationary pressures will building - nationally and globally.

Clearly a budget has to be set at a particular point in time and inflation will change as the year unfolds and therefore cannot be included comprehensively in budgets. It is also important to remember that Council budgets are effectively cash limited by caps on council tax, the reality of business rates yields, and the ability of the Council to generate income from other sources. Nor should the Council attempt to fully fund inflationary pressures as a matter of policy; being in business carries an element of risk and it would be inappropriate for suppliers to assume that there is no commercial downside in a contractual relationship with the public sector. Whilst Dorset Council aims to work positively and sustainably with as many local businesses as are appropriate, it should not attempt to mitigate all risks of being in business for them.

Resilience

Each year, following submission of the RO forms, CIPFA produces a set of resilience indicators for local authorities. CIPFA's Financial Resilience Index is a comparative analytical tool designed to support and improve discussions surrounding local authority financial resilience. The index shows a council's performance against a range of measures associated with financial risk.

The most recent data is for the year 2020/21 and therefore provides a mid-Covid picture of the resilience of authorities as they weathered the pandemic.

For Dorset, the indicators show that we are not outliers in any particular measure and that although there are areas where we will want to sustain focus as we prepare the budget strategy and MTFP for 2023/24, there are no areas of specific concern. It is also important to note that Dorset's demographics, geography and strategic choices are factors leading to particular outcomes in the resilience data. The high population of older people, for example, affects the measures around Adult Social Care, so although regard must be given to the indictors, Members also make specific choices around where and how financial resources are allocated, meaning these are the right outcomes for the policy decisions that the Council takes.

Dorset Council's resilience indicators can be found here.

Medium Term Financial Plan (MTFP)

Each year the Council formally publishes its MTFP (five years) as part of the budget strategy. The plan focuses on how the Council will deliver a balanced budget for the year ahead and also sets out remaining gaps in the financial forecast over the following four years.

The planning and budgeting process is member-led and although it can be thought of as a continuous process, it officially starts each July with a formal update of the financial model and assumptions being shared with the Portfolio Holder for Finance, then the Cabinet, then all Councillors.

Through an iterative approach to refining information about costs and income, council tax, business rates and other sources of funding, an initial gap is established which is shared with Cabinet and which is the starting point for action planning as part of agreeing a balanced budget.

The budget strategy and MTFP report and associated appendices for 2022/23 can be found here. It is also worth setting out that as part of agreeing the budget, all councillors are invited to briefings on the budget prior to detailed consideration by the Council's Place & Resources, and People & Health Scrutiny Committees. Both of these Committees make recommendations/observations to the Cabinet as a result of their scrutiny and Cabinet responds as part of the process of agreeing a budget to recommend to full Council in February each year. For 2021/22, these recommendations can be found in Appendix 7 of the budget strategy report.

Capital strategy

The Council approves a capital strategy statement each year as part of the budget setting process. The capital strategy for 2022 to 2027 was set out in appendix 3 to the Council's budget strategy paper.

The Council's capital strategy is concerned with how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability and resilience.

Decisions made in any particular year on capital and treasury management will have financial consequences for the Council in the future. They are therefore subject to both a national regulatory framework (the Prudential Code) and a local policy framework, summarised in the budget strategy report.

Capital expenditure is where the Council spends money on assets, such as property, plant or equipment that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what is treated as capital expenditure, for example, land and building assets costing less than £25k are generally not capitalised and are instead charged to revenue in the year of purchase.

The capital programme in any period comprises

- projects funded fully by external funds (or grants)
- projects that are partially funded by external grant
- projects that are funded from the Council's own resources.

Each of these areas attracts different levels of scrutiny from Councillors in different arenas. The capital grant provided for schools, for example, is delegated to the Director of Children's Services and is reported to Cabinet but does not require their approval – or the same level of scrutiny – as projects which are financed by borrowing.

In agreeing its capital strategy for the period ahead, the Council will consider

- the impact of financing the capital programme on the revenue budget
- the feasibility of delivering everything that is requested
- how to prioritise spend and align it with the stated objectives in the Council Plan
- what level of capital investment is required as "replacement"
- what level of capital investment is required for new or alternative service delivery
- how can investment have a sustained, positive impact on the revenue budget and improve services for residents
- future ways of working, surplus assets, and the potential level of capital receipts.

The latest capital strategy is here and the capital programme is here.

Treasury, investment & borrowing strategies

Treasury management is concerned with the Council's cash flows, borrowing and investments, and the associated risks and opportunities. 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 financial risk is therefore central to the Council's prudent financial management processes.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services Code of Practice* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. The treasury strategy is generally incorporated into the annual budget strategy report to Cabinet/Council to ensure approval.

The chief objective of the Council when borrowing is 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. The flexibility to renegotiate loans should long-term plans change is a secondary objective.

The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates remaining much lower than long-term rates, it is likely to be more cost effective in the short term to use internal resources or borrow short-term loans rather than long term loans.

As the capital strategy and programme develop and become more challenging, the approach to borrowing is likely to become more sophisticated, particularly in light of the relatively low risk around borrowing and interest, highlighted by the CIPFA resilience index.

The latest strategy can be found here.

Asset management strategy

Dorset Council's property strategy and asset management plan was approved by the Cabinet in November 2020.

The Council has a wide and diverse variety of property interests geographically spread throughout and across Dorset. The Council Plan identifies that the effective utilisation of the Council's property assets forms one of the six transformational programmes that the council is undertaking. The Council's primary aims are to:

- rationalise the property estate, reduce costs and identify assets that are suitable for disposal or redevelopment
- improve the condition of the estate and reduce its environmental impact
- adapt the council's office accommodation in order to alter its estate and modernise its workspace to meet the needs of future agile working and the aims of the Dorset Workplace
- seek to maximise the value of the estate by creating income generation opportunities, disposing of or repurposing poor performing assets in order to create greater social, commercial and economic returns.

In addition, the Council aims to build on the principles of 'One Public Estate' programme and work in collaboration with other public sector partners to utilise assets to

- create economic growth (new homes and jobs)
- deliver more integrated customer focused services through joint provision
- generate efficiencies through capital receipts and reduced running costs.

As one of the largest land and property owners within Dorset it is recognised that the Council is in a unique position to work with partners to lead and deliver strategic regeneration and that significant potential exists within its property base which can be used to help meet the Council's housing targets and the financial challenges the Council faces, in particular, from an ageing population.

In order both to achieve its wider goals and in the face of continual financial pressures the Council needs to review the size, efficiency and occupation of both its operational and commercial estate and have a clear mechanism, rationale and process for determining property need, the best use of property and ensuring it achieves best value from its estate through disposal or re-development of assets.

As part of its strategy the Council will either utilise its own resources, consider different delivery models or work in partnership/collaboration with others where appropriate and in such circumstances that will allow the Council to generate greater returns and benefits, mitigate risks and access resource and expertise in order for projects to come forward at a greater scale and pace over the coming three to five years.

The property strategy and asset management plan is here.

Commercial strategy and commercialisation transformation programme "being more commercially minded"

The aim of the Commercialisation Transformation Programme ,"Being commercially minded", [Commercialisation (sharepoint.com)] is to bring together a more cohesive framework for evaluating resourcing decisions and outcomes in respect of all commercial related activities across four themes, as illustrated below:

Theme 1 - behaving in a more business-like way

Aim: *Adopting some of the positive culture and behaviours that are associated with commercial organisations*

Objectives

- more effective contract management
- understand income and cost drivers
- a focus on the costs and benefits when making business decisions
- a measured appetite for risk
- knowledge of target markets

- knowledge of brand values
- assess how competitors and suppliers are behaving
- empowering and skilling the workforce
- know what factors drive and influence suppliers
- focus on the outcome and not just the process

Theme 2 - being business friendly

Aim: *To promote local growth and prosperity*

Objectives

- grow awareness on how to sell to Dorset Council
- strengthen connections with Dorset Chamber and Federation of Small Businesses
- create opportunities for market engagement, e.g., meet the buyer
- work with partners within shared local supply chains

Theme 3 - commissioning as one council

Aim: *Identify needs, develop service models and the market to meet those needs in the most cost-effective way as One Council*

Objectives

- develop and adopt best practice commissioning consistently across the Council
- address siloed nature of commissioning
- share commissioning intentions across services
- support a thriving market for all sectors
- focus on what is strategically important
- create smarter, more flexible contracts

Theme 4 - making money

Aim: *Doing something that generates profit*

Objectives

- make the most of opportunities
- maximise income for current chargeable services
- establish a central record of all commercial income streams.

Commercial Network

To support and compliment "Being more commercially minded" a Commercial Network for officer collaboration has been developed to help the Council's commercialisation aims. The network provides a forum that:

- encourages discussions, share information and ideas
- creates a space for officers to reach out with questions
- provides means to identify opportunity for collaboration
- aims to inspire mutual learning, knowledge share and provide support

- promotes a One Council approach to ‘Being more commercially minded”

Commercially Minded – Learning Hub

Training and resources for officers are very much a focus of “Being more commercially minded” across all the four themes of the programme. To facilitate this a dedicated Commercially Minded area in the Council’s Learning Hub has been created [Explore | Dorset Council (learn.link)]

This provides training varying from contract management guides with an on-line contract management module to resources such as procurement awareness and summary of the Council’s Contract Procedure Rules and Scheme of Delegation. More training and resources to be added as and when needs are identified.

Commercial Board

For compliment “Being more commercially minded” a Commercial Board has been established to provide support and peer challenge and consideration in respect of commercial activities to ensure that value for money is demonstrated and evidenced. It shall have oversight of commercial activity in such that it will:

- Seek assurance that the commercial activity discussed has been fully explored and evidenced by the business area concerned
- Make appropriate and timely considerations as required by them

Commercial Strategy – Commissioning and Procurement

Under the “Being more commercially minded” programme, a revision to what was the Council’s procurement strategy was approved by Cabinet in November 2021 following recommendation from Place and Resources Overview Committee in September 2021.

This revision, titled Commercial Strategy – Commissioning and Procurement, brings more emphasis on commercial and commissioning, and for the Council to become more commercially minded and more business-like in its activities.

The purpose of the strategy is to provide a mechanism to ensure that the commercial approach to commissioning and procurement takes place in accordance with the Council’s strategic aims, that it is effective and delivers best value to residents.

The principles set out in the Strategy are complimentary to “Being more commercially minded” and supports the Council’s priorities of economic growth; unique environment; suitable housing; strong, healthy communities; and staying safe and well.

Strategy principles being:

- people, skills, and development
- effective commissioning
- strategic sourcing
- contract management
- partnership working
- maximising the Dorset pound
- climate and ecological emergency.

The Commercial Strategy – Commissioning and Procurement is here [Document Commercial Strategy - Dorset Council]

Public Procurement Reforms

The strategy also aligns the Council with changing national legislation namely the Procurement Reforms which was introduced to Parliament as part of the Queen's Speech on 11 May 2022. Details here

This new legislation aims to streamline and simplify the public sector procurement regulations, which currently mirror EU rules. Making new UK procurement rules that are modern and flexible, with more focus on wider society benefit and community economic growth. It involves replacing the four different regulations covering public contracts, utilities, defence, and concessions with a 'single uniform framework'.

The outcome of the Procurement Bill will need to be considered and reflected, if needed, in any future revision of the strategy.

National Procurement Policy Statement (NPPS)

A head of the Reforms, the Government's National Procurement Policy Statement, that was published in June 2021, sets out that contracting authorities' procurement activity must support the delivery of national public sector priorities including generating economic growth, helping our communities recover from Covid-19 pandemic, and supporting the transition to net zero carbon. The importance of efficient, effective public procurement has been underlined by Covid-19 pandemic and that it can play a significant role in the country's economic recovery.

The Commercial Strategy reflects that the Statement instructs contracting authorities to have regard to the following national priorities:

- **Social Value** - Creating new businesses, new jobs, and new skills; tackling climate change and reducing waste, and improving supplier diversity, innovation, and resilience.
- **Commercial and procurement delivery** - All contracting authorities should consider whether they have the right policies and processes in place to manage the key stages of commercial delivery and identified in this statement, where they are relevant to their procurement portfolio.
- **Skills and capability for procurement** - All contracting authorities should consider their organisational and capacity, with regard to the procurement skills and resources to deliver value for money.

Details on NPPs is here

CIPFA FM Code

Dorset Council supports the CIPFA Financial Management Code. The code is intended to:

- be a catalyst for improvement and ambition
- improve financial sustainability
- support finance professionals
- encourage greater organisational responsibility.

The code's themes are underpinned by six principles; again, all are supported by Dorset Council:

- organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture
- accountability – financial management is based on medium-term financial planning, which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs

- financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported with appropriate frequency and with evidence of periodic officer action and elected member decision making
- adherence to professional standards is promoted by the leadership team and is evidenced
- sources of assurance are recognised as an effective tool mainstreamed into financial management and include political scrutiny and the results of external audit, internal audit and inspection
- the long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

The Council continues to build an evidence base of how it performs against the 17 standards set out in the code and which flow from the six principles. This work in progress is supported by the work stemming from the finance peer challenge.

The Council acknowledges that there is still work to do in this area, but we feel we are on the right track and the work of the peer challenge team has been valuable in raising the profile of the code and the culture that it strives to engender in the organisation.

Continuing funding challenges

It has been clear for some time that local government as a sector will continue to face funding challenges. There is no silver bullet to solve the gap between needs and resources and the need for well-developed, effective financial strategy underpins this reality.

This financial strategy is being developed as the Council manages another year of one-year settlements and short-term spending reviews and steadies itself in preparation for the outcome of a three-year spending review (and hopefully, a three-year settlement) in future. Formulation of longer-term plans has been extremely challenging in the prevailing environment of single-year settlements which have made major policy shifts and transformation difficult to model and implement.

A change of course is always a possibility with resources being secured only for the short term, at short notice at a time when there is so much turbulence arising from the exit from the European Union and the recovery from a pandemic to name but two factors.

However, the Council is optimistic that with the forthcoming spending review outcomes, and a positive settlement for Dorset Council, formulation and iteration of strategy can help inform how the organisation allocates resources across its many, competing priorities, notwithstanding the huge risk surrounding the *build back better* programme and the adult social care reforms.

Council tax

Most Dorset Council members are broadly aware of being a relatively high-charging authority and should be aware of the reasons for this – a historically low level of general grant from Government, followed up with a draconian approach to cutting revenue support grant adopted as part of the four-year settlement announced in CSR2015.

A briefing was included in the budget update paper to Cabinet in January 2016 which sets out how this happened and the impact it had on what was Dorset County Council at the time.

Council tax is a strategically important source of income for all councils, but even more so for those like Dorset, where a relatively higher proportion of income is from this source. The tension between increasing council tax – and the social care precept – is therefore not a decision that this Council takes lightly, and great consideration continues to be given to the balance between savings, cost pressures, service costs and transformation.

Dorset Council's band D council tax for 2022/23 is £1,832.67 and clearly any ambition to reduce council tax in real or relative terms would need to be balanced against the savings that this would require across services. Each 1% of council tax is worth £2.76m at 2022/23 rates.

Major Financial Risk

The overspend on the Special Education Needs (SEN) High Needs Block (HNB) has been the single largest financial risk facing Dorset Council in recent years. It was therefore important for the Council to engage positively with the Department for Education (DfE) as part of the safety valve process and thereby secure financing to support the reduction of the cumulative deficit as part of the recovery strategy.

Whilst the implementation of the plan needs to continue effectively, and at pace in order to fit back into the DSG funding envelope, the agreement between Dorset Council and the DfE is welcome and makes significant contribution to the services being delivered from the DSG becoming sustainable over the medium term.

In addition to the HNB, the *build back better* programme represents a huge risk to Councils. Despite being hailed by Government as the fix for health and social care, the programme strives for outcomes which will place significant additional burdens and costs which are as yet unquantifiable, upon councils. These include:

- the likelihood that the increase in employers' costs ushered in by the social care levy, will simply be passed to councils as the principal purchaser of care services;
- the requirement for additional, more complex financial assessments to be carried out as a result of the care costs cap, meaning significant demand for additional assessment resource by all councils with care responsibilities;
- the right of self-funders to require councils to broker their care at the same rates as the councils themselves pay, meaning an upward pressure on council contract rates is inevitable.

Next Steps

Considerable progress has been made in developing the financial arrangements within the Council since it was established in April 2019. Whilst responding to the pandemic has delayed progress, the organisation remains committed to continuous improvement.

The current forward plan of operational and strategic issues which need to be addressed is detailed below. This is supported by the findings of the LGA peer review:

- Surviving the pandemic and resetting the organisation's financial strategy
- Consolidating and right-sizing finance team and functions
- Expanding digital by default agenda further into operations/processing/customer interface
- Building resilience, competence and confidence in the finance team
- Embedding strong financial management throughout the Council as part of our culture
- Providing excellent decision support to the Council's leaders and managers
- Completing the audit of the first year's accounts and resetting the balance sheet
- Rationalising reserves and aligning funds with risk and investment requirements
- Refreshing and maintaining the long-term financial plan and financial strategy
- Delivering a balanced budget for 21/22 (and future years)
- Supporting delivery of tactical and transformational savings

- Developing the organisation commercial approach and behaviours
- Concluding arrangements for Revenue & Benefits Services
- Provide the financial support required to address the High Needs Block overspend
- Provide great financial support and impact within Adult Social Care
- Influence the development of the local integrated care system to ensure the health and care system improves for residents and taxpayers.

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Finance Peer Challenge – Progress Review

Dorset Council

25 March 2022

1. Background

Dorset Council has welcomed sector led improvement (SLI) since its inception as a new unitary council in 2019. The concept of external challenge has been a key part of their approach to improvement and learning from the outset, it has also involved many of the council's senior officers and members acting as peers to other local authorities.

The Council undertook an LGA Finance Peer Challenge (FPC) during June/July 2021 and promptly published the full report with an action plan. The LGA FPC process includes a progress review, providing space for the Council's senior leadership to update peers on its progress against the action plan the council had developed and to provide, where appropriate, further feedback and observations from the peer team in respect of this.

2. Peer Team and Process

The peer team consisted of:

- Dave Perry - Chief Executive, South Gloucestershire Council
- Cllr Rob Waltham – Leader, North Lincolnshire Council
- Mark Wynn – Chief Operating Officer, Cheshire West and Chester Council
- Katharine Eberhart – Director of Finance and Support Services, West Sussex County Council
- Kathryn Trant - LGA Peer Challenge Manager

In preparation for the progress review, the Council provided peers with a short video position statement serving as a bridge to reconnect peers with recent context and activity, including status of some of the recommendations with summary progress. Pre-engagement discussions took place between the peers and their counterparts at Dorset Council, including a focus group meeting with Finance Business Partners.

