



Audit and Governance Committee

Date: Monday, 25 September 2023
Time: 11.00 am
Venue: Council Chamber, County Hall, Dorchester, DT1 1XJ

Members (Quorum: 3)

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

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

For more information about this agenda please contact Democratic Services
Meeting Contact john.miles@dorsetcouncil.gov.uk

Members of the public are welcome to attend this meeting, apart from any items listed in the exempt part of this agenda.

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Agenda

Item		Pages
1.	APOLOGIES	
	To receive any apologies for absence.	
2.	MINUTES	5 - 8
	To confirm the minutes of the meeting held on 17th July 2023.	
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

Representatives of town or parish councils and members of the public who live, work, or represent an organisation within the Dorset Council area are welcome to submit either 1 question or 1 statement for each meeting. You are welcome to attend the meeting in person or via MS Teams to read out your question and to receive the response. If you submit a statement for the committee this will be circulated to all members of the committee in advance of the meeting as a supplement to the agenda and appended to the minutes for the formal record but will not be read out at the meeting. The first 8 questions and the first 8 statements received from members of the public or organisations for each meeting will be accepted on a first come first served basis in accordance with the deadline set out below.

All submissions must be emailed in full to john.miles@dorsetcouncil.gov.uk by 8.30 am on 20th September 2023.

When submitting your question or statement please note that:

- You can submit 1 question or 1 statement.
- A question may include a short pre-amble to set the context.
- It must be a single question and any sub-divided questions will not be permitted.
- Each question will consist of no more than 450 words, and you will be given up to 3 minutes to present your question.
- When submitting a question please indicate who the question is for (e.g., the name of the committee or Portfolio Holder)
- Include your name, address, and contact details. Only your name will be published but we may need your other details to contact you about your question or statement in advance of the meeting.
- Questions and statements received in line with the council's rules for public participation will be published as a supplement to the agenda.
- All questions, statements and responses will be published in full within the minutes of the meeting.

5. MINUTES OF THE AUDIT & GOVERNANCE SUB-COMMITTEE

To note the minutes of the Audit & Governance Hearing Sub-committee (if any meetings have been held).

6. APPOINTMENT OF CO-OPTED MEMBERS

9 - 12

To receive a report by Marc Eyre, Service Manager for Assurance, to introduce the new Independent Co-opted Members and to recommend that Full Council endorses appointment.

7. RISK MANAGEMENT UPDATE

13 - 22

To receive a report by Marc Eyre, Service Manager for Assurance.

8. **REPORT OF INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2023/24- SEPTEMBER 2023** 23 - 32
- To receive a report by Sally White, Assistant Director, SWAP.
9. **TREASURY MANAGEMENT ANNUAL REPORT 2022/23** 33 - 48
- To receive a report by David Wilkes, Service Manager Treasury and Investments.
10. **WORK PROGRAMME** 49 - 52
- To consider the work programme for the Committee.
11. **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.
12. **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 are no exempt items scheduled for this meeting.**

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AUDIT AND GOVERNANCE COMMITTEE

MINUTES OF MEETING HELD ON MONDAY 17 JULY 2023

Present: Cllrs Richard Biggs (Chairman), Susan Cocking (Vice-Chairman), Simon Christopher and Bill Trite

Present remotely: Cllrs Belinda Bawden

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

David Bonner (Service Manager for Business Intelligence and Performance), Susan Dallison (Democratic Services Team Leader), Aidan Dunn (Executive Director - Corporate Development S151), Marc Eyre (Service Manager for Assurance), Richard Ironside (Senior Accountant), Angela Hooper (Principal Auditor SWAP), Heather Lappin (Head of Strategic Finance), Jonathan Mair (Director of Legal and Democratic and Monitoring Officer), John Miles (Democratic Services Officer Apprentice) and Sally White (Assistant Director SWAP)

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

Sean Cremer (Corporate Director for Finance and Commercial) and Ian Howse (Deloitte).

12. Apologies

Apologies for absence were received from Cllrs Belinda Bawden, David Grey and Robin Legg.

13. Minutes

The minutes of the meeting held on 12th June 2023 were confirmed and signed.

14. Declarations of Interest

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

15. Public Participation

There was no public participation.

16. Minutes of the Audit & Governance Sub-committee

No Meetings from the Audit and Governance Sub-committee had been held.

17. **Annual Information Governance Report**

The Service Manager for Assurance outlined that the report provided an overview of information governance activity during the last twelve months, including the setup of the new Strategic Information Governance Board and its Standing Working Groups, together with a forward look of activity for the next twelve months. This focussed on an action plan under development to meet any gaps identified following completion of the Information Commissioners Office Accountability Framework self-assessment.

Cllrs asked the report author questions such as, if benchmarking against other local authorities had been conducted, whether the council was going to reduce the extreme values on risk for cyber and will the project in paragraph 671 in the report be embedded and how would this be implemented?

The Service Manager for Assurance responded to these questions by informing that there had been some benchmarking around transactional activity, such as freedom of information and subject access requests. At this stage however a comparison for the accountability framework had not been looked at. It was acknowledged that the cyber risk will always likely remain relatively high level despite significant controls. The project to identify a solution to the issues that remote workers cannot use their email addresses and are unable to access Dorset Council Systems was being conducted and is still in its infancy and gathering information. A section of the project will be looking at a service redesign approach. The project manager viewed the project as fast moving and estimated a 2-month time scale to complete the work. The committee requested to be updated in due course of the outcomes of this project.

18. **Risk Management Update**

The Service Manager for Assurance introduced the report. The risk management function was in a stage of transition moving from Assurance Service to the Business Intelligence Service. The Recruitment process was underway. In the meantime, self-service arrangements were in operation to update risk registers within directorates, and a number of strategic areas of work had been planned once recruitment of the team was complete.

Cllr Richard Biggs stated that he thought it was surprising to see the 5 extreme risks were as high as they were and highlighted the importance of phrases like catastrophic framing people's ideas.

Cllr Bill Trite commented on the impact and probability chart in the appendix of the report which runs from catastrophic to major to moderate, to slight, to limited and thought that these categories except for catastrophic were all similar to limited and found the terms unclear.

The Service Manager for Assurance agreed to take these comments on board and there will be a review of the risk matrix as part of the proposed risk appetite work.

19. **Report of Internal Audit Activity Progress Report 2023/24- June 2023**

The Principal Auditor for SWAP introduced the report which was the first update report for the 2023-24 financial year.

Since the last update report 3 limited assurance opinions had been issued. A formal follow up of the Response to Climate Emergency audit had been carried out, working with the Corporate Director for Transformation, Innovation and Digital and his team. Positive movement had been made with all actions being in progress, 2 completed and 1 action was overdue but should be completed by the end of July.

In the November update a significant corporate risk was identified around Premises Health and Safety and a formal follow up had been undertaken and whilst only 2 of the 9 agreed actions had been implemented, good progress had been made against all remaining actions which should be completed by the end of 2023.

The number of overdue actions was 9 as of the 17th of July which was a reflection on the good progress that continues to be made in ensuring that actions are implemented in a timely way.

20. **Update Report to the Audit and Governance Committee on the 2020/21 audit**

Ian Howse from Deloitte outlined the ISA 260 report which covered the audit for 2021. There were still a number of areas that needed to be completed but the detail testing had now been finalised. The 1920 report included significant weaknesses within children services, but Deloitte had seen significant progresses within the council. Significant risks reported were a recognition of covid grant income and completeness of accrued expenditure and valuation of property assets. There was an issue with the car parking valuation which led to an over-statement of £5.6 million.

Cllr Simon Christopher asked Ian Howse if he would have done anything different at the planning stage with the valuation of assets and the reports that he had received. He raised concerns over the conflict of interest associated with the County Farms Estate as it was valued by an internal valuer as opposed to being valued externally.

Ian Howse responded that he would have not changed his approach to the planning of this work as the work identified the valuation of assets as a significant risk. He used qualified chartered surveyors to review the valuations conducted internally and externally and their expertise were drawn upon to identify the issues raised in the report. He used specialist property valuers in order to challenge the assumptions being made and the council was not required to have internal or external valuers.

Cllr Richard Biggs asked a question regarding the historical overpayment for the PFI which was considered a large number of £3 million.

Heather Lappin responded that it was in relation to an interpretation of the actual contract rather than an error in the calculation. There was a small error which had ensued since 2011 up until 2020 and related to 40% of the contract in total.

Ian Howse informed the committee that they were very close to signing off the current set of accounts and will then move positively towards the next set. He had every intention of clearing the backlog by the 31st of March 2024 which will be challenging as there remains two significant audits to complete in this time.

21. **Work Programme**

The Executive Director for Corporate Development proposed an additional item for the September Audit and Governance meeting about the councils' arms lengths and wholly owned companies. As in the last year Care Dorset and Dorset Centre of Excellence had been set up and the item will also review the Brunel Pension Fund and consider value for money.

22. **Urgent items**

There were no urgent items.

23. **Exempt Business**

Decision

That the press and the public be excluded for the following item(s) 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).

There was no exempt business.

Duration of meeting: 10.00 - 11.00 am

Chairman

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Audit and Governance Committee

25 September 2023

Appointment of Co-opted Committee Members

For Decision

Portfolio Holder: Cllr S Flower, Leader of the Council

Executive Director: J Mair, Director of Legal & Democratic

Report Author: Marc Eyre
Title: Service Manager for Assurance
Tel: 01305 224358
Email: marc.eyre@dorsetcouncil.gov.uk

Report Status: Public

Brief Summary: Full Council on 11 May 2023 supported the Audit and Governance Committee's proposal that the Committee's constitution is changed to incorporate two co-opted members, as per CIPFA good practice.