The progress review concluded with a round table meeting which took place on Friday 25th March and was attended by the following from Dorset Council:

Cllr Spencer Flower – Leader
Cllr Gary Suttle – Finance Portfolio Holder
Matt Prosser – Chief Executive
Aidan Dunn – Executive Director Corporate Development
Jim McManus – Corporate Director Finance and Commercial

3. Output from progress review

During the round table meeting the areas highlighted below were discussed and the notes that accompany these, which have been shared with the peer team, provide a record of the key issues discussed or raised. They are a reference point highlighting progress and issues, as well as hopefully a useful record for the council to help with any further reflections on the back of the round table.

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Local Government Association company number 11177145 Improvement and Development Agency for Local Government company number 03675577

- **Financial Baseline:**

One of the key recommendations from the FPC was to use the 2022/23 budget setting process to test a refreshed budget process model. As a result of hard work by officers and members updated financial baseline data was used as part of the new approach to budget setting for 2022/23. As a result of this the council is more confident in the robustness of the budget, and whilst still early, expects to end the year at a breakeven position which is very different to the 2021/22 Q1 forecast.

Budgets are regularly monitored and overspends are proactively managed down.
The development of a complete financial baseline to aid getting a true budget picture, has also helped with in year monitoring and the management of overspends. Examples were provided to the team of this, including for example within the Place Directorate where analysis uncovered areas where convergence work had not been completed. It was a challenging exercise but critical to understand the bottom line cost to run each service.

Officers and members were encouraged to come forward with ideas throughout the budget process. This will also have helped to communicate and embed the financial strategic narrative across the council in line with another key recommendation. The new budget setting process included a lot of work with members to make sure the fundamentals were understood and aided in the budget for 2022/23 being approved at full council by a significant majority. The work to understand the budgets on a true cost basis has given members the confidence to take decisions and there will be a constant process of monitoring figures and trends.

A new mission statement is under development which will set out key priorities for the next two years and should aid in guiding officers on how resources should be focused as future budgets are developed.

- **Delivery of savings and transformation:**

Officers and members have more confidence in the figures than a year ago, reflecting the increasing maturity of the Council. The council has been careful to refresh the transformation targets as part of the latest budget round by putting rigour into the process and not rolling on unachievable numbers. There is more capacity into Corporate Services to constructively challenge and support to give more chance of success.

The Council is working to change the dynamic around the identification of savings away from what seemed like a negative action, this year it was promoted more as a positive process to instil a sense of working together. A measured approach to issues has led to a growing sense of confidence throughout the organisation.

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Children's services have made good progress, they have a plan that sets out target transformation savings and associated risks. Adult Services have a big project coming forward with the creation of the arm's length company 'Care Dorset'. As part of this the council believes there will be potential to invest in the service further and make improvements for residents.

There are plans to find the £17m of savings required by the MTFP – these range from relatively straight forward options such as deleting vacant posts and generating increased income, to more complex plans in some areas. Inflation is a problem, as it is for many councils. It will be important in this context that the council continues the increased rigour and governance around monitoring and delivery of agreed saving plans moving forward, and that service managers remain accountable for the achievement of these savings.

There is a sense of progress on ownership of budgets by services, which picks up the FPC recommendation to be clear who is accountable for delivering what and the consequences of non-delivery. This ownership of budgets is reflected in cabinet members who are being proactive and positive. Collectively Cabinet is working well, Portfolio holders presented at the budget cafes for example. Scrutiny is welcomed. Discussions about finance are ongoing and Cabinet members are able to challenge each other at Performance Board.

- **Coherence between budget targets and priorities:**

Difficult conversations about moving resources around have not had to take place, although the council is in a stronger position to do so if necessary (for example if wanting to resource further investment in the priorities set out in the Mission Statement).

Whilst there is good news on the HNB deficit and a plan in place for Adult Services, the council is continuing to focus on the medium term. If the £17m savings is not forthcoming as expected, then it could possibly be found elsewhere on an interim basis. However, the council recognises that the internal and external pressures on the medium term position has the greatest risk of negatively impacting on services if not proactively managed. There is a plan being constantly monitored and if there are external changes then the council believes it has the temporary resources to flex and adapt. The message from senior leadership is about generating income, not just making savings. It is likely both will be required to not only meet future financial challenges, but also enable resources to be moved behind priorities.

Whilst an element of flex is right, the council should be wary of a culture developing where officers think it is ok not to achieve savings because something else will come along. Maintaining accountability for delivery of savings and ownership of the budget challenge will be critical to successfully achieving the medium term financial plan.

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- **Capital:**

The council has made good progress in how it is organised in terms of monitoring capital investment, there is a monthly board that manages the ambitious capital programme. However, the links between capital and revenue, whilst improved, could be stronger. There are assets the council has ambitions to sell, but not yet confident enough to put figures in the budget for capital receipts.
There is a £350m capital programme being reviewed currently to ensure it aligns with priorities. The council has headroom to borrow or consider wider financing routes, and perhaps there are opportunities for long term investment projects.

An area for the council to consider is how priorities set by the political leadership and through the new mission statement get embedded into the budget process, what are the drivers and mechanisms for this? There may also be opportunities for joint ventures or self-development alongside disposal of assets purely for the sake of a capital receipt as part of the ongoing development of the capital strategy? This is an area where work is ongoing.

- **Commercial approach:**

One of the key recommendations from the FPC was to clarify the ambitions around 'being more commercial' and align to the core strategies. As a result of work to address this recommendation, a commercial strategy has been taken through Cabinet and various workstreams set up so that a community of officers is working internally to advise. The council is working to raise the level of commercial awareness across the organisation.

There is still some work to do on collective understanding of a commercial approach. Some think it means buying a shopping centre, others think it means better procurement. Is the focus external or internal? The council sees itself at least as opportunistic taking advantage of opportunities as they arise. The council has a big estate and has control over its asset base. It wants to drive out the benefits, but it will be important to get commercialism, assets, and property investments in line.

The commercial strategy is the first part of the commercial journey, and this shows huge progress, the conversations that subsequently take place show the thinking for stage two.

- **Partnerships:**

The council continues to develop its strategy for working in partnership with others to the benefit of Dorset residents. It recognises the importance of working with others to best deliver joined up outcomes for all, but also has been prepared to withdraw from historical arrangements when these no longer seem to add value.

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BCP council is a key partner, however the council has reviewed how some of the current partnership arrangements are working and has decided to withdraw from their wholly and jointly owned adult care services partnership and the shared Revenue and Benefits service. These have been pragmatic decisions to create services that meet the needs for Dorset Council.

There is a significant opportunity to work more cohesively with health partners, and the council is keen to develop this relationship further. With the end of CCG's and introduction of the ICS underway, the council has worked with health partners to look at further joint working through the use of s256 funding. The council is trying to position itself in the right space as a good partner with a focus on prevention. There has been good partnership working throughout Covid with the NHS/CCG, and it is important the council continues to exploit and develop this relationship further, pushing for the opportunity ICS's now present to move the joint health and care space to balance more appropriately from the treatment of illness to one of a population, prevention, and wellbeing focus.

Strategies:

As the council comes to the end of its third year things have stabilised, there are varying degrees of strategies, some aspirational and some being developed. The council is still a relatively young organisation but continues to mature quickly; it is well positioned to recognise there is still work to do and will guard against complacency. Constant monitoring will highlight warning signs and the council will be ready to respond.

There is a sense of pride and accomplishment at the council. The council is developing a new Mission Statement which includes 10 priorities of differing timeframes. This should create a clear sense of direction, but it will be important they are properly integrated into other strategic plans to ensure proper alignment, and clarity of priorities. They will also need to be appropriately resourced along with maintaining service delivery of business as usual which residents want to see – ensuring appropriate balance will be important for future outcome delivery.

4. Next steps and future support

It is recognised that senior political and managerial leadership will want to consider, discuss and reflect on this summary recording of discussions. In order to support transparency, the council is advised to publish this letter.

Paul Clarke, Principal Adviser for the South West Region is the main contact between your authority and the Local Government Association. Paul is available to discuss any further support the council requires. paul.clarke@local.gov.uk .

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Audit & Governance Committee
14 November 2022
Qtr2 financial management report

Choose an item.

Portfolio Holder: Cllr G Suttle, Finance, Commerical & Capital Strategy

Local Councillor(s): Cllr

Executive Director: A Dunn, Executive Director, Corporate Development

Report Author: Jim McManus
Title: Corporate Director, Finance & Commercial
Tel: 01305 221235
Email: jim.mcmanus@dorsetcouncil.gov.uk

Report Status: Public

Brief Summary:

All financial management reports come to the Committee for review following the Cabinet meeting at which they are presented.

The Qtr1 report has not been seen by Audit & Governance Committee as the meeting where it was due to be reviewed was cancelled and the Qtr2 report supersedes Qtr1.

Recommendation:

Members are asked to note the continuing pressures on the Council's budget and in particular the impact of inflation and the anticipated pay award.

Members are asked to comment on further work or review they would like to see carried out to improve any aspect of the Council's financial management, performance or position.

Reason for Recommendation:

Review of the organisation's performance against budget is a key aspect of this Committee's role.

1. **Financial Implications**

The Council's performance against budget is detailed in the attached Cabinet report.

2. **Climate Implications**

None specific.

3. **Well-being and Health Implications**

None specific.

4. **Other Implications**

None.

5. **Risk Assessment**

5.1 HAVING CONSIDERED: the risks associated with this decision; the level of risk has been identified as:

Current Risk: High

Residual Risk: High

6. **Equalities Impact Assessment**

The quarterly financial management report does not have any equalities impacts.

7. **Appendices**

Cabinet Qtr2 Financial Management report

8. **Background Papers**

Budget strategy report 2022/23

Qtr1 financial management report 2022/23

Cabinet

1 November 2022

Quarter 2 financial management report 2022/23

For Decision

Portfolio Holder: Cllr G Suttle, Finance, Commerical & Capital Strategy

Local Councillor(s): All

Executive Director: A Dunn, Executive Director, Corporate Development

Report Author: Jim McManus
Title: Corporate Director – Finance and Commercial/Head of Strategic Finance
Tel: 01305 221713
Email: jim.mcmanus@dorsetcouncil.gov.uk

Report Status: Public

Brief Summary:

This report comes to Cabinet with information about the Council's projected financial performance for the full 2022/23 financial year, being made at the end of Quarter 2.

Recommendation:

Cabinet is asked to:

1. note SLT's forecast of the full year's outturn for the Council, made at the end of Quarter 2 including progress of the work to deliver savings that were incorporated into the budget;
2. note the spend to date on the approved capital programme for 2022/23 and the likelihood of significant slippage alongside the risk of inflation, interest rates and delivery concerns;
3. note the impact that financial projections for 2022/23 will have for the developing budget strategy and Medium-Term Financial Plan (MTFP).
4. Cabinet is also asked to agree the commencement of a procurement process for an insurance protection contract and agree that the subsequent decision to award the contract be delegated to the Portfolio Holder for Finance, Commercial and Capital Strategy, in consultation with the Executive Director, Corporate Development.

Reason for Recommendations:

The Council has responsibilities to deliver its corporate plan priorities and it must do this within the resources made available through the revenue and capital budgets for 2022/23. This report summarises the Council's forecast financial performance for the year at the half-way point.

The Council was established on 1 April 2019 as a result of local government reorganisation (LGR) in Dorset and delivered significant savings as a result. However, the ensuing pandemic and now, global inflation, volatility and continuing instability are bringing pressure to bear on what are essentially capped, cash-limited budgets for the Council. Effective control and monitoring of activities and budgets has never been more important.

It is therefore essential to keep under review, the developing financial performance and projected position this year. This ensures that resources are deployed to deliver the Council's services in line with the planned priorities, and that the organisation remains in good financial health and is sustainable. The Council continues to be a key player in supporting employment, training and economic prosperity as well as being provider and commissioner of critical public services. Balancing all of these strategic and often competing priorities is challenging.

This report sets out the predicted financial performance against the budget for the full year. It is the second report of the year to do this, a further report will be delivered at the end of Qtr3. Work on the budget and MTFP for 2023/24 are affected by performance during the current year but a separate report on budget strategy was agreed by Cabinet on 4 October, so that content is not revisited here.

The separate recommendation around the procurement process is to ensure the Council maintains sufficient insurance provision and this is approved in line with the scheme of delegation.

1. Financial Implications

Financial implications are covered within the body of this report.

2. Climate Implications

The Council's budget continues to fund action set out in the climate and ecological emergency action plan, including a £10m capital expenditure commitment over the term of the current MTFP.

3. Wellbeing and Health Implications

The Council has continued its focus on keeping people safe and well.

The Council continues to play an essential role in distributing government grants to individuals and businesses as well as delivering high-quality public services.

4. Other Implications

None specific.

5. Risk Assessment

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

Current Risk: High

Residual Risk: High

In recent months, despite world events, the Council has taken significant steps to bring high-risk budgets with volatile planning assumptions under much closer control. The short-term financial risk assessment had therefore been downgraded from high to medium.

However, pressure on prices and pay costs continues to build and this affects a significant quantum of the Council's budget. Whether directly, through the goods and services we buy, or indirectly, in our supply chain which then impacts on us, prices are under pressure, meaning that the risk is escalating.

Significant changes in the way the Council does business are also approaching, most notably in the form of the adult social care reforms, but also through a raft of other changes announced through the Queen's Speech. These come on top of local and national circumstances for social care, which are proving extremely challenging for all councils but more acutely for areas like Dorset where our geography and demographics compound national issues.

All of these made it necessary for the S151 Officer, the Council's Chief Finance Officer, to raise the risk assessment to *high* and this assessment remains in place.

6. Equalities Impact Assessment

No specific equalities issues have emerged in drafting the Council's various reports on financial performance and position.

7. Appendices

Appendix A - Savings plans summaries

8. Background Papers

2021/22 draft outturn report

2022/23 budget strategy report

2022/23 Qtr1 financial management report

9. Budget setting 2022/23 and context

9.1 2022/23 is Dorset Council's fourth year and the budget and MTFP was again based on a single-year settlement from Government. The early years of the Council have proved challenging yet positive as the organisation continues to deliver savings from reorganisation into a single unitary authority. More can be done to deliver efficiency from becoming a single council and these themes continue through our budget work and planning.

9.2 The Council's *budget requirement* is £331.6m and this was funded from rural services delivery grant (£2.5m), new homes bonus (£3.8m), business rates (£46.3m) and council tax (£279m). More detail is set out in the budget strategy report at the link above.

9.3 The budget is essentially fixed in cash terms and the Council's ability to raise income is limited. There are national controls in place around council tax and business rates and ability to generate income from trading is relatively limited in the short-term as well as potentially at odds with wider economic development ambitions. The Council's commercial ambitions are, however, set out in the commercial strategy and to support this, a fees and charges policy will come to the Place & Resources Overview Committee in November, aimed for full implementation in the last months of this year and therefore in time for inclusion in the budget strategy.

9.4 The report to Cabinet at the end of Qtr1 (link above), set out a projected overspend for the full year of £6.6m. This report covers the changes in performance and predictions since that time.

10. Forecast of financial performance at Quarter 2

Overall projection

10.1 At the end of Quarter 2, the Council is forecasting net budget pressures of £7.8m, as summarised in the table below.

Directorate	Net Budget	Forecast Outturn	Forecast (Overspend)/ Underspend	
	£k	£k	£k	%
People - Adults	146,058	150,034	(3,976)	(2.72%)
People - Children's	74,434	75,954	(1,520)	(2.04%)
Place	83,293	88,554	(5,261)	(6.32%)
Corporate Development	24,049	24,296	(247)	(1.03%)
Legal & Democratic Services	6,306	5,972	334	5.30%
Public Health	5,452	5,452	0	0.00%
Total Service Budgets	339,592	350,263	(10,671)	(3.14%)
Central Finance	(349,251)	(352,131)	2,880	(0.82%)
Whole Authority	(9,659)	(1,868)	(7,791)	
Dedicated Schools Grant budgets	9,659	24,776	(15,117)	(156.51%)

Directorate-specific narrative is set out in the following paragraphs.

Children's Services

10.2 The Children's Services forecast is £75.954m compared with a net budget of £74.434m, an overspend of £1.52m (2.04%).

10.3 Most of the overspend sits within Care and Protection, the social services side of the Directorate.

10.4 External placements for children in care are forecast to overspend by £2m as capacity and availability of suitable placements and placement moves remain a challenge. The external placement overspend is partially caused by delays within the capital programme, including Dorchester Road.

10.5 However in-house residential care and fostering services help offset the external placement overspend through vacancies, including lower numbers of foster families. Although underspends are helpful, both in-house residential care and fostering reduce the reliance on external placements and plans are in place to redress the balance.

10.6 A pressure of £0.22m is appearing for supporting unaccompanied, asylum-seeking children (UASC). Dorset is part of the temporary mandate National Transfer Scheme, accepting transfers of children into our care to provide crucial placements.

10.7 The Scheme set a quota for all local authorities to be required to accommodate the equivalent of 0.07% of the local child population. This was revised upwards in a letter from the Minister for Safe and Legal Migration on 24 August to 0.1% of the local child population.

10.8 For Dorset, this represents a rise from 47 young people to 67 young people. We are currently looking after 40 young people and are responsible for 33 care leavers who were formerly asylum-seeking children.

10.9 The National Transfer Scheme provides a degree of funding to support unaccompanied children, however this mainly covers the direct placement costs, so excludes costs such as interpreter fees, and social worker resource. The funding varies depending upon the number of unaccompanied children and whether the child is part of the National Transfer Scheme.

10.10 At the end of Qtr2, £2.944m (68%) of the total £4.3m transformation and tactical programme is designated as ‘green’, and therefore has been achieved or will be achieved. £1.076m (25%) is currently earmarked as ‘amber’, with the remaining £0.3m (7%) designated ‘red’, meaning this will not be achieved in this financial year.

10.11 Around £1m of savings have been achieved through methods other than originally intended. Children’s Services has a dedicated transformation team which manages and resources the projects, however some of these are taking longer to implement than originally estimated. Children’s Services are committed to delivering the savings, and therefore work was undertaken during August to identify ‘Plan B’ options to deliver the savings in the event of project slippage.

10.12 This is the forecast position at the end of the second quarter in what could be a very changeable year. The main risks for Children’s Services, that may further impact the outturn position, are inflation (including cost of living upon the children and families we support as this may increase demand and/or the need for increased fees), delivering capital projects on time and budget (there are revenue implications for late projects), delivery of transformation and tactical savings and legislative changes (i.e. Care Review, Education White Paper), although the impact is likely to be felt in future years.

Dedicated Schools Grant (DSG)

10.13 The Dedicated School Grant (DSG) is a ring-fenced grant, the majority of which is used to fund individual schools' budgets in local authority-maintained schools and academies in Dorset, early years nursery entitlement and provision for pupils with high needs, including those with Education Health & Care Plans (EHCPs) in special schools, special provision, and mainstream schools in Dorset and out of county. Part of the DSG, the Central Services Schools Block (CSSB) provides funding for Dorset Council to carry out central functions on behalf of pupils in state-funded maintained schools and academies in England.

10.14 There are four blocks within the DSG: Schools Block (SB), Early Years Block (EYB), High Needs Block (HNB) and Central Services Schools Block (CSSB).

10.15 Dorset's DSG allocation is £299m for 22/23 before recoupment including additional grants and the use of the Growth Fund reserve. The September forecast overspend is £15.1m, all within the High Needs Block.

10.16 Dorset Council signed a £42m *Safety Valve* agreement with the Department for Education (DfE) in March 2022 to help eradicate the cumulative DSG deficit and support a return to a balanced in-year DSG position by 2026/27. Dorset Council will contribute £33m as part of the agreement.

10.17 As part of this agreement with the DfE, Dorset Council agreed a planned overspend for the year of £10.4m. However, the spend for the full year (based on expenditure to the end of September) is forecast to be higher at £15.1m.

10.18 The reasons for the higher forecast include:

- there are significantly more children in independent specialist placements than budgeted
- inflation, capital delays and school place changes.

10.19 If the Council is unable to achieve the agreed level of deficit with the DfE then it could jeopardise the second tranche (2022/23) of Safety Valve funding of £6.25m. Officers are working hard to improve the situation.

10.20 The Dorset SEND capital strategy is still a key component of the Safety Valve agreement and supporting children and young people with SEND in Dorset, however rising construction costs and labour shortages are impacting on project costs and project timelines. This includes DfE free school projects.

10.21 An updated SEND capital report was approved by cabinet in September, this will allow for an additional 228 places by 2025/26 which will play a key part in the success of the Safety Valve agreement. At this stage it is anticipated that the ‘Safety Valve’ agreement will be achieved, however the time taken to achieve a balance in-year position might take longer due to the issues highlighted above.

Adults Services & Housing

10.22 The Adults Services & Housing forecast is £150.034m compared with a net budget of £146.058m, an overspend of £3.976m (2.72%). The forecast has worsened by £1.838m since Qtr1.

10.23 The forecast overspend within Adult Care and Commissioning is £2.723m. The forecast has worsened by £757k since Q1 which is due to the following:

- an increase in three high-cost packages within learning disabilities
- a change in the local government pension scheme (LGPS) contribution requirement within the Care Dorset contract based on a report which was prepared by Barnet Waddingham. They set a contribution level of 25.1% for LGPS contributions, 7% higher than the historic contribution level resulting in the change in forecast. The underlying Service User forecast is holding steady through the continued controls in place against a backdrop of rising demand.

10.24 This forecast includes people being discharged from hospital, for whom we would have received additional funding during 2021/22 (HDP funding), and this cohort is assumed to fall at full cost to the adult care budget as the health funding stream has now ceased. There are now only 31 people on the hospital discharge list who have planned assessments. Since Qtr1 80 individuals have been assessed and moved off this pathway.

10.25 This forecast assumes achievement of £3.7m of savings from the £4m target. £2.9m have been delivered to date with the remaining £0.8m due in the last half of the year. £0.3m will not be achieved.

10.26 Work continues with reforms to Adult Social Care charging. The cap is scheduled to come into effect from October 2023.

10.27 Housing is currently projecting an overspend of £1.364k. £445k of this overspend relates to increases in bad debt provision in relation to rent arrears where tenant contributions, in excess of the subsidy reimbursed by Government, have not been recovered. A £300k movement is due to the increase in the Housing Subsidy shortfall savings not being likely to be achieved in year.

10.28 This is alongside an increased forecast set against the Housing Benefit Subsidy Shortfall of £600k based on Q2 actuals being higher than anticipated in the previous forecast and the need to be prudent about ongoing pressures such as ‘front door homelessness demand’ being up by

28% from this time last year. Bed and Breakfast usage is slightly reducing, but there is an increase in family homelessness and when more than one room is booked (for a family) the subsidy shortfall is much higher (double for two rooms). Room rates are also increasing in tandem with other inflationary rises, and set against the fixed Local Housing Allowance rate, means that the cost per unit is increasing beyond that anticipated when the budget was set.

10.29 Measures are under way to increase the supply of non-B&B accommodation (including using Council assets), continue the good work of the restructured Housing Team in preventing homelessness and accelerating the drive to use other temporary accommodation for families instead of B&Bs. This will drive a reconfiguring and balancing of budget and savings projections in years two and three of the rough sleeping and homelessness strategy and action plan – with the same projected level of savings achieved, profiled over that longer period. This relies on 'supply side' interventions such as the use of capital and assets to provide Council controlled or commissioned housing or the levering in of greater levels of grant either from Homes England or DLUHC.

10.30 The reforecasting has been done to recognise that current rises in front door demand are unlikely to reduce in the short term, due to winter pressures on energy bills, inflation, and the pressure on the private rented sector, making lower income households an unattractive option for landlords. This explains our focus on improving supply, such as acquiring our own, entering fresh leases and considering the use of higher incentives for landlords to take on a tenant (preventing them becoming homeless – costing us money and being bad for the household in human terms).

10.31 The disproportionate negative cost impact of housing families in B&Bs has been a factor this quarter which has risen and brought about a subsidy shortfall of circa £950k in the first half of this year, when this was £1.3 million last year. Our Bed and Breakfast reduction plan, focusing on families, is under way and includes starting to use one-bedroom temporary accommodation flats (where the subsidy problem isn't present) and continuing the good work on 'move on' getting families to leave B&Bs into settled affordable housing.

<u>Public Health</u>

10.32 The public health grant for 2022/23 for BCP Council is £20.616m and for Dorset Council is £14.613m. Agreed local authority contributions for the year gave a shared service budget of £25.614m after retained amounts.

10.33 Forecast at Qtr2 for the shared service is currently £279k underspent. This is based on equivalent health improvement activity, developments within early intervention and LiveWell Dorset spend being to budget and no further cost pressures.

10.34 PH Dorset generally has a net nil budget (grant transferred from partner councils is equal to expenditure) but the position for 2022/23 is a *positive* budget, due mainly to the use of Public Health reserves for fixed-term safeguarding capacity. No overall variance from budget is anticipated.

10.35 There are external factors that could create financial risk or volatility in 2022/23 for the service which include ongoing Covid-19 response work, wider health protection work, the development of the Integrated Care System, and additional short-term changes to national grant funding.

Place Directorate

10.36 The Place Directorate forecast is £88.554m compared with a net budget of £83.293m, an overspend of £5.261m (6.32%). The forecast at Qtr1 was an overspend of £5.775m, so there has been a net £514k improvement since that point.

10.37 Inflation remains the major issue for Place budgets, at over £3m additional cost. The larger items are utility costs in buildings (estimated at £300k+ but subject to confirmation of latest price changes), materials price increases within Highways such as road salt (£136k), disruption in the local travel market, waste disposal contracts tied to inflation indices (£683k) and directly purchased vehicle fuel (£750k). Major issues are explored below.

10.38 Assets and Property are showing a forecast adverse variance of £456k. Significant issues remain as follows:

- gas and electricity prices on the property estate – subject to announcements still to come
- public conveniences – £102k pressure including planned savings not being realised
- no County Hall car parking income – £168k
- housing service – cost recovery £65k.

The issues above are partially offset by various unbudgeted property related favourable variances, such as rental income from South Walks House and NNDR reductions at unoccupied properties. £292k also relates to the Coastal Risk team which has now moved to Environment and Wellbeing, but this move is not yet reflected in the finance system.

10.39 Highways are forecasting an overspend of circa £1.3m with much of this relating to the car parking budget line. There are also overspends in relation to increases in road salt prices, plus legislative change from red diesel to white diesel.

10.40 Planning is showing an overall £855k forecast adverse variance. Development Management income is the major negative issue here, though the costs of agency staff are also causing pressures.

10.41 Dorset Travel is forecasting around a £2.1m overspend due to the issues around prices on external contracts for all aspects of travel (public transport, school transport, and SEND transport). A detailed report has been seen by the Commercial Board and an allocation of £800k from contingency was subsequently approved by SLT towards this budget pressure but the situation continues to deteriorate.

10.42 Environment and Wellbeing budgets have a forecast adverse variance of almost £700k. The majority of this relates to Leisure Services, which includes the Outdoor Education Service. As noted above, the Coastal Risk team budgets will move to this area shortly.

10.43 Community and Public Protection (CPP) have a forecast adverse variance of £220k. Variances are spread across all the services, with income forecasts, vacancy factor, savings targets and costs in the Coroner's service being the main causes.

10.44 The Waste (Commercial and Strategy) service is forecasting a favourable variance of £1.2m. Garden waste and Commercial waste services are doing well and the recyclate price was buoyant in the first half of the year. Latest recyclate prices have worsened dramatically, and it remains to be seen how this continues for the remainder of the year but with an expectation that prices will be far less favourable in the second half of the year. Disposal contract uplift prices are causing a cost pressure of £683k.

10.45 The Waste Operations (including fleet) Service is forecasting an adverse variance of £1.1m, largely reflecting the pressure on the directly purchased vehicle fuel budget but also some vehicle parts.

10.46 Customer Services, Libraries and Archives are forecasting an underspend of circa £0.5m. This is largely a reflection of resources that have gone into supporting the Homes for Ukraine project, with appropriate costs now funded from that grant. This is one-off money and will not be repeated in future years.

10.47 Harbours are not specifically referenced here, as the regulations around harbour finances mean that they are ringfenced.

10.48 In the Director's Office, there is an unfunded cost pressure of £260k in relation to historic Weymouth Harbour capital financing, and a net cost arising from supporting the Tour of Britain.

<u>Corporate Development</u>

10.50 The Corporate Development forecast is £24.296m compared with a net budget of £24.049m, an overspend of £0.247m (1.03%). The forecast has improved by £0.062m since Qtr1.

10.51 Finance and Commercial Services are forecasting an overspend of £416k, which is due to an expected loss of court fee income from non-payment of business rates and council taxes (linked to Covid-19).

10.52 Dorset Care Record is forecasting an overspend of £109k, which is due to budget savings only being partially achieved due to contractual obligations.

Legal & Democratic Services

10.53 The Legal & Democratic forecast is £5.972m compared with a net budget of £6.306m, an underspend of £0.334m (5.3%). The forecast has improved by £0.347m since Qtr1.

10.54 The Assurance Service is forecasting a £61k underspend which comprises a £70k underspend due to staff vacancies, offset by a £10k increase in the South West Audit Partnership contract which was not clear when the budget was set.

10.55 Democratic Services are forecasting a £3k overspend due to a change in staffing costs for the service.

10.56 Legal Services are forecasting a £267k underspend due to staff vacancies and difficulties in recruiting.

Central budgets

10.57 The forecast for central budgets is £352.131m compared with a net income budget of £349.251m, a net forecast underspend of £2.880m (0.82%). The forecast has improved by £0.686m since Qtr1.

10.58 General Funding is forecasting an £8k underspend due to an expected increase in grant funding.

10.59 Capital Financing costs are forecasting a £1.06m underspend due to slower than expected progress implementing the capital programme leading to forecast borrowing costs being lower than budget.

10.60 There is currently £8m held in contingency, and this has been earmarked as follows:

- £6.2m earmarked for potential additional cost of national pay award
- £1.8m earmarked for inflation pressures

11 Material movements of budgets

There were no material movements of budgets during Qtr2.

12 Progress against budgeted savings

12.1 Appendix A shows the latest summary of the progress being made against the savings that were agreed to balance this year's budget. It also risk-rates the achievement of these savings. The shortfalls classified as red total (£2.305m) and are included in the forecast – ie they are assumed not to be delivered in 2022/23.

12.2 At this stage, the forecast assumes all other savings will be achieved, though clearly this may change as the Council progresses through the remainder of the year. There is a further £1.885m of savings currently

RAG-rated as amber which will need to be delivered or there will be a further shortfall in this year – and added pressures in the MTFP.

12.3 The directorate narratives earlier in this report also set out where in-year savings targets have been met using tactics other than in the plan and therefore whether there are any base budget issues to be considered because of delivery using a different approach.

12.4 Leadership Performance Board continues to monitor the transformation programme and associated savings. Work continues to identify strategies to deliver services within the funding available.

13 General fund position and other earmarked reserves

13.1 As summarised in the October budget report to Cabinet, the general fund balance stands at £33.2m. The Council has some further, earmarked reserves which were also summarised in that document and aligned to the approved financial strategy statement set out in appendix 1 to the 2021/22 outturn report. Any overspend for the year falls to the general fund to finance.

13.2 The Council also has a contingency budget in place but £1.8m of this has already been used to offset inflation on contracts across various services where prices could not be held at budgeted levels. There are further forecast inflationary pressures which are being contained within service budgets at present – such as within the waste service where increased recyclate prices have partially offset contract inflation on waste disposal contracts and other operational pressures such as fuel. Our working assumption is that the rest of the contingency budget will be needed to support the 2022/23 pay award, over and above the funds that are already in service budgets.

14 Capital programme and financing

14.1 The approved capital programme now stands at a total of £341m for the next five years and is summarised in the table below.

Total Budget 2022/23	Capital Programme	2023/24	2024/25	2025/26	2026/27	Total Budget 22/23-26/27
(23,016)	Full external funding	0	0	0	0	(23,016)
(29,402)	Partial external funding	(1,977)	(1,600)	(1,500)	0	(34,479)
(25,247)	Dorset Council part funding (borrowing requirement)	(1,094)	(3,798)	(1,078)	(2,500)	(33,717)
(60,877)	Dorset Council funding (borrowing requirement)	(44,076)	(37,694)	(33,592)	(13,997)	(190,236)
0	Dorset Council funding (reserves)	0	0	0	0	0
0	Dorset Council funding (capital receipts)	0	0	0	0	0
(10,053)	Minimum Revenue Provision	(11,053)	(12,053)	(13,053)	(13,303)	(59,515)
(148,595)	**Total funding**	**(58,200)**	**(55,145)**	**(49,223)**	**(29,800)**	**(340,963)**

14.2 Spend against the programme to the end of Qtr2 is low at just £27.7m, despite inflationary pressures and this reflects the difficulty in supply chains and markets. This is the main reason why the treasury budget is outperforming its targets this year and why there is likely to be further, significant slippage of the capital programme into 2023/24.

14.3 Delivery of such an ambitious capital programme is challenging at any time, but in the current climate it is even more complex. We are experiencing contractor inflation, supply chain issues and labour shortages, interest rate risks around borrowing and logistical fulfilment failure as a result of EU exit, the aftermath of a pandemic and war in Ukraine. These factors mean we need to keep an extremely close eye and a firm grip on our capital programme.

15 Sundry debt management

15.1 The net sundry debt position at 30 September 2022 was £36.654m. £16.909m (46%) of this is less than 30 days old. The breakdown of this debt is as follows:

Directorate	Balance	Less than 30 days	30-90 days	90-365 days	Over 365 days
	£	£	£	£	£
Adults & Housing	26,364,974.74	11,753,861.50	1,461,367.68	5,209,301.14	7,940,444.42
Children's Services	642,054.59	207,650.08	56,224.52	221,347.36	156,832.63
Place	9,226,651.37	4,873,242.10	659,287.83	2,484,712.23	1,209,409.21
Corporate	420,261.11	74,156.51	32,752.84	89,667.43	223,684.33
Grand Total	**36,653,941.81**	**16,908,910.19**	**2,209,632.87**	**8,005,028.16**	**9,530,370.59**

15.2 The Council had been expecting increases in the level of overall debt given the economic circumstances. The introduction of *breathing space* and the limited capacity of the Courts Service over the past two years led the Council to commission SWAP internal audit services to review debt policy and process. Officers continue work to implement the auditor's recommendations and progress is being monitored through the Audit & Governance Committee.

16 Council tax and business rates debt management

<u>Council tax</u>

16.1 The Qtr2 in-year collection rate as at 30 September 2022 is 55.96%. This equates to £197.5m of a total council tax (all preceptors, not just Dorset Council) of £352.8m. This is the lowest collection rate for Dorset Council, previous years' figures are set out in the table below, for comparison.

Council Tax collection rates	2019/20 %	2020/21 %	2021/22 %	2022/23 %
April	10.58	10.52	10.67	10.75
May	19.93	19.60	19.73	19.86
June	29.40	28.85	28.84	28.80
July	38.82	37.99	38.05	37.63
August	48.14	46.99	47.10	46.50
September	57.56	56.02	56.28	55.96

16.2 These headline figures need to be taken in the context of the wider economic realities that local taxpayers have lived through, although of course there is a legal requirement on all taxpayers to pay what is due. The collection and recovery processes have resumed, and the Council is working with taxpayers and remains confident that arrears will reduce, and collection rates will improve.

16.3 £6.423m of arrears from previous years have also been collected in the first six months of the year.

Business rates (non-domestic rates – NDR)

16.4 The Qtr2 in-year collection rate is 62.08%. This equates to £59.4m which compares favourably with previous years. However, this does include the application of Covid-19 Additional Relief Funding (CARF) which was applied to business rate payers' accounts during September, and which will even-out over the remainder of this year.

17 Insurance

17.1 The Council's long-term insurance arrangements come to an end on 31 March 2023. The corporate Insurance Manager supported by the Council's appointed insurance broker, Arthur J Gallagher (AJG), is currently preparing a presentation to showcase the Council's insurance and risk profile.

17.2 For context, the annual spend on insurance premiums for 2019/20 was £642k including VAT & Insurance Premium Tax (IPT). Due to the hardening of the insurance market and the Council's risk profile, this rose to £1.055m in 2022/23.

17.3 The overall cost of our cover is reduced by adopting a high level of self-insurance and in-house claims handling. Members have been briefed on these arrangements. There are no proposed changes to the Council's self-insurance or claims handling processes for this renewal.

17.4 The cost of insurance for the period 2023/24 is forecast to be £700k, a significant reduction from 2022/23. Several insurers have expressed interest in the Council's portfolio and the presentation will provide potential insurers with more information about our business. Cabinet's approval is therefore sought to start a procurement exercise to approach the insurance market with the aim of obtaining competitive insurance protection at the best price available, in line with recommendation 4, above.

18 Summary, conclusions, and next steps

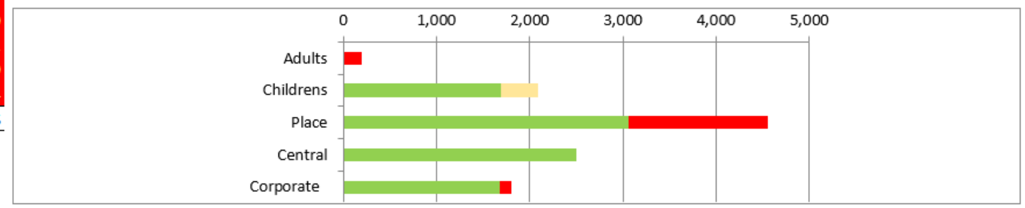
18.1 2022/23 continues to be an extremely challenging time for local government, with inflationary and demand pressures impacting on income and expenditure. There remains a large degree of financial uncertainty and, having reviewed expenditure for the first quarter of the year, Dorset Council's prudent financial forecast is a £7.8m budget pressure. The rate of overspend has reduced since Qtr1 and the Council is confident that further measures in train can reduce the rate of net spend further in the second half of the year.