Following a recruitment campaign, an interview panel made up of three members of the Committee (Cllr Biggs, Cllr Cocking and Cllr Batstone) have offered co-opted member positions to the following, pending ratification by Full Council on 12 October 2023:

Simon Roach - A founder and Director of a small consultancy company, and formerly Senior Vice President of a multinational pharmaceutical and biotechnology company.

Roger Ong - Credit Manager for a UK Ethical Bank supporting Charities and Social Enterprises, and formerly interim finance director for a number of companies.

Recommendation: To recommend that Full Council endorses adopting Mr Roach and Mr Ong as co-opted members on the Audit and Governance Committee.

Reason for Recommendation: To ensure that the Committee has the appropriate level of technical expertise to perform its role as set out in its terms of reference.

1. **Financial Implications**

The allowance payable to the co-opted member for the Audit and Governance Committee has been subject to review and assessment by the Independent Remuneration Panel who determined that an allowance of £2,000 per co-opted member per annum (£4,000 in total per annum) was appropriate, and this was endorsed by Full Council on 11 May 2023.

2. **Environmental Implications**

None

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

None

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: Low

Residual Risk: Low

6. **Equalities Impact Assessment**

No issues identified

7. **Appendices**

None

8. **Background Papers**

[CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022](#)

[Minutes of Full Council Meeting – 11 May 2023](#)

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Audit and Governance Committee

25 September 2023

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: Marc Eyre
Title: Service Manager for Assurance
Tel: 01305 224358
Email: marc.eyre@dorsetcouncil.gov.uk

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 Senior Leadership Team own strategic risk management, with an agreed risk management framework and appetite statement both of which set out the Councils commitment. The focus of this report is to provide an overview of the highest level risks identified within the service risk registers.

Recommendation: That Audit and Governance Committee note the key risks identified in the risk registers, with escalation to Scrutiny Committees where appropriate.

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 A [PowerBI dashboard](#) has been developed by colleagues within the Business and Intelligence team that helps to present improved graphical focus and accessible information surrounding risk management across directorates and teams.
- 1.2 There are ten strategic risk themes informed by operational service level risks owned by Heads of Service and Service Managers.

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

- 1.3 Councillors can view the full schedule of risks by theme from [this link](#).
- 1.4 Both the People and Health Scrutiny Committee and Place and Resources Scrutiny Committee consider the detail of individual risks. The role of Audit and Governance Committee is to satisfy itself over the adequacy of the risk management framework.
- 1.5 As reported at the October 2022 Committee meeting, an action plan has been developed to respond to recommendations from the South West Audit Partnership review of the Council’s risk management arrangements. This report recognised that the Council has developed and refined a functional system of risk management between officers and elected members, and that stakeholders cited the support provided positively. However, it was recognised that further work was necessary to embed risk management across services, which presented resourcing challenges.
- 1.6 A recruitment process has recently been concluded for a Risk Management and Reporting Officer, who will be working within the Business Intelligence and Performance team. Once they have commenced duties at the beginning of October 2023 work can commence

on the key actions identified within the SWAP report will commence, after a period of role familiarisation. This includes:

- A review of the Council's risk appetite;
- Reviewing and rolling out further training for risk owners;
- Enabling a process of peer challenge of risk scoring;
- Ensuring a consistent process of review and challenge across all Directorates.

1.7 With the absence of a dedicated risk management resource since June, it is noted that there is a higher proportion of risks that have not been reviewed within the last quarter. The responsibility for update rests with individual risk owners rather than the risk function, but this demonstrates the need for regular prompts and challenge. A key change to note however is that four of the property related risks previously showing as "Extreme" and discussed at previous meetings have now been downgraded to reflect positive improvements in the risk profile.

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 several 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 several equality related risks.

8. Appendices

Appendix A - Summary of Extreme Risks

9. Background Paper

None

Audit and Governance Committee

25 September 2023



Risk Management Exception - Quarterly Update Report

Extreme Risks

14 September 2023

Impact	Catastrophic	5	10	15	20	25
	Major	4	8	12	16	20
	Moderate	3	6	9	12	15
	Slight	2	4	6	8	10
	Limited	1	2	3	4	5
		Very Unlikely	Unlikely	Possible	Likely	Certain
Likelihood						

Assessing Likelihood

In assessing likelihood, the following 1 to 5 scoring system is to be followed:

Likelihood	Certain Score 5	Reasonable to expect that the event WILL happen, recur, possibly or frequently
	Likely Score 4	Event is MORE THAN LIKELY to occur. Will Probably happen, recur, but is not a persisting issue.
	Possible Score 3	LITTLE LIKELIHOOD of event occurring. It might happen or recur occasionally.
	Unlikely Score 2	Event NOT EXPECTED. Do not expect it to happen or recur, but it is possible that it might do so.
	Very Unlikely Score 1	EXCEPTIONAL event. This will probably never happen or recur.