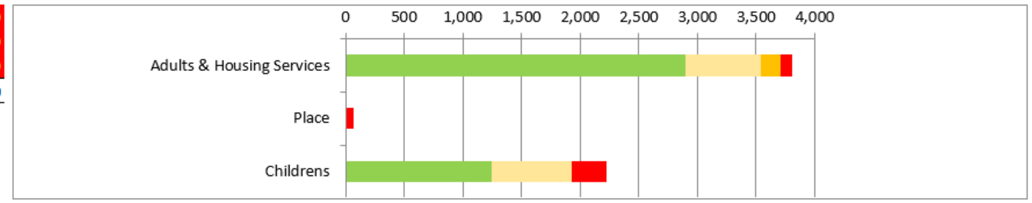
18.2 It is vital that the Council remains focused on living within its means, and in particular ensuring that savings and efficiencies continue to be actively sought out and delivered to ensure the 2022/23 budget is brought back into balance. Specific measures including tighter cost control in the Place Directorate and strict vacancy management across the organisation have already been introduced. They are anticipated to have a significant impact in the second half of the year, and we should see an improvement in the financial position by the end of Qtr3.

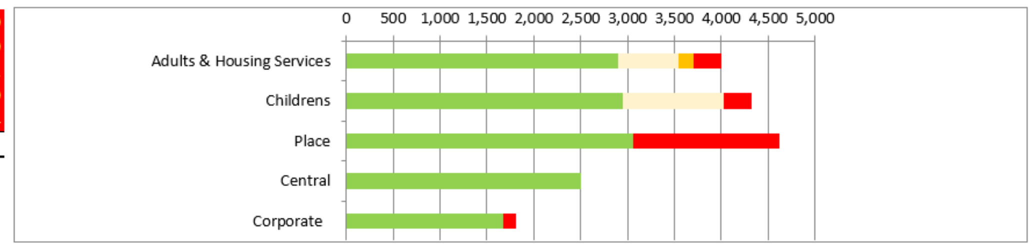
Aidan Dunn
Executive Director, Corporate Development (S151 Officer)

Appendix A

2022/23 Savings Plans		Officer assessment on savings target: Green	Amber	Amber 2	Red
	£000's	£000's	£000's	£000's	£000's
Tactical					
Adults	200	0	0	0	200
Childrens	2,092	1,694	398	0	0
Place	4,556	3,056	0	0	1,501
Central	2,500	2,500	0	0	0
Corporate	1,808	1,674	0	0	134
Total Tactical	**11,156**	**8,923**	**398**	**0**	**1,835**
Transformation					
Adults & Housing Services	3,805	2,896	644	165	100
Place	70	0	0	0	70
Childrens	2,228	1,250	678	0	300
Total Transformation	**6,103**	**4,146**	**1,322**	**165**	**470**
Total - Tactical and Transformation					
Adults & Housing Services	4,005	2,896	644	165	300
Childrens	4,320	2,944	1,076	0	300
Place	4,626	3,056	0	0	1,571
Central	2,500	2,500	0	0	0
Corporate	1,808	1,674	0	0	134
Summary Savings Plans	**17,259**	**13,069**	**1,720**	**165**	**2,305**







Audit and Governance Committee
Monday, 14 November 2022
Treasury Management Annual Report

For Decision

Portfolio Holder: Cllr G Suttle, Finance, Commerical & Capital Strategy

Local Councillor(s): All

Executive Director: A Dunn, Executive Director, Corporate Development

Report Author: David Wilkes
Title: Service Manager (Treasury and Investments)
Tel: 01305 224119
Email: david.wilkes@dorsetcouncil.gov.uk

Report Status: Public

Brief Summary

This report summarises the treasury management performance and position information for Dorset Council for the year ended 31 March 2022. It was originally intended that this report would be considered at the meeting of the Committee 26 September 2022 which was postponed due to the period of national mourning.

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 to then receive a mid-year update on progress against the strategy and a year-end review of actual performance against the strategy (this report).

The Council's Capital Financing Requirement (CFR) (or underlying need to borrow) at 31 March 2022 was £345m, compared to £335m at the start of the year and an estimated closing position of £369m when the treasury management strategy was approved in February 2021. The borrowing need has not increased as much as was expected due to slippage in the capital programme.

Total external borrowing and other capital financing liabilities of the Council at 31 March 2022 was £204m and the total interest paid servicing external debt for the year was £7.6m.

The difference between the CFR and external borrowing was approximately £140m, financed temporarily by 'internal borrowing' (the use of reserves and working capital that could otherwise have been invested to offset the need to borrow externally).

As at 31 March 2022 the Council held cash and cash equivalents of £46m and treasury investments valued at £149m – in total £195m. The total interest receivable and investment income for the Council for the year was approximately £3.1m.

Recommendation:

That the Committee note and comment upon the report.

Reason for Recommendation:

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

1. Introduction

1.1 The Council's treasury management strategy for 2021/22 was approved by a meeting of Dorset Council on 16 February 2021.

1.2 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.

1.3 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.4 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.

1.5 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.

2. External Context

2.1 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, and the wider regulatory framework.

2.2 The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were the major external factors issues over the year. In response to concerns regarding rising and persistent inflation, the Bank of England increased the Bank Rate from 0.10% to 0.25% in December 2021, and then to 0.50% in February 2022 and 0.75% in March 2022.

2.3 The financial year also saw updated guidance from DMO and CIPFA attempting to make clearer the permitted and prohibited uses of borrowing by local authorities.

2.4 A detailed commentary on the external context provided by Arlingclose is included in Appendix 1.

3. Local Context

3.1 The Council's balance sheet is summarised in table 1 below.

Table 1: Balance Sheet Summary

	31-Mar 2021 Actual £m	31-Mar 2022 Budget £m	31-Mar 2022 Actual £m
Capital Financing Requirement	**335**	**369**	**345**
External Debt (incl. PFI & leases):			
External borrowing	220	240	181
Long Term PFI Liabilities	22	25	21
Obligations under Finance Leases	3	5	2
Total External Debt	**245**	**270**	**204**
Internal Borrowing	90	99	141
Cash and Investments	**169**	**100**	**195**

3.2 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR).

3.3 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. The CFR increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

3.4 The treasury management position at 31 March 2022 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.03.21 Balance £m	Net Movement £m	31.03.22 Balance £m
Long-term borrowing	179.0	-1.0	178.0
Short-term borrowing	41.0	-37.9	3.1
Total Borrowing	**220.0**	**-38.9**	**181.1**
Investments	85.3	64.0	149.3
Cash and cash equivalents	83.6	-37.7	45.9
Total Cash and Investments	**168.9**	**26.3**	**195.2**
Net Borrowing / (Investments)	**51.1**	**-65.2**	**-14.1**

4. Borrowing

4.1 At 31 March 2022 the Council held £181m of loans, (a net decrease of £39m from 31 March 2021), as part of its strategy for funding previous and current years' capital programmes. Outstanding loans as at 31 March 2022 are summarised in Table 3 below.

Table 3: Borrowing Position

	31.03.21 Balance £m	Net Movement £m	31.03.22 Balance £m	31.03.22 Average Rate %	31.03.22 Average Maturity (years)
Public Works Loan Board	83.9	-21.1	62.9	4.1	21.9
Banks (fixed-term)	25.6	0.0	25.6	4.7	55.0
Banks (LOBO)	11.0	0.0	11.0	4.6	54.6
Local authorities (long-term)	15.0	0.0	15.0	4.4	37.7
Local authorities (short-term)	10.0	-10.0	0.0	0.0	0.0
Other lenders (fixed-term)	55.0	-7.9	47.1	3.7	42.5
Other lenders (LOBO)	19.5	0.0	19.5	2.6	10.6
Total Borrowing	**220.0**	**-38.9**	**181.1**	**4.0**	**34.0**

4.2 The chief objective of Dorset 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.

4.3 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.

4.4 The Council held £30.5m of Lender's Option Borrower's Option (LOBO) at 31 March 2022. These are loans where the lender has the option to propose an increase in the interest rate at set dates (lender's option), following which the Council has the option to either accept the new rate or to repay the loan at no additional cost (borrower's option). No lenders exercised options in 2021/22.

4.5 In addition, capital finance may be raised by the following methods that are not borrowing but are classed as other debt liabilities: leasing, hire purchase, Private Finance Initiative (PFI) and sale and leaseback. Total debt other than borrowing at 31 March 2022 was £22.8m.

5. Cash and Treasury Investments

5.1 CIPFA define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

5.2 Cash, cash equivalents and treasury investments held on 31 March 2022 are summarised in Table 4 below.

Table 4: Cash and Treasury Investments Position

	31.03.21 Balance £m	Net Movement £m	31.03.22 Balance £m
Cash and Cash Equivalents	**83.6**	**-37.7**	**45.9**
Investments:			
UK Debt Management Office deposits	0.0	60.0	60.0
Short-dated bond funds	12.0	-0.2	11.8
Strategic bond funds	11.2	-0.6	10.6
Equity income funds	35.4	1.7	37.1
Property funds	20.4	3.3	23.7
Multi asset income funds	6.3	-0.3	6.0
Total Investments	**85.3**	**64.0**	**149.3**
Total Cash and Investments	**168.9**	**26.3**	**195.2**

5.3 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.

5.4 Very low short-dated cash rates prevailed for much of the year which resulted in the return on cash and cash equivalents such as Low Volatility Net Asset Value (LVNAV) Money Market Funds being close to zero. However, higher returns on cash instruments followed the increases in Bank Rate in December 2021, February and March 2022.

5.5 Similarly, deposit rates with the Debt Management Account Deposit Facility (DMADF) initially remained very low with rates ranging from 0% to 0.1% but following the increases to Bank Rate increased to between 0.55% and 0.85% depending on the deposit maturity.

5.7 The Council held investments in bond, equity, multi-asset and property funds valued at £90m in total as at 31 March 2022, compared to £85m as at 31 March 2021. Such investments are held for the longer term with the acceptance that capital values will fluctuate over the short term but with the expectation that over a three to five-year period total returns will exceed cash interest rates.

5.8 In the period to December 2021 improved market sentiment was reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of the Council's holdings in property, equity and multi-asset income funds. The prospect of higher inflation and rising bond yields did however result in muted bond fund performance. In the January- March quarter the two dominant themes were tighter UK and US monetary policy and higher interest rates, and the military invasion of Ukraine by Russia in February, the latter triggering significant volatility and uncertainty in financial markets.

6. Treasury Performance

6.1 The Council measures the financial performance of its treasury management in terms of its impact on the revenue budget as shown in table 5 below.

Table 5: Treasury Performance

	Budget £m	Actual £m	Variance £m	
Interest Payable	9.9	7.6	2.3	F
Interest and Investment Income	-4.0	-3.1	-0.9	A
Net Payable / (Receivable)	**5.9**	**4.5**	**1.4**	**F**
Unrealised (Gains) / Losses in Fair Value	0.0	-4.2	4.2	F
Net (Surplus) / Deficit	**5.9**	**0.3**	**5.6**	**F**

6.2 The unrealised gains of £4.2m in the fair value of investments relate to the Council's investments in strategic pooled investment vehicles. Unrealised gains or losses in the fair value of these investments are accounted for through reserves and do not have an impact on the general fund.

7. Compliance

7.1 All treasury management activities undertaken during the year complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

7.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 6 below.

Table 6: Debt Limits

	Maximum 2021-22 £m	31.03.22 Actual £m	Operational Boundary £m	Authorised Limit £m	Complied Yes/No
Borrowing	220.0	181.0	401.0	421.0	Yes
PFI & Finance Leases	25.0	23.0	31.0	36.0	Yes
Total Capital Financing	**245.0**	**204.0**	**432.0**	**457.0**	

8. Treasury Management Indicators

8.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

8.2 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 average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Table 7: Security

	31.03.22 Actual	2021/22 Target	Complied Yes/No
Portfolio average credit rating or score	3.7	< 6	Yes

8.3 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 without additional borrowing. In addition, the Council aims to hold a minimum of £10m readily available in same day access bank accounts and Money Market Funds.

Table 8: Liquidity

	31.03.22 Actual	2021/22 Target	Complied Yes/No
Total cash available within 100 days	53%	> 30%	Yes

8.4 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 were:

Table 9: Interest Rate Exposure

	31.03.22 Actual £000s	2021/22 Target £000s	Complied Yes/No
Upper limit on one-year revenue impact of a 1% rise in interest rates	-125	500	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	125	500	Yes

8.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced.

8.6 Sums invested for periods 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 at the period end were:

Table 10: Investments longer than one year

	2021/22 £m
Actual principal invested beyond one year	0.0
Limit on principal invested beyond one year	20.0
Complied (Yes/No)	Yes

8.7 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 borrowing were:

Table 11: Maturity Structure of Borrowing

	31.03.22 Actual £m	% of Total Borrowing	Upper Limit	Lower Limit	Complied Yes/No
Under 12 months	3.1	1.7%	25%	0%	Yes
12 Months to 2 Years	0.0	0.0%	25%	0%	Yes
2 Years to 5 Years	10.0	5.5%	25%	0%	Yes
5 Years to 10 Years	9.5	5.2%	35%	0%	Yes
10 Years to 15 Years	20.0	11.0%	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	9.0	5.0%	45%	0%	Yes
30 Years to 35 Years	33.0	18.2%	45%	0%	Yes
35 Years to 40 Years	15.0	8.3%	45%	0%	Yes
40 Years to 45 Years	25.0	13.8%	45%	0%	Yes
45 Years and above	56.5	31.2%	75%	0%	Yes
Total	**181.1**	**100.0%**			

9. Financial Implications

This report summarises the performance of the Council's treasury management activity in 2021/22. There are no other financial implications arising from this report.

10. Climate implications

There are no direct climate implications arising from this report. However, Dorset Council owns units in a number of pooled investment funds which will have holdings in companies in all sectors of the economy, including the extraction, refinement and supply of fossil fuels.

11. Well-being and Health Implications

There are no well-being and health implications arising from this report.

12. Other Implications

There are no other implications arising from this report.

13. Risk Assessment

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

Residual Risk: Medium

Treasury management is an inherently risky area of activity and a number of controls are embedded in its operation. The key treasury management risks are highlighted as part of the treasury management strategy approved by Council as part of the budget setting process. This report highlights any variances from this strategy and draws out any specific risks which have arisen

14. Equalities Impact Assessment

There are no equalities implications arising from this report.

15. Appendices

Appendix 1: External Context (Arlingclose April 2022)

16. Background Papers

Treasury Management Strategy 2021/22

Footnote:
Issues relating to financial, legal, environmental, economic and equalities implications have been considered and any information relevant to the decision is included within the report.

Appendix 1: External Context (Arlingclose April 2022)

Economic background

The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% y/y from 4.4%.

The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

With the fading of lockdown – and, briefly, the 'pingdemic' – restraints, activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.

Having increased Bank Rate from 0.10% to 0.25% in December 2021, the Bank of England hiked it further to 0.50% in February 2022 and 0.75% in March 2022. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

In its March 2022 interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The MPC also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

GDP growth in the euro zone increased by 0.3% in calendar Q4 2021 following a gain of 2.3% in the third quarter and 2.2% in the second. Headline inflation remains high, with CPI registering a record 7.5% year-on-year in March, the ninth successive month of rising inflation. Core CPI inflation was 3.0% y/y in March, was well above the European Central Bank's target of 'below, but close to 2%', putting further pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at a downwardly revised annualised rate of 6.9% in Q4 2021, a sharp in increase from a gain of 2.3% in the previous quarter. In its March 2022 interest rate announcement, the Federal Reserve raised the Fed Funds rate to between 0.25% and 0.50% and outlined further increases should be expected in the coming months. The Fed also repeated it plan to reduce its asset purchase programme which could start by May 2022.

Financial markets

The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.

Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%.

The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

Credit review

In the first half of FY 2021-22 credit default swap (CDS) spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Authority's counterparty to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

Fitch also revised the outlook for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable. The agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

In the nine months to December 2022 improved market sentiment was reflected in equity, property and multi-asset fund valuations. The prospect of higher inflation and rising bond yields did however result in muted bond fund performance. In the January to March 2022 quarter the two dominant themes were tighter UK and US monetary policy and higher interest rates, and the military invasion of Ukraine by Russia in February, the latter triggering significant volatility and uncertainty in financial markets.

Updated PWLB Lending Facility Guidance and revised CIPFA Codes

In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow and to comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

Audit and Governance Committee
Monday, 14 November 2022
Treasury Management Mid-Year Update

For Decision

Portfolio Holder: Cllr G Suttle, Finance, Commerical & Capital Strategy

Local Councillor(s): All

Executive Director: A Dunn, Executive Director, Corporate Development

Report Author: David Wilkes
Title: Service Manager (Treasury and Investments)
Tel: 01305 224119
Email: david.wilkes@dorsetcouncil.gov.uk

Report Status: Public

Brief Summary

This report summarises the treasury management performance and position information for Dorset Council for the six months to 30 September 2022.

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 to then receive a mid-year update on progress against the strategy (this report) and a year-end review of actual performance against the strategy.

Total external borrowing and other capital financing liabilities of the Council at 30 September 2022 was £192m compared to £204m at 31 March 2022. The total interest paid servicing external debt for the year is forecast to be £8.3m compared to a budget of £9.5m.

At 30 September 2022 the Council held cash and cash equivalents of £0.7m and treasury investments of £175.1m – in total £175.8m compared to £195.2m at 31 March 2022. The total interest and investment income for the year is forecast to be £3.5m compared to a budget of £4.0m.

The external context for treasury management over the period has been volatile. Central banks' concerns about high and persistent inflation have led to sharper increases in interest rates than was expected when the strategy was approved. Whilst this has led to increased returns on bank deposits and other 'cash' investments it has also increased the cost of borrowing for the Council and had a negative impact on the valuations of bonds and (together with low growth expectations) equities.

Recommendation:

That the Committee note and comment upon the report, and to offer any suggestions for improvements in treasury management arrangements for the future.

Reason for Recommendation:

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

1. Introduction

1.1 The Council's treasury management strategy for 2022/23 was approved by a meeting of Dorset Council on 15 February 2022.

1.2 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.

1.3 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.4 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.

1.5 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.

2. External Context

2.1 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, and the wider regulatory framework.

2.2 Continued high levels of inflation and sharply rising interest rates have been the major external factors impacting treasury management over the year to date. In response to concerns regarding inflation, the Bank of England increased the Bank Rate from 0.75% to 2.25% over the period. Over the period the yields on 5-year, 10-year and 20-year UK government bonds ("gilts") all rose from about 1.5% to over 4% with a period of heightened volatility at the end of September following the UK government's 'mini-budget'.