Assessing Impact

In assessing Impact, the following 1 to 5 scoring system is to be followed:

Impact	Catastrophic Score 5	Multiple deaths of employees or those in the Council's care; Inability to function effectively, Council-wide; Will lead to resignation of Chief Executive and/or Leader; Corporate Manslaughter charges; Service delivery must be taken over by Central Government; Front page news story in National Press; Financial loss over £10m
	Major Score 4	Suspicious death in Council's care; Major disruption to Council's critical services for more than 48hrs; Noticeable impact achieving strategic objectives; Will lead to resignation of Senior Officers and/or Cabinet Member; Adverse coverage in National press/Front page news locally; Financial loss £5m-£10m
	Moderate Score 3	Serious Injury to employees or those in the Council's care; Disruption to one critical Council Service for more than 48hrs; Will lead to resignation of Head of Service/Project Manager; Adverse coverage in local press; Financial loss £1m-£5m
	Slight Score 2	Minor Injury to employees or those in the Council's care; Manageable disruption to services; Disciplinary action against employee; Financial loss £100k-£1m
	Limited Score 1	Day-to-day operational problems; Financial loss less than £100k

- The full Services Risk Register can be viewed from this link [HERE](#)
- And the PowerBI risk dashboard from [HERE](#)

OVERALL RISK SUMMARY – As at 14 September 2023

		Likelihood					14% Overdue Review
		Very unlikely	Unlikely	Possible	Likely	Certain	
Impact	Catastrophic	0	6	8	4	1	
	Major	3	49	22	23	0	
	Moderate	14	48	90	14	0	
	Slight	0	85	18	9	2	
	Limited	1	1	0	1	0	

People Directorate for [Adults and Housing](#)

Impact	Likelihood				
	Very unlikely	Unlikely	Possible	Likely	Certain
Catastrophic	0	0	0	0	0
Major	0	1	4	3	0
Moderate	2	9	9	2	0
Slight	0	8	0	2	0
Limited	0	0	0	0	0

22%

Overdue Review

Adults and Housing Extreme Risks - None

People Directorate for [Children's Services](#)

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

31%

Overdue Review

Children's Services Extreme Risks

[Schools & Learning](#)

- Risk 272 - Failure to stabilise the budget for the High Needs Block

Public Health

		Likelihood				
		Very unlikely	Unlikely	Possible	Likely	Certain
Impact	Catastrophic	0	0	1	0	0
	Major	0	0	0	0	0
	Moderate	0	0	7	1	0
	Slight	0	0	0	1	0
	Limited	0	0	0	0	0

20%
Overdue Review

Public Health Extreme Risks - None

Corporate Services

		Likelihood				
		Very unlikely	Unlikely	Possible	Likely	Certain
Impact	Catastrophic	0	0	1	2	0
	Major	0	18	6	4	0
	Moderate	3	9	38	8	0
	Slight	0	42	10	4	0
	Limited	1	0	0	0	0

10%
Overdue Review

Corporate Services Extreme Risks

ICT Operations

- Risk 286 - Loss of ICT service or data through a cyber-attack
- Risk 348 - There is a business continuity risk from delayed ICT recovery after a disruption such as a power failure

Place Directorate

		Likelihood				
		Very unlikely	Unlikely	Possible	Likely	Certain
Impact	Catastrophic	0	5	5	1	1
	Major	3	27	8	15	0
	Moderate	9	28	33	2	0
	Slight	0	31	6	0	2
	Limited	0	0	0	1	0

12%

Overdue Review

Place Extreme Risks

Assets & Regeneration

- Risks 703 – Failure to identify and manage any Radon exposure across the Dorset Council property estate

Place Based Services – COMMERCIAL WASTE & STRATEGY

- Risk 381 - Cost of contracted services (HRCs operation, transportation) increases when retendered

Dorset Council

Report of Internal Audit Activity

Progress Report 2023/24 – September 2023

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Agenda Item 8

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:

Sally White Assistant Director
Tel: 07820312469
sally.white@swapaudit.co.uk

Angie Hooper Principal Auditor
Tel: 07536453271
angela.hooper@swapaudit.co.uk

SWAP is an internal audit partnership covering 26 organisations. Dorset Council is a part-owner of SWAP, and we provide the internal audit service to the Council.



Audit Opinion, Significant Risks, and Audit Follow Up Work

Audit Opinion:

This is our second update report for 2023/24 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 July 2023, we have issued **two Limited** assurance opinions on the areas and activities we have been auditing. Further details on this can be found on pages 7 to 8 below.

We will soon be updating the Rolling Plan accessed in the link above to a Rolling Plan Dashboard that is held within our audit case management system, AuditBoard which will mean that members will need to log in to the system to be able to view the dashboard. All members of the Committee will soon receive introductory emails explaining the log in process.

Significant Corporate Risks

Update on Response to Climate Emergency

Due to the nature of the actions, long implementation dates were agreed with the majority not due until 2024/25, so we will undertake another formal follow up in early 2024 to allow the actions to become embedded.

Update on Premises related Health and Safety

In July, we reported that seven actions were still outstanding and that revised implementation dates have been agreed for the end of September and end of December. We will therefore undertake a further follow up at the end of November 2023.

Executive Summary

For further details see:

<https://www.swapaudit.co.uk/>

Follow Up of Agreed Audit Actions

The number of outstanding audit actions has increased from 7 reported as at 29/06/23 to 13 as at 29/08/23. Whilst it is disappointing to see an increase, we are aware that work is ongoing to implement agreed actions and expect this figure to reduce in the near future. The usual performance graphs on implementation of audit actions can be found on page 4 below and as always, 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](#).

Internal Audit Plan Progress 2023/24

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).

Audit Coverage by Corporate Risk Theme

Risk Theme	Coverage	Assurance assessment based on completed internal audit work
CR01 - Finance	Good	Reasonable
CR02 - Compliance	Good	Reasonable
CR03 - Health, Safety & Wellbeing	Good	Limited
CR04 - Communities	Good	Limited
CR05 - Digital & Technology	Good	Substantial
CR06 - Safeguarding	Adequate	Reasonable
CR07 - Transformation	Some	Limited
CR08 - Workforce	Good	Limited
CR09 - Political & Leadership	Some	Non-Assurance audit work
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
Reasonable	Generally sound system of governance, risk management
Limited	Significant gaps, weaknesses or non-compliance were
No Assurance	Fundamental gaps, weaknesses or non-compliance identified

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

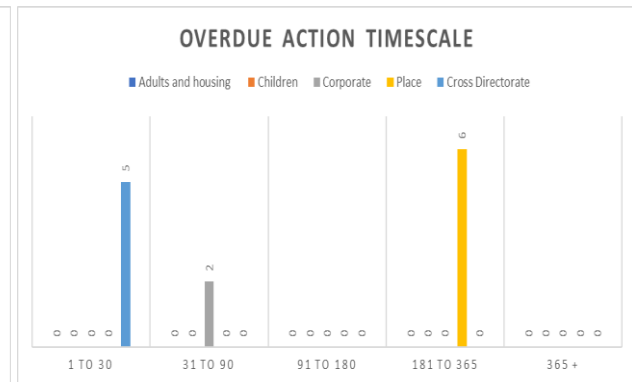
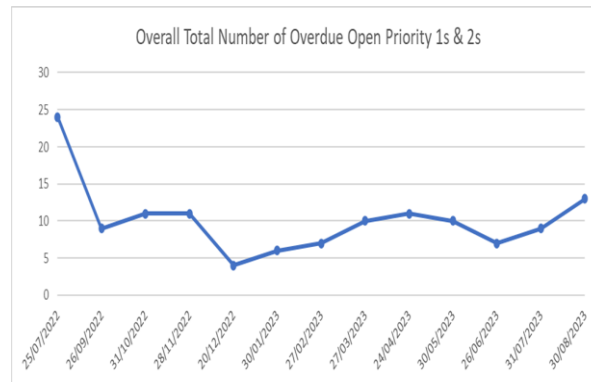
Internal Audit Plan Progress 2023/24

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

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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.'



Added Value

Cifas

The use of the Cifas data sharing service continues to bring benefits. Since our last update a decision has been taken by the Corporate Director for Adults Commissioning to search only on Adults service users who take up a direct payment rather than all Adults Service Users. We are progressing Adults micro providers, Financial Agents and Power of Attorneys, and housing register applications. We have had an initial conversation with Licensing who are interested in using this service and we would like to expand into Children's Services in the future. Previously agreed areas continue to be run through the database with matches being identified and action taken where necessary.

A match was recently identified of an individual associated with a company that had submitted a tender to the Council during a procurement exercise, and as a result of the match, the Council removed the company from the procurement exercise.

Data Analytics

Data analytics, which has been used to inform audit findings and to provide additional insight has been undertaken for the Debt Recovery – Access to Data for Collaborative Working, Transport Operations and Parking Appeals Audits.

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.

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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 we include our one-page audit report in full for Limited assurance audits.

Debt Recovery - Access to Data for Collaborative Working – Final Report - August 2023



Audit Objective

To provide assurance that procedures are in place to ensure that different services are working collaboratively when accessing external data to ensure the most efficient debt recovery processes are being followed.

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	3
Priority 3	1
Total	4

Risks Reviewed

Lack of a collaborative and consistent approach using both external and internal data across the Council leads to ineffective collection of debt resulting in financial loss to the Council.

Assessment

Medium

Key Findings



In April 2022 SWAP reported on the outcomes of a low limited assurance debt recovery audit. An action plan was agreed and follow up was undertaken to ensure that actions were being taken forward and appropriately implemented. Whilst action has been taken to clear some of the older debts, there still remains a high volume of debt outstanding which needs to be cleared as the sundry debts within the council continue to rise.



Observations by audit on the processes and responsibilities for Credit Control and the service areas suggests areas where policy guidance is not being adhered to and there is a lack of a proactive, structured approach for chasing debts. There is a lack of collaboration between the services and inconsistencies in both the internal and external systems in use for recording progress and tracing debtors. The latest Bad Debt Provision (BDP) report confirms that 98% of debts are marked as 'Freed for Dunning' and should therefore be actively chased. Further analysis can be found in Appendix B.