2.3 A detailed commentary on the external context provided by Arlingclose is included in Appendix 1.

3. Local Context

3.1 The Council's balance sheet is summarised in table 1 below.

3.2 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR).

3.3 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. The CFR increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

Table 1: Balance Sheet Summary

	31-Mar 2021 Actual £m	31-Mar 2022 Actual £m	30-Sep 2022 Actual £m
Capital Financing Requirement	**335**	**345**	**345**
External Debt (incl. PFI & leases):			
External borrowing	220	181	169
Long Term PFI Liabilities	22	21	21
Obligations under Finance Leases	3	2	2
Total External Debt	**245**	**204**	**192**
Internal Borrowing	90	141	153
Cash and Investments	**169**	**196**	**181**

3.4 The treasury management position at 30 September 2022 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.03.22 Balance £m	Net Movement £m	30.09.22 Balance £m
Long-term borrowing	178.0	-10.0	168.0
Short-term borrowing	3.1	-2.6	0.5
Total Borrowing	**181.1**	**-12.6**	**168.5**
Investments	149.3	25.8	175.1
Cash and cash equivalents	45.9	-45.2	0.7
Total Cash and Investments	**195.2**	**-19.4**	**175.8**
Net Cash and Investments	**14.1**	**-6.8**	**7.3**

4. Borrowing

4.1 As part of its strategy for funding previous and current years' capital programmes at 30 September 2022 the Council held £168.5m of loans, a net decrease of £12.6m from 31 March 2022. Outstanding loans at 30 September 2022 are summarised in Table 3 below.

Table 3: Borrowing Summary

	31.03.22 Balance £m	Net Movement £m	30.09.22 Balance £m	31.03.22 Average Rate %	31.03.22 Average Maturity (years)
Public Works Loan Board	62.9	-0.5	62.4	4.1	21.4
Banks (fixed-term)	25.6	0.0	25.6	4.7	54.6
Banks (LOBO)	11.0	0.0	11.0	4.6	54.1
Local authorities (long-term)	15.0	0.0	15.0	4.4	37.2
Local authorities (short-term)	0.0	0.0	0.0	0.0	0.0
Other lenders (fixed-term)	47.1	-2.1	45.0	3.9	44.0
Other lenders (LOBO)	19.5	-10.0	9.5	2.5	10.7
Total Borrowing	**181.1**	**-12.6**	**168.5**	**4.1**	**35.4**

4.2 The chief objective 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.

4.3 Over the April-September period short term Public Works Loan Board (PWLB) rates rose significantly, particular in late September after the ‘mini-budget’. Long and short term interest rates rose by over 2% in the period – for example, the 5-year PWLB maturity certainty rate rose from 2.30% on 1 April to 5.1% on 30 September and over the same period the 30-year maturity certainty rate rose from 2.6% to 4.7%

4.4 Loans of £2.6m matured during the period and in addition one lender exercised their option at specified dates to recall a Lender’s Option Borrower’s Option (LOBO) loan of £10m, due to mature in five years had it run to full term. No new or replacement borrowing was taken out during the period.

4.5 In addition, capital finance may be raised by the following methods that are not borrowing but are classed as other debt liabilities: leasing, hire purchase, Private Finance Initiative (PFI) and sale and leaseback. Total debt other than borrowing was £22.8m as at 31 March 2022.

5. Investments

5.1 CIPFA define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

5.2 The Council holds significant levels of invested funds, representing income received in advance of expenditure plus balances and reserves held.

5.3 Cash, cash equivalents and treasury investments held on 30 September 2022 are summarised in Table 4 below.

Table 4: Cash and Investments Summary

	31.03.22 Balance £m	Net Movement £m	30.09.22 Balance £m
Cash and Cash Equivalents	**45.9**	**-45.2**	**0.7**
Investments:			
UK Debt Management Office deposits	60.0	32.6	92.6
Short-dated bond funds	11.8	-0.5	11.3
Strategic bond funds	10.6	-1.6	9.0
Equity income funds	37.1	-3.8	33.3
Property funds	23.7	0.1	23.8
Multi asset income funds	6.0	-1.0	5.0
Total Investments	**149.2**	**25.9**	**175.1**
Total Cash and Investments	**195.1**	**-19.3**	**175.8**

5.4 Both the CIPFA Code and government guidance require local authorities to invest funds prudently, and to have regard to the security and liquidity of 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.

5.5 The increases in UK Bank Rate over the period, and with the prospect of more increases to come, short-dated cash rates, which had ranged between 0.7%-1.5% at the end of March, rose by around 1.5% for overnight/7-day maturities and by nearly 3.5% for 9-12 month maturities.

5.6 The return on low volatility net asset value (LVNAV) Money Market Funds ranged from about 1% in early April to 2% at the end of September. At the end of September, the rates on Debt Management Account Deposit Facility (DMADF) deposits ranged between 1.85% and 3.5%, depending on the length of time to maturity.

5.7 The Council also holds investments in bond, equity, multi-asset and property funds. Such investments are held for the longer term with the acceptance that capital values will fluctuate over the short term but with the expectation that over a three to five-year period total returns will exceed cash interest rates.

5.8 It was a difficult environment for most strategic investment asset classes. Central banks' actions to bring inflation under control primarily through increases in interest rates led to a sell-off in government and corporate bonds which in turn led to a fall in the value of the Council's holdings in bond and multi-asset income funds. The increase in interest rates plus low growth expectations meant it was also a challenging period for equities (with the FTSE All Share index falling by from 4,187 and the MSCI World Index fell from 3,053 to 2,378 over the period) which was reflected in falls in the value of the Council's holdings in equity and multi-asset income funds.

6. Treasury Performance

6.1 The Council measures the financial performance of its treasury management in terms of its impact on the revenue budget as shown in table 5 below.

Table 5: Treasury Performance

	Budget £m	**Forecast £m**	**Variance £m**	
Interest Payable	9.5	8.3	1.2	F
Interest and Investment Income	-4.0	-3.5	-0.5	A
Net Payable / (Receivable)	**5.5**	**4.8**	**0.7**	**F**

7. Compliance

7.1 All treasury management activities undertaken during the year complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

7.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 6 below.

Table 6: Debt Limits

	Maximum 2022-23 £m	30.09.22 Actual £m	Operational Boundary £m	Authorised Limit £m	Complied Yes/No
Borrowing	181	169	401	421	Yes
PFI & Finance Leases	23	23	31	36	Yes
Total Capital Financing	**204**	**192**	**432**	**457**	

8. Treasury Management Indicators

8.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

8.2 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 average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Table 7: Security

	30.09.22 Actual	2022/23 Target	Complied Yes/No
Portfolio average credit rating or score	3.7	< 6	Yes

8.3 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 without additional borrowing. In addition, the Council aims to hold a minimum of £10m readily available in same day access bank accounts and Money Market Funds.

Table 8: Liquidity

	30.09.22 Actual	2022/23 Target	Complied Yes/No
Total cash available within 3 months	83%	30%	Yes

8.4 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 were:

Table 9 Interest Rate Exposure

	30.09.22 Actual £000s	2022/23 Target £000s	Complied Yes/No
Upper limit on one-year revenue impact of a 1% rise in interest rates	-256	500	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	256	500	Yes

8.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced.

8.6 Sums invested for periods 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 at the period end were:

Table 10: Investments longer than one year

	2022/23 £m
Actual principal invested beyond one year	0.0
Limit on principal invested beyond one year	20.0
Complied (Yes/No)	Yes

8.7 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 borrowing were:

Table 11: Maturity Structure of Borrowing

	30.09.22 Actual £m	% of Total Borrowing	Upper Limit	Lower Limit	Complied Yes/No
Under 12 months	0.5	0.3%	25%	0%	Yes
12 Months to 2 Years	0.0	0.0%	25%	0%	Yes
2 Years to 5 Years	0.0	0.0%	25%	0%	Yes
5 Years to 10 Years	9.5	5.6%	35%	0%	Yes
10 Years to 15 Years	20.0	11.9%	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	9.0	5.3%	45%	0%	Yes
30 Years to 35 Years	33.0	19.6%	45%	0%	Yes
35 Years to 40 Years	15.0	8.9%	45%	0%	Yes
40 Years to 45 Years	25.0	14.8%	45%	0%	Yes
45 Years and above	56.5	33.5%	75%	0%	Yes
Total	**168.5**	**100.0%**			

9. Financial Implications

This report summarises the performance of the Council's treasury management activity in the six months to 30 September 2022. There are no other financial implications arising from this report.

10. Climate implications

There are no direct climate implications arising from this report. However, Dorset Council owns units in a number of pooled investment funds which will have holdings in companies in all sectors of the economy, including the extraction, refinement and supply of fossil fuels.

11. Well-being and Health Implications

There are no well-being and health implications arising from this report.

12. Other Implications

There are no other implications arising from this report.

13. Risk Assessment

Having considered the risks associated with this decision, the level of risk has been identified as:
Current Risk: HIGH
Residual Risk: Medium

Treasury management is an inherently risky area of activity and a number of controls are embedded in its operation. The key treasury management risks are highlighted as part of the treasury management strategy approved by Council as part of the budget setting process. This report highlights any variances from this strategy and draws out any specific risks which have arisen

14. Equalities Impact Assessment

There are no equalities implications arising from this report.

15. Appendices

Appendix 1: External Context (Arlingclose 2 October 2022)

16. Background Papers

Treasury Management Strategy 2022/23

Footnote:

Issues relating to financial, legal, environmental, economic and equalities implications have been considered and any information relevant to the decision is included within the report.

Appendix 1: External Context (Arlingclose 2 October 2022)

Economic background: The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.

UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.

The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and –2.8% for regular pay.

With disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low of –44 in August, down –41 in the previous month. Quarterly GDP fell -0.1% in the April-June quarter driven by a decline in services output, but slightly better than the 0.3% fall expected by the Bank of England.
The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50%

in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. the September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.

Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by three increases of 0.75% in June, July and September, taking policy rates to a range of 3% - 3.25%.

Eurozone CPI inflation reached 9.1% y/y in August, with energy prices the main contributor but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from –0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.

Financial markets: Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.

Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.

Credit review: In July Fitch revised the outlook on Standard Chartered from negative to stable as it expected profitability to improve thanks to the higher interest rate environment. Fitch also revised the outlook for Bank of Nova Scotia from negative to stable due to its robust business profile.

Also in July, Moody's revised the outlook on Bayerische Landesbank to positive and then in September S&P revised the GLA outlook to stable from negative as it expects the authority to remain resilient despite pressures from a weaker macroeconomic outlook coupled with higher inflation and interest rates.

Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.

Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Interest rate forecast (26 September 2022)

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**2.25**	**4.25**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**4.75**	**4.25**	**3.75**	**3.25**
Downside risk	0.00	-1.00	-1.00	-0.75	-0.50	-0.50	-0.50	-0.75	-1.25	-1.50	-1.75	-1.75	-1.75

Arlingclose expects Bank Rate to rise further during 2022/23 to reach 5% by the end of the year.

The MPC is particularly concerned about the demand implications of fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages. The MPC may therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose now expects Bank Rate to peak at 5.0%, with 200bps of increases this calendar year. This action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024.

Audit and Governance Committee
13 November 2022
Risk Management Update

For Review and Consultation

Portfolio Holder: Cllr S Flower, Leader of the Council

Executive Director: J Mair, Corporate Director, Legal & Democratic

Report Author: David Trotter
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Report Status: Public

Brief Summary: The continual development and promotion of risk management will ensure that Dorset Council remains well placed to demonstrate that objective and informed decisions are taken. The role of the Audit and Governance Committee is to satisfy itself that risk management arrangements are effective. The detail of the risks is scrutinised by the two Scrutiny Committees.

Appendix A includes the roadmap, which provides a clear view of achievements to date as well as a snapshot of risks across each Directorate. An internal audit has been undertaken by SWAP on the Council's risk management arrangements

This quarterly report also continues to provide an update on emergency planning as requested by the committee, including learnings from the Storm Eunice and Covid Recovery debriefs. A report is scheduled for a future Audit and Governance Committee meeting to focus in more detail on information compliance risks and the role of the Information Governance Board.

Recommendation: That Audit and Governance Committee:

i) note the current snapshot of risks across Directorates;

ii) note the outcome of the internal audit on risk management;
iii) note and review the lessons learnt from Storm Eunice; and
iv) consider the Covid Recovery report and determine whether this should be reported to full Council.

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

1. **Report**

1.1 The latest update provides a revised road map and snapshots of the risk positions across each of the Directorates taken from the new risk dashboard. There are ten strategic risk themes informed by operational service level risks owned by Directors, Heads of Service and Service Managers.

Current Risk Themes	
Communities	Political & Leadership
Compliance	Safeguarding
Digital & Technology	Service Delivery
Finance	Transformation
Health, Safety & Wellbeing	Workforce

1.2 Councillors can view the full schedule of risks by theme from this link.

1.3 During quarter one of 2022/23 South West Audit Partnership carried out a review of the Council's risk management arrangements to provide a snapshot of the maturity of the organisation since 1st April 2019. The conclusion assessed the Council's current risk management maturity as 'Aware' ("Scattered silo-based approach to risk management") moving into 'Defined' ("Strategy and policies in place and communicated. Risk appetite defined"). It noted that whilst a framework is in place, it is understood and applied inconsistently in places. The accompanying report identified six Priority 2 actions and six ranked at Priority 3. Completion of these actions are anticipated to move our maturity into the "Managed" category, which is defined as "Enterprise approach to risk management developed and communicated". The Priority Two findings are noted below:

- Post "Shaping Dorset Council" programme, the risk framework has not been shaped by senior officers and councillors;
- There are inconsistencies in how services rank and apply risk scoring and limited external challenge;
- The Council's risk appetite has not been reassessed since the "Shaping Dorset Council" programme;

- There is not a systematic approach within all business areas for identifying and considering new risks;
- There is limited evidence of Medium/Low risks being regularly reviewed and updated;
- Not all Directorates have nominated “co-ordinators”.

1.4 The delivery of these improvements largely need to be owned by the service areas. An improvement action plan has been developed by the Assurance Service and progress will be reported to future meetings. This includes moving the risk management function to the Business Intelligence team to provide closer linkage with the performance management framework and utilise the support of business partners.

2. Financial Implications

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

3. Climate Implications

None specifically, however the risk register itself identifies a number of climate related risks.

4. Well-being and Health Implications

Health, safety, and wellbeing is identified as one of our corporate risk themes.

5. Other Implications

None

6. Risk Assessment

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

- Current Risk: HIGH
- Residual Risk: HIGH

The risk level is identified as High as Appendix A provides an update on those High-level risks which are currently identified within the Council’s risk register.

7. Equalities Impact Assessment

None specifically, however the risk register itself identifies a number of equality related risks.

8. Appendices

Appendix A - Summary of Extreme and High-Level Risks
Appendix B – Summary update from Emergency Planning

9. Background Papers

None

APPENDIX A

Risk Management **Update Report Snapshot Summary**

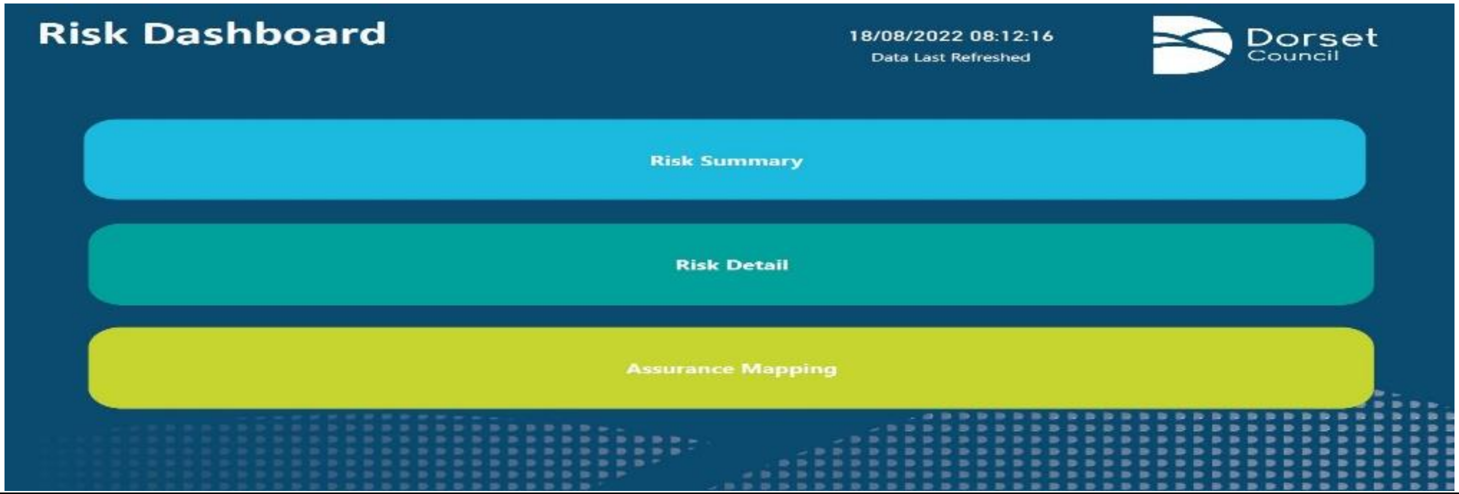
Public Health
Place Directorate
Corporate Services
Children's Services Directorate
People Directorate for Adults and Housing

October 2022

Due to recent meetings being postponed due to tragic national events we felt it necessary to update the overall update report snapshot summary to provide the committee with UpToDate information. This update provides links to the registers which are managed within SharePoint. Full details and current updates can be found within the SharePoint page HERE or within the reports also on the site considered by the Audit and Governance Committee.

Risk management is about taking informed decisions, achieving objectives, and delivering results. Risk management is a process that aims to identify significant risks that may impact on the achievement of our objectives. We must then look to evaluate and implement actions to reduce both the likelihood and the potential impact of these risks occurring. Clear identification and assessment of risks will lead to a more effective use of resources and result in direct improvements to the services we can provide.

Risk Dashboard can be found HERE



Risk Management Road Map 2022

The Road Map helps to provide a visual way to quickly communicate our plan of work for the coming months. We feel that this is the most effective tool to give you a bird's-eye view of everything that's planned.

By being more risk aware, Dorset Council will be better placed to avoid threats and take advantage of any opportunities.