As part of our previous debt recovery work, we raised an action for management to consider the options for alternative delivery of debt recovery. It is understood that the Council are currently investigating the centralising of raising and chasing invoices. Centralising invoice raising and improved collaborative working between all services should result in more effective debt recovery and should also help to ensure that once all avenues of recovery are exhausted, unrecoverable debt is appropriately submitted for write-off.



Whilst our audit findings have identified examples of disjointed practices and / or non-compliance with the Income and Debt Management Policy it has also identified some service areas where debts are being actively chased and recovered.

Audit Scope

We have worked with staff within credit control and the directorates to ascertain; -

- How external and internal data is used to aid the recovery of debt and write offs and whether this is accessible to all teams
- Whether data is shared when an individual has debts across different services
- Identify the touch and hand off points within the recovery process and assess whether these are being managed effectively and efficiently
- Checking whether appropriate data sharing / privacy notices are in place (this has been covered within the Data Quality and Information Governance audit and an action has been raised)

Scope exclusion – Revenues and Benefits debts are reviewed as part of the continuous audits so have not been included within this audit.

Full details of our audit testing are available upon request. Our audit assurance framework and definitions can be found here (www.swapaudit.co.uk/audit-framework-and-definitions)

Unrestricted

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



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

Transport Operations – Final Report – August 2023



Audit Objective To check that processes and reporting to management ensures compliance with the Transport Operator licence terms.

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	3
Total	11





Risks Reviewed

Non-compliance with the operating licence terms may result in the curtailment or loss of the licence which would lead to non-delivery of Council services resulting in financial loss and reputational damage.

Assessment

Medium

Key Findings

-  There is a four-stage process for addressing poor driving practices however, it is not documented and staff often referred to it as "informal". There were differing perceptions and implementation of the process across different services and whilst the performance of drivers is monitored using Masternaut telematics, there was limited evidence of managers taking action to address repeated poor driver behaviours. Management should ensure that policies and processes are sufficiently robust and clearly documented in order that poor driver behaviours can be identified and corrected in a consistent manner across services.
-  Driving licences should be checked automatically every six months through DriverHire. However, because there was no process for independently checking the completeness of licence checks some licences had gone unchecked for more than six months. Separately we identified a cohort of c.150 drivers whose licences were not logged in DriverHire and therefore had not been subject to any checking. Management should review existing processes to ensure all relevant licences are subject to regular checks.
-  A report produced each month from FleetWave identifies when vehicles require a service at the workshop. However, a system fault meant FleetWave was failing to pull through some vehicles to the monthly service schedule. As a result, not all Dorset vehicles were serviced in line with agreed timescales. Management should determine what mitigation can be put in place whilst the fault with FleetWave is further investigated.
-  Cameras are fitted to 28 tonne vehicles, and when needed video recordings can be downloaded. We identified instances where video footage had not been recorded however, this only came to light following a road traffic collision (RTC) and a request from Corporate Insurance to see the footage. Regular checks should be performed to ensure video footage is being recorded and can be downloaded upon request.

Audit Scope

- The scope of the audit considered the following areas:
- Driver compliance with the highway code.
 - Data provided to managers regarding driver performance and the monitoring and upwards reporting of performance.
 - Servicing, maintenance and repair of council owned vehicles.
 - The completeness of driving licence checks and training provided to drivers.

Next Steps

Throughout the audit fieldwork, we briefed senior management on our findings. Appendix 1, which accompanies this report, includes 11 actions agreed with management that once implemented will lead to improvements in the control environment.

Unrestricted Full details of our audit testing are available upon request. Our audit assurance framework and definitions can be found here (www.swapaudit.co.uk/audit-framework-and-definitions)
 SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note



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Audit and Governance Committee Monday, 25 September 2023 Treasury Management Annual Report 2022/23

For Decision

Portfolio Holder: Cllr G Suttle, Finance, Commercial & 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 2023.

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 2023 was £355m, compared to £345m at the start of the year and an estimated closing position of £368m when the treasury management strategy was approved in February 2023. 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 2023 was £219m and the total interest paid servicing external debt for the year was £6.9m.

The difference between the CFR and external borrowing was approximately £136m, 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 2023 the Council held cash and cash equivalents of £41m and treasury investments valued at £74m – in total £115m. The total interest receivable and investment income for the Council for the year was approximately £4.7m.