1. January 22
- Draft Risk Management Framework
- Link Risk SharePoint to Teams
- Introduce 'Escalate to SLT'
- Link to SLT performance dashboard

2. April 22
- Amend Risk Appetite
- Refresh SharePoint
- Check Risk Mitigation
- SLT Risk Escalation Action Plan

3. August 22
- Introduction of Residual Risk
- Reformatted Reports
- Introduction of 'Top Risk' Report
- Created Portfolio Holder area within SharePoint
- Introduction of 'Movers and Shakers'

4. December 22
- Revise Risk Management Framework
- Revise Risk Management Appetite
- Plotting Risks within Matrices – 'Movers and Shakers'

5. 2023
- Review SWAP action plan
- Annual Reports – All Risks
- Link to Performance Metrics
- PowerBI Data Presentation

A SUMMARY of PERFORMANCE

310	7	58	187	58
No of Open Risks	No of Extreme Risks	No of High Risks	No of Medium Risks	No of Low Risks

Risks for this reporting period October 2022

Likelihood

Impact	Very unlikely	Unlikely	Possible	Likely	Certain
Catastrophic	0	3	4	4	3
Major	2	47	25	15	0
Moderate	9	48	68	12	2
Slight	1	39	13	5	3
Limited	0	1	0	1	0

A SUMMARY of PERFORMANCE

12	(Blank)	3	8	1
No of Open Risks	No of Extreme Risks	No of High Risks	No of Medium Risks	No of Low Risks

Public Health

Risk Register can be viewed from this link

HERE

Likelihood

Impact	Very unlikely	Unlikely	Possible	Likely	Certain
Catastrophic	0	0	1	0	0
Major	0	1	1	1	0
Moderate	0	0	6	0	0
Slight	0	1	0	1	0
Limited	0	0	0	0	0

Extreme Risks

None recorded

A SUMMARY of PERFORMANCE

154	4	18	100	32
No of Open Risks	No of Extreme Risks	No of High Risks	No of Medium Risks	No of Low Risks

[Place]

Directorate Risk Register can be viewed from this link

[HERE]

Likelihood

Impact	Very unlikely	Unlikely	Possible	Likely	Certain
Catastrophic	0	2	0	1	3
Major	1	30	9	5	0
Moderate	8	26	33	3	1
Slight	1	20	7	0	2
Limited	0	0	0	1	0

Extreme Risks

Assets and Property (Risk 572) Asbestos inspection compliance Health and Safety compliance and recording

Assets and Property (Risk 571) Corporate Landlord model not being fully adopted by the Council and all services

Assets and Property (Risk 463) Risks surrounding the cost of construction resources. Linked to this is the soaring cost of resources and only being able to get 30-day quotes. This is adversely affecting budgets

Commercial Waste and Strategy (Risk 381) Cost of contracted services (HRCs operation, transportation) increases when retendered

A SUMMARY of PERFORMANCE

81	2	19	49	11
No of Open Risks	No of Extreme Risks	No of High Risks	No of Medium Risks	No of Low Risks

[Corporate](#)

Services Risk Register can be viewed from this link

[HERE](#)

Impact	Likelihood: Very unlikely	Unlikely	Possible	Likely	Certain
Catastrophic	0	0	3	2	0
Major	1	12	8	2	0
Moderate	0	8	23	5	1
Slight	0	10	4	1	1
Limited	0	0	0	0	0

Extreme Risks

[ICT Operations (Risk 286) Loss of ICT service or data through a cyber-attack](#)

[ICT Operations (Risk 348) There is a business continuity risk from delayed ICT recovery after a disruption such as a power failure](#)

A SUMMARY of PERFORMANCE

22	1	6	12	3
No of Open Risks	No of Extreme Risks	No of High Risks	No of Medium Risks	No of Low Risks

Children's Services

Directorate Risk Register can be viewed from this link

HERE

Impact	Likelihood: Very unlikely	Unlikely	Possible	Likely	Certain
Catastrophic	0	1	0	1	0
Major	0	3	4	1	0
Moderate	0	2	2	1	0
Slight	0	2	2	2	0
Limited	0	1	0	0	0

Extreme Risks

Schools and Learning (Risk 272) Failure to stabilise the budget for the High Needs Block

A SUMMARY of PERFORMANCE

37	(Blank)	11	18	8
No of Open Risks	No of Extreme Risks	No of High Risks	No of Medium Risks	No of Low Risks

[Adults and Housing]

Services Risk Register can be viewed from this link

[HERE]

Impact \ Likelihood	Very unlikely	Unlikely	Possible	Likely	Certain
Catastrophic	0	0	0	0	0
Major	0	1	3	5	0
Moderate	1	12	4	3	0
Slight	0	6	0	1	0
Limited	0	0	0	0	0

Extreme Risks

None recorded

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APPENDIX B

Dorset Council **Emergency Planning** Service aims to protect the environment, businesses, and communities of Dorset from harm.		
Dorset Council works in conjunction with Local Resilience Forum (LRF) partners to plan, prepare, respond, and assist with recovery for a wide range of emergencies.		
Significant Response Incidents		
Date	Event	Description
09/06/2022	Water	Burst water pipe impact on residents – Lytchett Minster
24/06/2022	Cyber	Email phishing scam
13/08/2022	Fire	Wildfire at Studland
08/09/2022	London Bridge	Death of Queen Elizabeth II

Lessons Learnt - It is important to ensure that lessons are learnt following incidents, whether within Dorset Council (DC) or at the wider LRF level. Since the last update to committee, a debrief was undertaken to explore lessons learnt from Storm Eunice and Franklin, the Studland fire, and its wider impacts, including the resultant power outages and UXO (unexploded ordnance) issues. Debrief documents are held by the emergency planning team and the LRF, but the key messages are:

Operations / response – Good advance preparations led to a well organised response to the storms and Op London Bridge. External out of hours contact arrangements were challenging, requiring DC customer care staff to be mobilised. There was positive joined up work with partners to conduct community door knocking. However, DC inhouse out of hours service has been operational since 1 October '22, implementing a long-standing project. The prolonged response put pressure on a small EP team over long hours, which should be considered by Incident Management Teams (IMT) in future responses of this nature.

Community Resilience – Positive engagement with community and volunteer groups. Contact links with the Dorset Association of Parish and Town Councils have been improved. In future incidents, a community cell will be established early on by the IMT to improve the speed of response. A community resilience (CR) working group is meeting across the LRF to improve future engagement. A grant funded Community resilience lead officer post has been created, job advertised, with an expected start in early 2023. This is a shared BCP/DC post.

Use of data – Data from the power providers was limited, which hindered identification of impacted households, which delayed door knocking response. Power provider detail and vulnerable person data was quickly mapped and available to guide response. An initiative taking PowerBI dashboard is being explored.

Incident Management Team / Decision Making – IMT was effective. Membership of the IMT will in future include business intelligence representation at the outset together with consideration for community and data cells. Gold / Silver / Emergency Planning roles worked together well, including gold leading at the LRF level for the power outages. More support is necessary for long running incidents, and volunteer loggists and other admin staff will be sought.

Communications – Timely decision making at IMT allowed early communications, and feedback on social media from residents was positive. The length and intensity of response put pressure on duty communications officers, and in future consideration will be given to standing up further support.

Partners / Multi Agency Response – Welfare provision from the power providers was well received by the public. However, developing timely and accurate messaging for communities was challenging, which led to inconsistencies with DC's warning and informing. The LRF has established a data group to look at how future data can be improved. Information from the to enable door knocking in communities, with particular thanks to Dorset & Wiltshire Fire Service. The CR created post will also progress wider community preparedness.

Lessons Learnt – Covid Recovery

A major incident was called by the Dorset LRF, Dorset Council was one of the Category 1 responders which supported both the Response and Recovery phases of the pandemic. The Dorset Local Resilience Forum closed the response phase on 14 March 2022. This report details all the actions which Dorset Council undertook as part of the Covid-19 Recovery phase of the pandemic response. Dorset Council established a Member EAP which oversaw the work on the council's Covid-19 Recovery process.

The EAP identified a set of actions which needed to be completed to deliver that Recovery programme. The chart below sets out those actions and shows what has been established to respond to those actions, including where these have been moved in business as usual (BAU) processes:

Item	Link to council plan	Presenting	Action update	Action closure
24 June				
Address planning framework to be more flexible and rapid, support businesses quickly, remove backlog	Economic growth	**Cllr David Walsh,** Matthew Piles	Planning service transformation has continued throughout, remaining vacancies to be filled. Backlog to be removed. Enforcement being dealt with sensitively during pandemic. Guidance and support to businesses being issued. Applying listed building restrictions pragmatically and flexibly. Only enforce when good reason. Single point of contact for high street and business queries.	Action completed as part of Planning Transformation BAU
Temporary relaxation of planning so pubs and cafes can make use of outside space	Economic growth	**Cllr David Walsh,** Matthew Piles, Mike Westwood	See above	Temporary arrangement now within sitting out licences BAU work
Support high streets with social distancing. Not one size fits all, tailored help needed. Listed buildings limitations. Work with and support town councils	Economic growth	**Cllr David Walsh,** Matthew Piles, David Walsh, Mike Westwood	Working with town councils for safe opening. Measure implemented for roads, footways. Longer term measures – local transport plan. Guidance published how to comply with government guidelines. Comms; banners, social media. Needs big picture to join up work.	All actions closed our part of BAU work
Impacts on EU exit plans	Economic growth	John Sellgren	Supplies and movement of goods, services, and people. Concern of social cohesion of community relations, pressure, and impact on mental health. Representations made to central government for funding. Covid-19 amplifies existing disadvantage Skills EAP to share findings, opportunities to skill and reskill.	Work now absorbed into work of Commercial Board
Manage tension between visitors and residents while restrictions in place	Staying safe and well	**Cllr David Walsh**, Matthew Piles	Ongoing action plans in place Situation reports can be submitted by councillors	Closed
Financial recovery. financial situation will affect recovery plans. What government funding will be available, what		Aidan Dunn	Modelling for scenarios and Framework being developed Lobbying, government policy (taxation), 'war bond' Review DC priorities in council plan	Closed

Lessons Learnt – Covid Recovery

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Item	Link to council plan	Presenting	Action update	Action closure
will the council stop doing to meet budget gap				
Hybrid meetings			Hold annual meetings in September as a hybrid. Test out at this EAP 22/7 or 5/8	Arrangements for hybrid meetings now part of BAU procedures as required
8 July				
Impact of long-term shielding on vulnerable people, and on council service provision	Staying safe and well	**Cllr Laura Beddow,** Theresa Leavy, Vivienne Broadhurst	Wellbeing group being formed. Action plan developed. Helpline will continue. Learning has been captured. Dashboard produced to show progress. Update 5 Aug: This work has now been paused in line with government guidance to shielded people. If this activity resumes, it has been agreed that the Dorset Intelligence and Insight Service (DiiS) will develop this reporting capability alongside the other Covid-19 reporting that they currently provide	Closed
How to open schools fully in September with social distancing. Transport, classes. Impacts on students	Strong, healthy communities	**Cllr Andrew Parry,** Mark Blackman	Schools preparing for September, supported by DC. Transport being prepared. Big impact on school budgets. Small amount of funding available.	Closed
Impacts on students living away from place of registered healthcare	Staying safe and well	**Cllr Laura Beddow,** Vivienne Broadhurst	People affected should register as temporary or permanent resident	Closed
Covid-19 is a movable situation, be aware of wider picture of epidemic in future	Strong, healthy communities	Sam Crowe	Local Outbreak Management plan published on website. Health & Wellbeing board will provide public communications. Notify all councillors when there is an outbreak.	Closed. Country moved to Living with COVID-19 approach. Health protection COVID-19 board now replaced with new Health protection network – for wider health protection issues.
Maintain good habits, more exercise, use of open space	Staying safe and well	**Cllr Laura Beddow**, Sam Crowe, Vivienne Broadhurst	Good practice seen e.g. 'Quit for Covid'. Visible increase in exercise. Promote green spaces, celebrate what people have discovered. Walking and cycling spaces created, money received for this. Make accessible to all. Bike to work scheme.	Now part of BAU across all relevant council services
Improve green transport (using new government money for new cycle routes).	Unique environment	**Cllr Ray Bryan**, Matthew Piles	Aim to increase greener public transport, hydrogen, or electric buses. Savings achieved in business miles. Green	As this will not be funded through BSIP, a new bid is being developed for additional funding under LUF2. TCF schemes in southeast Dorset are

Lessons Learnt – Covid Recovery

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Item	Link to council plan	Presenting	Action update	Action closure
			travel plan being developed, some funding received but not enough.	currently under construction which will provide cycle corridors through areas with high congestion. Bike rental schemes also set to start this year.
Review bus links, better connections so people use public transport more	Unique environment	**Cllr Ray Bryan**, Matthew Piles		As this will not be funded through BSIP, we will be seeking new sources of revenue funding. Through the Enhanced Partnership we will be working with bus operators to implement low-cost measures (such as marketing, information improvements etc.) to encourage the return to public transport. We will also review the existing network to investigate if the current subsidy gives best value based on passenger needs.
Maintain reduced level of business mileage	Unique environment	**Cllr Ray Bryan**, Matthew Piles		The monumental task of transforming the way we work to an online environment over just a few weeks at the beginning of the pandemic has resulted in a significant drop in business mileage. Post-covid we are moving towards a hybrid work environment which will help to maintain the reduced levels of business mileage, although this is unlikely to be as low as it was during the height of the pandemic. However, other activities which will reduce the amount of business mileage done in petrol or diesel driven vehicles are being pursued such as increasing the electric pool car fleet and exploring in general the decarbonisation of the wider DC fleet. Plans around active transport will also help.
Economy & Skills EAP		**Cllr Gary Suttle**	Policy to go to Cabinet July. Focus on skills. Expand work of LEP. Issue with power capacity.	BAU economic development work to progress Economic Development Strategy
22 July				

Lessons Learnt – Covid Recovery

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Item	Link to council plan	Presenting	Action update	Action closure
Supporting people in temporary accommodation. Use our properties for accommodation where there is infrastructure to help, avoid tension with community	Sustainable housing	**Cllr Graham Carr-Jones,** Rebecca Kirk	presentation setting out what has been done to support people in temporary accommodation, and medium- and long-term plans. Including a funding bid and a report to Cabinet in September which will recommend Capital funding for a Housing company to purchase street properties.	Sensitive management of placements Weymouth B&Bs to minimise risk of anti-social behaviour and moving people on to settled housing. Gained funding from the MHCLG/DLUHC 'Rough Sleeper Accommodation Programme' to acquire 30 settled homes for people with experience of sleeping rough. This has reduced the number of people sleeping out to under ten, from the pre-Covid figure of around 30. Successful 'Everyone In' processes, to make sure that no-one must sleep out, with the Winter Shelter in operation and Severe Weather Emergency Protocols accommodating people sleeping out (both during cold months).
Disperse homeless population where they have connections	Sustainable housing	**Cllr Graham Carr-Jones,** Rebecca Kirk	Lantern reopening. this is being Covid- prepared now. the accommodation model in Verwood could be replicated elsewhere. this is being looked at.	Acquisitions of new homes and leased properties have spread the provision to areas such as Bridport, Blandford, Shaftesbury, and the East of the County but the primary area for connections (for homeless people) remains Weymouth, so provision is also there (and nearby, such as Portland Youth Hostel).
Review Homes Dorset	Sustainable housing	**Cllr Graham Carr-Jones,** Rebecca Kirk		Homes Dorset has been made dormant due to being inactive and not necessary for current activity. For example, Dorset Council applied for and gained Registered Provider status (without needing a company) to draw in Government grant as part of the Rough Sleeper Accommodation Programme. The dormancy enables DC to consider the use of the company, if necessary, at any point. The shortage of private rented housing in the County is one potential reason - to consider developing market rented housing to alleviate the pressure on the homelessness service having to

Lessons Learnt – Covid Recovery

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Item	Link to council plan	Presenting	Action update	Action closure
				use expensive temporary accommodation and nightly paid B&B.
Diversity & Inclusion		**Cllr Peter Wharf,** Susan Ward-Rice, Becky Forrester	an Equality Impact Assessment has been carried out and was presented to Cabinet in June. The findings have influenced the Local Outbreak Management Plan. Plans to develop a diversity strategy.	Closed
Workforce – Impact of home working on mental health.		**Cllr Peter Wharf,** David McIntosh	support available to employees on the Intranet pages. the People Plan is being updated as they anticipate further impacts on staff and managers.	Part of Dorset Workplace BAU
Numbers and skills of workforce, options to redeploy and rebalance		**Cllr Peter Wharf,** David McIntosh	In future people will be able to record their skills information on Delve. The Dorset Workplace project will be presented to Cabinet in October.	Covid Skills Agency closed agile working lessons learned taken forward into Dorset Workplace and team charters and ways of working
Digital work during the pandemic		Deborah Smart	presented information showing digital achievements and highlights during Covid.	All the actions for the digital team have been completed, transitioned to BAU or moved to an established programme within the Council's transformation programme. The exception to this is virtual council committee meetings, which have not been enabled due to the lack of supporting legislation to permit these to take place. The Council will continue to lobby for this legislation for efficiency and sustainability reasons.
Hybrid meetings		**Cllr Peter Wharf,** Jonathan Mair	Counsel advice sought by the LGA confirms it is unwise to hold face to face or hybrid meetings unless there is an exceptional business need. The Annual Council meeting in	Closed

Lessons Learnt – Covid Recovery

A major incident was called by the Dorset LRF, Dorset Council was one of the Category 1 responders which supported both the Response and Recovery phases of the pandemic. The Dorset Local Resilience Forum closed the response phase on 14 March 2022. This report details all the actions which Dorset Council undertook as part of the Covid-19 Recovery phase of the pandemic response. Dorset Council established a Member EAP which oversaw the work on the council's Covid-19 Recovery process.