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 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 The most significant external factors over the year were the continued high and persistent inflation in the UK and the Bank of England's attempts to tackle this through increases in the Bank Rate ('base rate'). The Consumer Prices Index (CPI) increased sharply in the first half of the year to a peak of 11.1% in October 2022 and stayed at high levels for the remainder of the year. In response the Bank of England increased Bank Rate at from 0.75% in March 2022 to 4.25% in March 2023 in increments of 0.25% or 0.50% at every meeting of the Monetary Policy Committee (MPC) during the period.
- 2.3 The main impacts of these external factors for the Council's treasury management activities were higher than budgeted increases in costs, higher returns on cash investments, and increased costs of new borrowing.
- 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 2022 Actual £m	31-Mar 2023 Budget £m	31-Mar 2023 Actual £m
Capital Financing Requirement (A)	345	368	355
External Debt (incl. PFI & leases):			
External borrowing	181	240	198
Long Term PFI Liabilities	21	25	19
Obligations under Finance Leases	2	5	2
Total External Debt (B)	204	270	219
Internal Borrowing (A - B)	141	98	136

- 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 2023 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	31.03.23 Balance £m
Long-term borrowing	178.0	-19.6	158.4
Short-term borrowing	3.1	36.9	40.0
Total Borrowing	181.1	17.3	198.4
Investments	149.3	-75.5	73.8
Cash and cash equivalents	45.9	-4.7	41.2
Total Cash and Investments	195.2	-80.2	115.0

4. Borrowing

- 4.1 At 31 March 2023 the Council held £198m of loans, a net increase of £17m from 31 March 2022, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans as at 31 March 2023 are summarised in Table 3 below.

Table 3: Borrowing Position

	31.03.22 Balance £m	Net Movement £m	31.03.23 Balance £m	31.03.23 Average Rate %	31.03.23 Average Maturity (years)
Public Works Loan Board	62.9	-1.1	61.8	4.1	21.2
Banks (fixed-term)	25.6	0.0	25.6	4.7	54.1
Banks (LOBO)	11.0	0.0	11.0	4.6	53.6
Local authorities (long-term)	15.0	0.0	15.0	4.4	36.7
Local authorities (short-term)	0.0	40.0	40.0	4.2	0.2
Other lenders (fixed-term)	47.1	-2.1	45.0	3.9	43.5
Other lenders (LOBO)	19.5	-19.5	0.0	-	-
Total Borrowing	181.1	17.3	198.4	4.2	29.3

- 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 £11m of Lender's Option Borrower's Option (LOBO) at 31 March 2023. 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).
- 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 2023 was £21m.

- 4.6 The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March 2023 around 2% - 4% higher than those at the beginning of April 2022. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. The PWLB 10 year maturity certainty rate stood at 4.33% at 31 March 2023, 20 years at 4.70% and 30 years at 4.66%.

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 2023 are summarised in Table 4 below.

Table 4: Cash and Treasury Investments Position

	31.03.22 Balance £m	Net Movement £m	31.03.23 Balance £m
Cash and Cash Equivalents	45.9	-4.7	41.2
Investments:			
UK Debt Management Office deposits	60.0	-60.0	0.0
Short-dated bond funds	11.8	-7.7	4.2
Strategic bond funds	10.6	-1.1	9.5
Equity income funds	37.1	-2.0	35.1
Property funds	23.7	-3.9	19.9
Multi asset income funds	6.0	-0.9	5.1
Total Investments	149.3	-75.5	73.8
Total Cash and Investments	195.2	-80.2	115.0

- 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 2022/23 saw significant increases in short-dated cash rates with the returns on the Council's sterling Low Volatility Net Asset Value (LVNAV) Money Market Funds increasing from approximately 1% in April 2022 to nearly 4% by the end of March 2023.
- 5.7 The Council also holds investments in bond, equity, multi-asset and property funds which were 'inherited' from a number of the predecessor councils. These 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. These 'strategic investments' were valued at £73m in total as at 31 March 2023.

6. Treasury Performance

- 6.1 The Council measures the financial performance of its treasury management as shown in table 5 below.

Table 5: Treasury Performance

	Budget £m	Actual £m	Variance £m	
Interest Payable	9.5	6.9	2.6	F
Interest and Investment Income	-4.0	-4.7	0.7	F
Net Payable / (Receivable)	5.5	2.2	3.3	F
Unrealised (Gains) / Losses in Fair Value	0.0	7.3	-7.3	A
Net (Surplus) / Deficit	5.5	9.5	-4.0	A

- 6.2 The unrealised losses of £7.3m in the fair value of investments relate to the Council's investments in strategic pooled investment vehicles.
- 6.3 As central banks delivered larger interest rates hikes than initially expected to combat inflation, bond investors suffered large crystallised or unrealised losses from rising yields (and therefore falling prices) as well as from widening credit spreads as concern grew over the risk of defaults in a recessionary environment. UK and global equities remained volatile against a backdrop of high and 'sticky' inflation, rapid policy rates tightening and an increasing risk of recession. Tighter financial conditions, higher bond yields and challenges in some segments of commercial real

estate (e.g. offices post-COVID, high street shops and shopping centres) also saw commercial property values fall during the year.

- 6.3 Unrealised gains or losses in the fair value of pooled investment funds, that otherwise must be recognised in profit or loss under International Financial Reporting Standard (IFRS) 9, are not charged to the revenue account, and must be taken into an unusable reserve account.