The EAP identified a set of actions which needed to be completed to deliver that Recovery programme. The chart below sets out those actions and shows what has been established to respond to those actions, including where these have been moved in business as usual (BAU) processes:

Item	Link to council plan	Presenting	Action update	Action closure
			September will be virtual voting will be by using Forms, it will be easy to use, and one-to-one training will be offered.	
5 August				
Impact on care home provision, financial viability, risk of closure	Staying safe and well	**Cllr Laura Beddow,** Vivienne Broadhurst	**Slides presented.** health and social care is still in the response phase of this pandemic, 48 residents have passed away because of Covid-19. High levels of vacancies remain in the care homes with 525 beds now vacant in the Dorset Council area. Additional funding, including an infection control grant, has been provided to registered care providers to support the ongoing pressures that they are facing. The council has been actively working with other system partners in implementing the Home First model for people being discharged from hospital. This model was starting to reduce the demand for residential care; however, the pandemic has accelerated this trend.	Care homes are managing the transition back to BAU however the impact of high staff turnover following many older staff leaving the profession and current high levels of absence are still proving a challenge. This sees over 500 beds still reported as vacant on the national capacity tracker because of an inability to staff. Adult social care continues to work with providers to support the situation. The cost-of-living crisis has seen an increase in homes energy and food costs and providers are struggling in the short-term to containing costs.
Impact on social care from healthcare backlogs	Staying safe and well	**Cllr Laura Beddow,** Vivienne Broadhurst	there has been an increase in people presenting with mental health needs, and at the same time there has been a reduction in mental health beds. The implication of this for the backlog is not clear currently.	Adult Social Care is working in conjunction with Community Mental Health partners to operate safely within the national Mental Health bed shortage. A risk list is held of all those individuals who are waiting for MH beds and those individuals who have been inappropriately placed out of county because of a lack of availability of locally commissioned beds.
Maintain better partnership working and integration, enhanced trust	Staying safe and well	**Cllr Laura Beddow,** Vivienne Broadhurst	the Home First multi-organisational teams' model is the appropriate way to go forward, especially being mindful of the upcoming winter pressures	Transition from Pandemic response from health and social care to recovery and implementation of good practice, that being the national recommended Home First model. With support nationally from NHS England Improvement team, Dorset Council is driving forward change in the way that residents of Dorset are quickly and safely discharged and are supported to recover and

Lessons Learnt – Covid Recovery

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Item	Link to council plan	Presenting	Action update	Action closure
				offered a supported reablement journey to return home, wherever possible.
Support non-covid elements of community, that have been put on hold. Use asset review opportunities, more secure community infrastructure	Strong, healthy communities	**Cllr Tony Alford**, Cllr Laura Beddow, Vivienne Broadhurst	How we keep that level of volunteering and sustain community resilience. 1800 still registered on the volunteer register	Non-covid elements are now being managed vis the 'Connected Communities' partnerships meetings and linking with other arising issues being supported in the Dorset Together format such as Cost of Living and Ukraine to create long term strengthened strategic partnerships with the VCS and the wider statutory sector bodies.
Communities have been doing it for themselves successfully, with parish councils, however not all communities have good volunteer capacity	Strong, healthy communities	**Cllr Tony Alford**, Cllr Laura Beddow, Vivienne Broadhurst	It was important that health and social care need to continue to work collaboratively in all aspects of their work. The work of the Community Forum. Laura Cornette is undertaking work to promote more volunteer collaboration, reinforcing the joined-up approach. A Portland Resilience Committee has been established to help co-ordination and that has proved to be a great success	Ongoing work to promote and support volunteering with our partner VCSO's to ensure 'fresh' volunteers are brought into the frame and support our key social services departments. Throughout the winter of 2021-22 VCD and Age UK worked on a programme of delivery support and Home from Hospital with our social work teams in Adults and Children's which was hugely successful and is now being commissioned for the longer term.
Maintain improved relationships, continue to promote community groups	Strong, healthy communities	**Cllr Tony Alford**, Cllr Laura Beddow, Vivienne Broadhurst	Need to move from a place of being reactive to the pandemic into a more collaborative space. Needs to be properly resourced and that we can learn more about what is required by talking with communities. This collaboration between groups streamlines the process and keeps costs down	This is also being supported via the Connected Communities workstream and through the newly re-commissioned VCS support services.
Opportunity to drive climate agenda	Unique environment	**Cllr Ray Bryan**, Karyn Punchard, Ken Buchan	Slides were presented. The Climate Change and Ecological Emergency Strategy has just been approved by Cabinet to go out to public consultation. The strategy covers a wide variety of topics including becoming carbon neutral by 2040 and the wider county by 2050.	The climate agenda has been driven forward. Following public consultation an updated version of the strategy was presented to Place & Resources Scrutiny Committee and Cabinet in May

Lessons Learnt – Covid Recovery

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Item	Link to council plan	Presenting	Action update	Action closure
			A delivery plan was currently being drafted that would set out specific resource requirements. The reduction in business mileage and building use by the council during the pandemic lockdown period as an example of how reductions in resource usage can be made	2021 and the final strategy was approved by Full Council in July 2021. The final strategy included a delivery plan setting out the actions required to meet our carbon reduction targets. Delivering the strategy will be a complex undertaking requiring investment in both time and finances from Services across Dorset Council. The governance of Strategy delivery has been agreed with the Portfolio holder, Chief Executive and Senior Leadership Team, and lead officers for each action are being identified. In May 2022 a new Corporate Director responsible for coordinating the delivery of the Climate and Ecological Emergency strategy will start at DC. In addition, a successful bid to the Public Sector Decarbonisation Fund will result in around £19m worth of improvements across Dorset Councils properties this year. Other actions within the strategy are now being taken forward across council services.
Reduced use of offices and resources	Unique environment	**Cllr Ray Bryan**, Karyn Punchard, Ken Buchan	It was confirmed that vehicle charging points are being installed from September onwards.	Part of Dorset Workplace programme
Encourage increased interest in nature, wildflowers, and increase outdoor exercise	Unique environment	**Cllr Ray Bryan**, Karyn Punchard, Ken Buchan	During lockdown carbon emission had dropped to 2006 levels. Comment was made that reduced traffic noise had meant people had noticed a positive impact on their enjoyment of outdoor spaces, for example, much more birdsongs could be heard.	There was a visible increase in the use of Dorset Council's green space outside of lockdown periods over the last two years Visitor levels at our country parks and harbours have recovered to pre-covid levels for the most part and in some instances have surpassed this.

Lessons Learnt – Covid Recovery

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Item	Link to council plan	Presenting	Action update	Action closure
				The public have engaged actively in the numerous visitor programmes that are run by the Rangers at our parks. We have engaged directly with around 85,000 visitors in 2021/22, and the trend is of increasing engagement. Digital engagement is also on the rise between the country parks and visitors. We have increased followers across several social media channels. During the summer of 2021 there was a 224% increase in social media followers and a marked increase in the amount of digital content such as photographs and stories that have been shared. The digital content is clearly of interest and is likely translating into greater interest in wildlife and encouraging the public to exercise in our outdoor spaces.
Finance update		**Jim McManus**	A presentation showed that the council was projecting a £43m overspend for this financial year. Jim confirmed that the full impact has not yet been felt. It was noted that as furlough ends, the ability to pay business rates and council tax may drop. Throughout this period there have been weekly conversations with local MPs concerning the council's finances and a request to them to reinforce these messages with Ministers.	Part of budget planning and MTFF BAU

A "lessons learnt" debrief session was also held on the Council's response to Covid and subsequent recovery work. A summary of findings is set out below:		
Theme	**What Went Well?**	**What Didn't Go So Well and What We Could Do Better?**
Workforce	There was a strong sense of "One Council" / "One Team" across the workforce. Staff commitment was exemplary and critical services were supported by other staff via an effective skills agency cell. The technology to enable homeworking worked well and put the Council in a good position for future hybrid working arrangements. Post Covid, re-opening Customer Access sites in Libraries rather than traditional council reception points has been positive, enabling customers to experience integrated services in community spaces for essential in person conversations. The ability of the Council to continue to give focus to Covid whilst increasingly delivering BAU services was admirable, especially as the new models of working (office / home / hybrid) were still in development. We supported staff and were sympathetic to the fact that everyone has had an individual reaction to the pandemic, from those who wanted to move back to 'normal' to those still wanting to shield from the impact of the virus and all stops in between.	There was some resistance to redeployment from some work areas and staff. The skills agency would have been assisted with an improved data set of staff skills and experience. In future, an online "job shop" of roles that staff could volunteer into is worth considering. Corporate guidance and support were not easily followed by front line staff that were unable to work from home. Central guidance should be sense-checked by front-line teams. The decision to roll-forward annual leave for all staff has presented operational difficulties during 22/23. There is an argument to suggest this should have been based on business need and at manager discretion. Maintaining the Covid Contact Centre was challenging throughout, but particularly once services started opening. Retraining staff took up to 8 weeks so there was a dip in service as Covid Contact Centre were backfilled. Certain roles require external advertising and recruitment to retain continuity and sustainability of service delivery during critical times.
Communication	There was strong engagement on social media and e-newsletters, with a joined-up approach across Local Resilience Forum partners. Internal communications were well received by officers and members, and there was a clear and regular reporting from the Senior Leadership Team.	Specific incidents (Weymouth and Durdle Door) required a huge amount of comms resource to respond reactively. Councillors fed back that the Council could better use them as a trusted source of information in local communities.
Command and Control	The "Command and Control" structure (Gold / Silver / Duty Emergency Planning) worked well, with dedicated Gold and Silver providing separation from BAU response. Temporary removal of Children's and Adults officers from the Gold/Silver rota enabled them to focus on humanitarian response within their services. There was a good "battle rhythm" across the Senior Leadership Team, Incident Management Team, and specialist cells.	The work of the specialist cells was not always joined up, leading to some duplication. A quick daily "stand up" between cell leads and Silver should be considered. Due to the length of response, the dedicated Covid Gold and Silver role was intensive, and more respite should be considered.
Multi Agency Working	There was early and positive work across Local Resilience Forum partners and the voluntary sector. A system wide response on shielding enabled positive community confidence.	Due to the size of the response and the regularity of Local Resilience Forum meetings, there was some overlap and duplication across cells, but this was inevitable.
Political	Councillors provided a strong support to local communities. There was portfolio holder and political input into decision making which helped to reduce any public aggression away from officers and demonstrated strong Council wide resilience. Working relationships and communication channels with Dorset MPs were positive.	With the temporary cessation of committee meetings some councillors considered they had more capacity to support the response and more could have been done to promote the volunteer offer. The national picture was challenging, with rapidly changing government guidance and mixed messaging. The Council found itself often having to respond to changing guidance at the same time as it was being announced to the nation at daily briefings.

A "lessons learnt" debrief session was also held on the Council's response to Covid and subsequent recovery work. A summary of findings is set out below:		
Theme	**What Went Well?**	**What Didn't Go So Well and What We Could Do Better?**
Assets and Finance	The property cell was effective, and there was a good utilisation of the vehicle fleet. A Temporary Mortality Support facility was established, based on initial government worst case scenario planning.	Closure of buildings and challenges with social distancing presented operational difficulties mobilising rest centres for any evacuations. A few temporary rest centres were agreed and will be formalised to provide greater resilience in the future. Closure resulted in loss of income across some services.
Evidence for Decisions	EU Exit planning meant that business continuity plans were largely up to date, despite the significant restructures across services in the lead up to the pandemic. There was a rapid increase in pooled data, and great engagement with Public Health. Covid related expenditure was monitored closely.	Interpreting government guidance and applying to local situations took some time. Key decisions made were retrospectively logged and should in future be maintained from Day One.
Personal Protective Equipment	The distribution of PPE was managed well from within the Charminster Depot. There was a proactive purchase of PPE rather than a sole reliance on LRF deliveries.	There was some early anxiety from staff over a perceived lack of PPE and cleaning equipment. Changing government guidance on PPE did not help. Relatively short "use by" dates have led to some waste of PPE.
Communities	The Community Shield project was effective and proactive, receiving positive appreciation from service users. The Council acted quickly and trusted staff to make the right decisions. There was proactive contact to those identified as in need.	Some skills were needed, and we were not aware that we already had them. A skills audit of volunteers could be considered. The length of the response impacted on the wellbeing of some staff and volunteers. The personal proactive approach taken should be adopted again for any future humanitarian responses, including adopting a call service to check in on lonely elders.
Public Health	Dorset Council continued to discharge its legal responsibilities around public health effectively especially during the latter phase of the pandemic. The public health response would not have been possible without huge contributions from colleagues in a wide range of directorates, including corporate, children's, adults, and place. This level of teamwork was critical in Dorset Council being able to continue to maintain an effective response and manage the ongoing anxiety and concerns of the public.	Consistent representation at the Health Protection Board from key services. We need to remember that we are still in recovery as subsequent waves continue to have an impact on business continuity and employee sickness rates, continuing to place our system under pressure.

Dorset Council

Report of Internal Audit Activity

Progress Report 2022/23 – October 2022

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Agenda Item 11

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Unrestricted

Executive Summary

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

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

The contacts at SWAP in connection with this report are:

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SWAP is an internal audit partnership covering 25 organisations. Dorset Council is a part-owner of SWAP, and we provide the internal audit service to the Council.

For further details see:
https://www.swapaudit.co.uk/

Audit Opinion, Significant Risks, and Audit Follow Up Work

Audit Opinion:

This is our second update report for 2022/23 financial year.

Our live Internal Audit Rolling Plan and specifically the coverage and assurance tab (*which can be found on the first tab of the Rolling Plan or on page 3 below*), reflects the outcomes of recent reviews completed. Based on these recent reviews, we recognise that generally risks are well managed. We have identified some gaps, weaknesses and areas of non-compliance however, we have reasonable to high levels of confidence that the agreed actions will be implemented and as such are able to offer a **reasonable opinion**.

Since our last progress report in June 2022, we have issued **five Limited** assurance opinions on the areas and activities we have been auditing. One of these Limited assurances has been classified as a significant risk. Further details on this can be found below and on page 7. In Appendix A on pages 7-11, we have provided the one-page audit reports for the Limited assurance opinion work, to offer the committee further insight.

Significant Risk

SWAP has undertaken an audit of **Premises Related Health and Safety** to confirm compliance with property health and safety legislation ensuring that the Council is acting as the 'Competent Person' managing the health and safety requirements of the Council's premises. Whilst the Council has agreed to adopt a Corporate Landlord model the overall aims of the Council cannot be supported by the Assets & Property service without this model being fully endorsed and appropriately rolled out. As a result, there are examples of different services such as Housing operating with different understandings. Furthermore, the TechForge asset management system contains gaps in compliance data, for example evidence of the necessary asbestos management procedures being carried out, and the system requirements are being reviewed. These gaps increase the probability of the Council failing to comply with health and safety legislation, in turn the risk of death or serious injury to staff, service users or members of the public, and ultimately the legal liability of the Council. Our audit findings have been positively received and the service intends to implement actions at pace. We will provide an update at the January meeting but will delay our formal follow up work until February 2023 to give time for all actions to be implemented and to enable SWAP to confirm that processes have been appropriately embedded.

Executive Summary

Follow Up of Agreed Audit Actions

At the last audit committee in June, we highlighted a concern around some long outstanding actions, and we are pleased to report that considerable work has been undertaken across the council since June in order to complete many of these actions. In our previous report we recorded 34 Priority 1 and 2 overdue actions as at 18/05/22, this has reduced to 11 as at 20/10/22 which is a significant improvement. The usual performance graphs on implementation of audit actions can be found on page 4 below. Further details on outstanding actions can be found by viewing the follow up **Action Tracker** which is stored in the same location as our Rolling Plan and can be viewed by clicking on this link .

In our last report we highlighted that we had reviewed the council's debt recovery (post covid-19) processes and issued a limited assurance opinion. We committed to undertake a deeper dive follow up review during the summer to enable us to report back on progress to the September meeting (which was subsequently cancelled). Whilst five actions have been signed off as complete, six high priority actions remain to be completed. A report on the outcome of our follow up work can be found on page 12 and there is a clear commitment from senior managers that co-ordinated actions will now be advanced to resolve the remaining outstanding issues. We will undertake a further follow up review commencing later this month (November) and bring the results of that back to the Committee in January.

Internal Audit Plan Progress 2022/23

Our audit plan coverage assessment is designed to provide an indication of whether we have provided sufficient, independent assurance to monitor the organisation's risk profile effectively.

For those areas where no audit coverage is planned, assurance should be sought from other sources to provide a holistic picture of assurance against key risks.

SWAP Internal Audit Plan Coverage

The table below, captures our audit coverage, mapped against the Authority's corporate risk themes. Furthermore, we have then overlayed the audit assurance outcomes of those risk areas that we have reviewed. As you will see we have provided some level of recent audit work across all the areas of the corporate risk themes. It is possible on our Internal Audit Rolling Plan document to also view coverage of our recent audit work mapped by Core Areas of Recommended Assurance, SWAP Top 10 Risk Themes, and Corporate Plan Objectives (please ensure that you download the document in the 'desktop app' which will open the document in Excel).

Risk Theme	Coverage	Assurance assessment based on completed internal audit work
CR01 - Finance	Good	Reasonable
CR02 - Compliance	Adequate	Reasonable
CR03 - Health, Safety & Wellbeing	Some	Limited
CR04 - Communities	Good	Reasonable
CR05 - Digital & Technology	Good	Substantial
CR06 - Safeguarding	Good	Reasonable
CR07 - Transformation	Some	Limited
CR08 - Workforce	Adequate	Reasonable
CR09 - Political & Leadership	Some	Limited
CR10 - Service Delivery	Good	Reasonable

Coverage Key	
Good	Good audit coverage completed
Adequate	Adequate audit coverage completed
Some	Some aspects of audit coverage completed
In progress	Some aspects of audit coverage in progress
None	No audit coverage to date

*Audits carried out more than 2 years from current date are not included.
*Audits carried out between 12 and 24 months from current date have a reduced impact on audit coverage.

Assurance Key	
Substantial	Sound system of governance, risk management and controls exist
Reasonable	Generally sound system of governance, risk management and control in place
Limited	Significant gaps, weaknesses or non-compliance were identified
No Assurance	Fundamental gaps, weaknesses or non-compliance identified

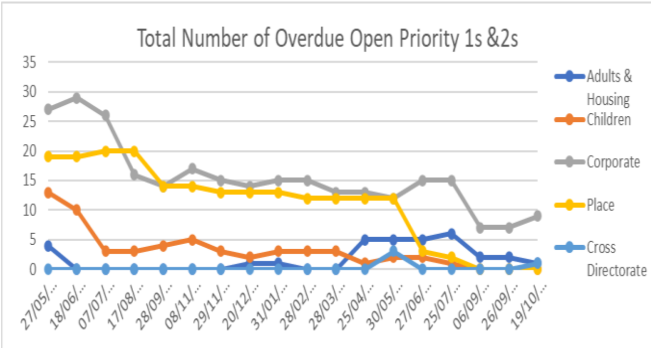
*Audits carried out more than 12 months from current date are not included.

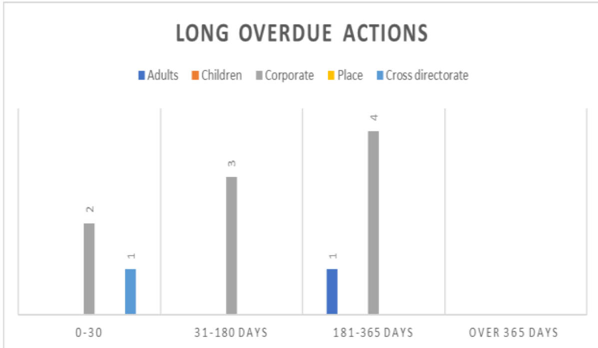
We review our performance to ensure that our work meets our clients' expectations and that we are delivering value to the organisation.

SWAP Performance Measures

Performance Measure	Performance
Overall Client Satisfaction *(Did our work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)*	**100%***
Value to the Organisation *(Client view of whether our audit work met or exceeded expectations, in terms of value to their area)*	**100%***

Outcomes from Follow Up Audit Work





Long overdue actions could have revised implementation dates, however our metric is measured from the original agreed date.

Added Value

'Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.'

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Added Value

CiFAS

The use of the CiFAS data matching service continues to bring benefits. Since starting to match new agency workers against the database there have been two recent matches indicating that these individuals who were about to start work for Dorset Council through the agency, had been flagged as having a fraud recorded against them. In both instances the offer of agency work was withdrawn as a result. The costs to Dorset Council of being a member of CiFAS is being funded by SWAP.

Additional Analysis and Insight

In addition to our standard audit report, we take opportunities to provide additional analysis and insight where possible:

- We provided some analysis as part of an audit of Children's Services Commissioning of Alternative Provision around the length and cost of placements.
- We undertook a survey as part of our audit of risk management and was able to provide analysis of the results.

Power BI Dashboard on Schools Financial Value Standards (SFVS) returns

Dorset Schools in line with all other maintained schools are required to send an annual return to the council, demonstrating that they have sound financial standards and controls in place. From a mass of electronic returns, it can be difficult to identify patterns, common themes, or perhaps outliers which could be a cause for concern. One of SWAP's Data Analysts had worked with another of SWAP's Local Authority partners to produce a dashboard presentation on Power BI to help with detailed analysis of the contents of the school's returns. As SWAP had made the initial investment in time on producing the analysis tool, we offered this to the Dorset School's Finance Team. SWAP uploaded the data and was able to hand over the dashboard to the school's team to use going forward.

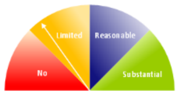
Newsletters and updates

SWAP regularly produces a newsletter and other relevant updates for partners such as fraud bulletins, which provide information on topical issues of interest.

The role of SWAP as the internal auditors for Dorset Council is to provide independent assurance that the Council's risk management, governance and internal control processes are operating effectively. In order for senior management and members to be able to appreciate the implications of the assurance provided within an audit report, SWAP provide an assurance opinion. The four opinion ratings are defined as follows:

Assurance Definitions	
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

In addition to the assurance definitions above we also provide an **'assurance dial'*** which indicates on a range of high medium or low where within the range of that assurance a particular audit assurance sits.



As can be seen in this example the assurance provided is low limited as the dial is sitting on the lower end of the limited scale. It could equally have been a medium limited assurance where the dial sits midway or high limited when it is sitting at the upper end close to the reasonable assurance.

The Committee is able to view a record of all internal audit work on the [Rolling Plan]. Please follow this link, click on the files tab and then on the file called **Internal Audit Rolling Plan.** From the document, members are able to view work in progress and all completed work that would have previously been reported to the Committee in a table form. To provide the Committee with additional insight into Limited assurance audits we have been providing a summary of the outcomes. We have however, recently introduced a one-page audit report, which we are now providing in full for Limited assurance audits for members information.

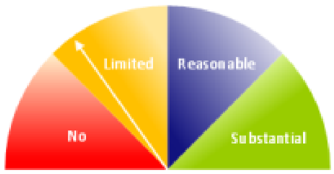
****Please note the Risk management report on page 6 below does not provide an assurance dial as the assurance is also combined with a maturity assessment***

Premises-Related Health & Safety – Final Report – September 2022

Audit Objective

To provide assurance that the Council is aware of its health and safety responsibilities for all premises and follows necessary regulations and legislation.

Assurance Opinion



Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

Number of Actions	
Priority	Number
Priority 1	2
Priority 2	6
Priority 3	1
Total	9

Risks Reviewed	Assessment
The Council does not comply with the requirements of health and safety legislation and does not act as the Competent Person or appropriately delegate responsibility as required. This may result in injury to a member of staff or the general public.	High

Key Findings

In November 2020, Cabinet received a report outlining the Council's intention to adopt a Corporate Landlord model (centralising responsibility within Assets & Property). However, although aspects of this model have been implemented, this has not extended to a common understanding of the Council's approach to compliance with health and safety legislation. This creates a risk of significant compliance gaps and audit testing has identified examples of this such as within Housing.

Properties should be reviewed in relation to asbestos annually by the respective Premises Responsible Person and every five years by Assets & Property. However, the last relevant dates recorded for two properties were 2008 and 2009. This is symptomatic of the current model whereby Assets & Property do not ensure receipt of active confirmation/evidence of statutory checks for categories of property where they do not assume direct responsibility.

Work is ongoing to develop compliance reporting from the relevant systems currently in use (TechForge and ZetaSafe) and to improve the reliability of the data contained therein. The intention has been to migrate to a cloud-based version of TechForge but the overall system requirement is currently under review. A system that is fit for purpose (which, on review, TechForge may be), with common understanding of how it is to be used and appropriate access for all relevant officers should lead to accurate compliance reporting. This would facilitate a proactive risk assessed approach to maintenance which would mitigate the risk of overdue statutory checks, some examples of which we have identified during sample testing.

Audit Scope

This audit considered:

- Policies and procedures in place meet the requirements of legislation/regulations;
- Systems in place to monitor compliance with legislation/regulations;
- Mechanisms in place to ensure qualified inspectors and staff;
- The processes in place to respond to identified breaches of health and safety legislation/regulations;
- Upwards reporting to senior management for oversight.
- Compliance records (relating to statutory areas of asbestos management, electrical safety, fire safety, gas safety and water hygiene) for a sample of 15 Council premises across a variety of types.

Next Steps

Nine actions have been agreed with management to form a detailed action plan. All actions are due to be implemented by 28th February 2023. Due to the limited assurance provided and the high residual level of risk observed, Internal Audit will liaise closely with the service over the coming months to monitor progress against the action plan.

Risk Management – Final Report – July 2022

Audit Objective To provide an assessment of the current risk maturity of the Council.

Assurance Opinion			Limited			
Maturity Assessment & Definitions					**Number of Actions**	
Naive	Aware	Defined	Managed	Enabled	Priority	Number
No formal approach developed for risk management.	Scattered silo-based approach to risk management.	Strategy and policies in place and communicated. Risk appetite defined.	Enterprise approach to risk management developed and communicated.	Risk management and internal controls fully embedded into the operations.	Priority 1	0
					Priority 2	6
					Priority 3	6
					Total	12

Risks Reviewed	Assessment
Risk management arrangements are not effective, leading to uninformed decision-making or unforeseen exposure, resulting in failure to achieve key priorities and objectives.	Medium

Key Findings

From a new authority in April 2019, the Council has developed and refined a functional system of risk management between officers and elected members. There is an ongoing 'roadmap' within Assurance to continue to develop and we believe that the infrastructure is already in place to enhance the effectiveness and maturity of the risk management framework further. During interviews with stakeholders, the risk management support provided by the Assurance department to business areas was cited positively on several occasions.

Risk management is most effective when it is embedded through an organisation and seen as 'business as usual' rather than an additional administrative task. If senior management and elected members have sufficient appetite for this approach, many of the actions identified from this review will require greater strategic direction from them working in conjunction with Assurance, beginning with an internal review of the Risk Management Framework and how the Council's risk appetite is defined. Leadership from Senior Management will be required to drive engagement and learning, ensuring that all emerging risks are identified, evaluated, responded to, and monitored. This may also require review of the Council's approach to resourcing additional risk management activity, and whether this is best achieved through the central Assurance team or within the directorates.

Audit Scope

We considered internal controls in the following areas:

- Policy framework;
- Responsibilities and training;
- Corporate, service, project and partnership risk registers;
- Reporting and escalation.

We then gave all officers and members the opportunity to complete a survey aligned with our maturity assessment – we received 91 responses in total and a summary of these will be available to management. We followed this up by interviewing a cross-section of members and senior management, as well as those who wished to express further views on the Council's risk management.

Each of these have informed our final assessment of maturity in line with definitions set out by the Institute of Internal Auditors.

Conclusion

We have assessed the Council's current risk management maturity as 'Aware' moving into 'Defined'. While a framework is in place, it is understood and applied inconsistently in places. In our detailed risk management maturity assessment, we have set out an assessment in each area along with 12 actions that we feel will help to develop the existing risk management framework through 'Defined' to a 'Managed' position once implemented.

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Commissioning of Alternative Provision Final Report – August 2022

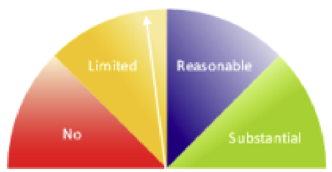
Dorset Council

SWAP INTERNAL AUDIT SERVICES Helping Organisations to Succeed

Audit Objective

To provide assurance on the controls in place regarding the financial management of educational alternative provision.

Assurance Opinion



Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

Number of Actions

Priority	Number
Priority 1	0
Priority 2	8
Priority 3	5
Total	**13**

Risks Reviewed	Assessment
Poor financial controls over sourcing and monitoring educational alternative provision leads to insufficient scrutiny and oversight, which could result in poor value for money, overspent budgets and/or children's outcomes not being met.	Medium

Key Findings

Alternative Provision (AP) placements were centralised to the Brokerage team in 2020 and an excel spreadsheet was established to record all placements. Up until this date there was no centralised record and despite the efforts made by Brokerage, data held in the central record is incomplete. This presents difficulties with the monitoring, management and reporting of placements. Separate bespoke case management and brokerage systems with a workflow functionality should assist with budget forecasting, allow for timely decision-making and reviews to take place and provide audit trails and more accurate management information.

Whilst Provision Leads receive reports during the course of placements, there is not a consistent review process in place, with AP reviews being included within annual EHCP reviews. AP should be short term so a more frequent formal review process should be established. In addition, a formal record of reviews should be kept which documents whether outcomes have been achieved, or reasons for extending the placement which could also inform contract monitoring activities.

AP processes and placements are not included in the dip sampling of cases that form part of the Quality Assurance framework that is in place in Children's Services. Dip sampling of cases and placements could contribute to improved processes and enhanced student learning. This could include clearly stating the rationale for choosing providers, documentation completion and retention.

The new AP framework is due to commence in September 2022 and has more rigorous requirements for providers which may lead to a reduction in the number of approved providers. In addition, brokerage is not always kept informed of new placements and both of these factors could result in non-compliant spend which should be monitored to enable necessary action to be taken.

Contract monitoring processes could be improved by providing feedback of analysis of the reasons why certain providers have not been chosen for placements. An exercise to check capacity in the contract monitoring team to fulfil requirements of the new framework should be undertaken.

Audit Scope

We have reviewed the following: -

Processes in place for sourcing educational alternative provision for children including rationale for selection;
Payment processes including matching a sample of invoices;
Processes and rationale for handling any uplifts that have occurred;
Processes for ending specific placements or for extending them;
Budget monitoring processes;
Whether agreed outcomes are being achieved;
Upwards reporting and oversight by senior management.
Data analysis of placement records to include length of provision; cost over time – unable to provide all planned analysis due to incomplete records

Further details

Data analysis of current placements taken from the brokerage spreadsheet is included as part of the report. 13 actions have been discussed and agreed.

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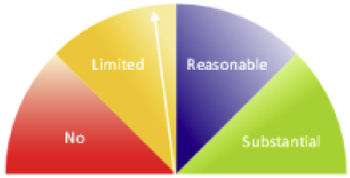
Achievement of Tactical Savings Targets – Final Report – August 2022

Audit Objective

To provide assurance that robust plans are in place to achieve savings targets by the year end.

Assurance Opinion



Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

Number of Actions

Priority	Number
Priority 1	0
Priority 2	2
Priority 3	5
Total	**7**

Risks Reviewed	Assessment
Planned savings targets will not be achieved in 2022/23 resulting in a failure to reach a balanced budget at the year end.	Medium

The majority of savings via tactical measures identified within the 2021/22 budget were considered to have been achieved. Despite some lessons to be learned from not fully implementing all planned measures, this suggests that the Council does have a track record of achieving its tactical savings targets come year end.

However, from reviewing a sample of tactical savings, we identified a number of recurring themes:

- Associated figures were often not supported by robust evidence at the point of being included within the budget (or subsequently);
- Lead officers were sometimes unaware of the financial element of the tactical measures for which they were responsible, particularly where there had been turnover in posts;
- Directorates seemed reluctant to report their targets corporately as being at risk early in the financial year. This was often justified by confidence that they could be found from elsewhere.

Overall, there does appear to be scope for the Council's approach to tactical savings targets to be reformed. Firstly, the distinction between tactical and transformational savings is not consistently understood across directorates and it is not clear that it is serving a useful purpose, especially where governance around transformational savings (outside of our scope) is anecdotally more consistent and robust. Secondly, a more mature culture could be achieved whereby reporting on and identifying new savings opportunities would be more transparent and continuous throughout the year.

Audit Scope

This audit considered:

- Delivery of 2021/22 tactical savings.
- The process for identifying tactical service savings within the 2022/23 budget.
- A risk-based sample testing of tactical savings for the extent to which savings identified are on target to be achieved.
- The process for identifying additional/new savings opportunities during the year, outside of the budget setting process.

It should be recognised that the findings of this report only reflect activity from the first quarter of the 2022/23 financial year.

We have not passed any professional judgement on the likelihood of individual measures being achieved, outside of assessments provided by lead officers, as this is beyond our expertise.

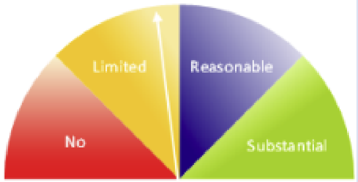
Next Steps

Seven actions have been proposed to management within a detailed action plan.

Capacity to Support Transformation – Final Report – October 2022

Audit Objective To provide assurance that the Council has the staffing capacity to support and deliver the transformation programme.

Assurance Opinion



Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

Number of Actions

Priority	Number
Priority 1	0
Priority 2	2
Priority 3	5
Total	7

Risks Reviewed	Assessment
A lack of available staff to deliver projects may result in planned transformation savings targets not being achieved leading to failure to reach a balanced budget.	Medium

Key Findings

To date, the Transformation function has adopted a bottom-up approach to prioritising projects. Although a prioritisation matrix was devised, this has not been used consistently on an ongoing basis. However, Cabinet has recently agreed 10 commitments which should provide clarity of direction to transformation. This now needs to be formalised by Transformation with all projects being reviewed and prioritised through a new mechanism. Other tools are also being developed to better align capacity with demand.

Many of the Council's Project Managers and Project Officers are embedded within other directorates and services outside of the central Transformation function. Although Transformation liaises informally with other services as well as through the Dorset Agile Resource Transformation (DART) governance structure, they do not currently have full oversight of how capacity is being deployed to meet demand to ensure optimal alignment across the Council. Project Managers and Officers in these areas may also be less clear on what is expected to be reported into the central governance structure.

Extensive governance structures have been established to support transformation both within directorates and centrally, and the Council's approach to transformation is collaborative. Highlight reporting on individual projects is concise and visible.

Audit Scope

We have reviewed the following: -

- How projects have been prioritised
- The existing skills and staffing capacity within the Council
- The operating model for assigning staff to projects
- The governance of capacity where the project work is embedded in the service
- The resourcing capacity from internal and external sources
- The engagement with third parties to enable delivery of changes at the pace set by the Council
- Sample test of capacity in individual projects

Other Relevant Information

Seven actions have been agreed with management detailed within an action plan. All actions are due to be implemented by June 2023.

Debt Recovery Post Covid-19 Follow Up Review - August 2022

Follow Up Audit Objective

To provide assurance that agreed actions to mitigate against risk exposure identified within the 2021/22 Limited opinion audit of the Debt Recovery Post Covid-19 report have been implemented.

Follow Up Progress Summary

Priority	Complete	In Progress	Not Started	Summary
Priority 1	0	1	0	1
Priority 2	4	5	0	9
Priority 3	1	3	0	4
Total	5	9	0	14

Follow Up Assessment

The original audit was completed and reported in April 2022 and received a Limited assurance opinion. The follow up audit has found that nine of the actions are still in progress. Two of the actions are not due to be implemented until 30th September. Key findings have been summarised below.

Follow Up Scope

Testing has been performed in relation to all priority 1 and 2 actions and supporting evidence obtained to support implementation of actions.

Key Findings

Whilst some progress has been made to implement agreed actions considerable work is still required to ensure an effective one Council approach to debt recovery. Our follow up work has identified that recovery actions plans are not in place for the arrears of both Trade Debt and Local Taxation. Housing continues to focus on current debt rather than the older debt and have recognised that they need more formal processes in place including involvement of housing staff. Work has begun to agree the current list of cases with Legal Services, but no new debts have been referred.

On a positive note, there is evidence to support the work around identifying unpaid instalment plan payments and direct debits. The outturn report submitted to Cabinet on 21 June 2022 set out debt information and this is also being reported to Audit and Governance Committee.

Further Follow Up Required

Outstanding actions are due to be implemented by 31st October 2022.

A summary of the key findings from our review will be presented to the Audit and Governance Committee on 26th September 2022. A further follow up will be carried out within 2022/23 to review the progress out outstanding actions and reported to Audit and Governance Committee in January 2023

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Audit and Governance Committee Forward Plan 2022/23

26 September 2022 Meeting Postponed			

14 November 2022			
	Draft Outturn Report	Outturn Report	Officer Contact- Jim McManus
	Qtr2 Financial Management Report	Management Report	Officer Contact- Jim McManus
	Treasury Management Outturn Report 2021/22	Outturn Report	Officer Contact- David Wilkes
	Treasury Management Mid-Year Update Report 2022/23	Update Report	Officer contact-David Wilkes
	Quarterly Risk Management Update	Update Report	Officer contact- Marc Eyre
	SWAP Update Report	Update Report	Portfolio Holder – Cllr Spencer Flower Officer contact- Sally White - SWAP

16 January 2023			
	SWAP Update Report	Update Report	Portfolio Holder – Cllr Spencer Flower

			Officer contact- Sally White - SWAP
	"Council Decision Making- building in Climate and Ecological Considerations"		Officer contact: Steven Ford and Anthony Littlechild
	Quarterly Risk Management Report		Portfolio Holder- Spencer Flower Officer Contact- Marc Eyre
	Information Governance		Portfolio Holder- Spencer Flower Officer Contact- Marc Eyre
	Review of Agency & Consultancy Spend	Annual Report	Portfolio Holder- Cllr Jill Haynes Officer contact- Chris Matthews
	Co-optive Member for Audit and Governance Committee		Officer Contact- Aidan Dunn, Jonathan Mair

27 February 2023			
	Quarter 3 Financial Management Report	Management Report	Officer Contact- Jim McManus

17 April 2023			
	Annual Internal Audit Opinion Report, Planning Report and Audit Charter	Annual Report	Portfolio Holder – Cllr Spencer Flower Officer contact- Sally White - SWAP
	Quarterly Risk Management Report		Portfolio Holder- Spencer Flower Officer Contact- Marc Eyre
	Annual Governance Statement		Portfolio Holder- Spencer Flower

			Officer Contact- Marc Eyre

Other items raised by Audit and Governance Committee requiring further consideration

Issue	Notes	Date raised
Workforce stress / mental health issues	The committee have raised this as a potential area of work but note that it is linked to current transformation work	At committee on 7 November 2019
How Dorset Council holds and shares information	It is understood that some work is being undertaken in this area. A councillor workshop on the Dorset Council transformation programmes is being held on 10 January 2020. The suggestion is that councillors attend this session and following this, the committee give further consideration to whether any further work is required in this area	At committee on 7 November 2019

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