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	31.03.23 Actual £m	Operational Boundary £m	Authorised Limit £m	Complied Yes/No
Borrowing	181.0	198.0	401.0	421.0	Yes
PFI & Finance Leases	23.0	21.0	31.0	36.0	Yes
Total Capital Financing	204.0	219.0	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

	31.03.23 Actual	2022/23 Target	Complied Yes/No
Portfolio average credit rating or score	4.9	< 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

	31.03.23 Actual	2022/23 Target	Complied Yes/No
Total cash available within 100 days	37%	> 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

	31.03.23 Actual £000s	2022/23 Target £000s	Complied Yes/No
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	98	< 500	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	-98	< 500	Yes

8.5 The impact of a change in interest rates is calculated on the assumption that maturing borrowing 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 to final maturities beyond 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

	31.03.23 Actual £m	% of Total Borrowing	Upper Limit	Lower Limit	Complied Yes/No
Under 12 months	40.0	20.1%	25%	0%	Yes
12 Months to 2 Years	10.0	5.0%	25%	0%	Yes
2 Years to 5 Years	0.0	0.0%	25%	0%	Yes
5 Years to 10 Years	10.0	5.0%	35%	0%	Yes
10 Years to 15 Years	0.0	0.0%	35%	0%	Yes
15 Years to 20 Years	0.0	0.0%	35%	0%	Yes
20 Years to 25 Years	0.0	0.0%	45%	0%	Yes
25 Years to 30 Years	32.0	16.1%	45%	0%	Yes
30 Years to 35 Years	10.0	5.0%	45%	0%	Yes
35 Years to 40 Years	15.0	7.5%	45%	0%	Yes
40 Years to 45 Years	45.0	22.6%	45%	0%	Yes
45 Years to 50 Years	0.0	0.0%	45%	0%	Yes
50 Years and above	37.0	18.6%	75%	0%	Yes
Total	199.0	100.0%			

9. Financial Implications

This report summarises the performance of the Council's treasury management activity in 2022/23. There are no other financial implications arising from this report.

10. Natural Environment, Climate & Ecology Implications

There are no direct natural environment, climate and ecology implications arising from this report.

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 2023)

16. Background Papers

Treasury Management Strategy 2022/23

Appendix 1: External Context (Arlingclose April 2023)

Economic background

The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July 2022 and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February 2023. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.

Following the decision by the UK government under Rishi Sunak and Jeremy Hunt to reverse some of the support to household energy bills announced under Liz Truss, further support in the form of a cap on what energy suppliers could charge household was announced in the March Budget to run from April until end June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April.

The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate 3mth/year eased from 3.8% April-June 2022 to 3.6% in the following quarter, before picking up again to 3.7% between October-December. The most recent information for the period December-February showed an unemployment rate of 3.7%.

The inactivity rate was 21.3% in the December-February quarter, slightly down from the 21.4% in the first quarter of the financial year. Nominal earnings were robust throughout the year, with earnings growth in December-February at as 5.7% for both total pay (including bonuses) and 6.5% for regular pay. Once adjusted for

inflation, however, both measures were negative for that period and have been so throughout most of the year.

Despite household budgets remaining under pressure, consumer confidence rose to -36 in March, following readings of -38 and -45 in the previous two months, and much improved compared to the record-low of -49 in September. Quarterly GDP was soft through the year, registering a 0.1% gain in the April-June period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. For the October-December period was revised upwards to 0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Q4 was 0.6%.

The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%. March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

After reaching 9.1% in June 2022, annual US inflation slowed for eight consecutive months to 6% in February. The Federal Reserve continued raising interest rates over the period with consecutive increases at each Federal Open Market Committee meetings, taking policy rates to a range of 4.75%- 5.00% at the March meeting.

From the record-high of 10.6% in October, Eurozone CPI inflation fell steadily to 6.9% in March 2023. Energy prices fell, but upward pressure came from food, alcohol, and tobacco. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in March, taking the deposit facility rate to 3.0% and the main refinancing rate to 3.5%.

Financial markets

Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system

following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

Credit review

Early in the period, Moody's affirmed the long-term rating of Guildford BC but revised the outlook to negative. The agency also downgraded Warrington BC and Transport for London.

In July Fitch revised the outlook on Standard Chartered and Bank of Nova Scotia from negative to stable and in the same month Moody's revised the outlook on Bayerische Landesbank to positive. In September S&P revised the outlook on the Greater London Authority to stable from negative and Fitch revised the outlook on HSBC to stable from negative.

The following month Fitch revised the outlook on the UK sovereign to negative from stable. Moody's made the same revision to the UK sovereign, following swiftly after with a similar move for a number of local authorities and UK banks including Barclays Bank, National Westminster Bank (and related entities) and Santander.

During the last few months of the reporting period there were only a handful of credit changes by the rating agencies, then in March the collapse of Silicon Valley Bank (SVB) in the US quickly spilled over into worries of a wider banking crisis as Credit Suisse encountered further problems and was bought by UBS.

Credit Default Prices had been rising since the start of the period on the back of the invasion of Ukraine, and in the UK rose further in September/October at the time of the then-government's mini budget. After this, CDS prices had been falling, but the fallout from SVB caused a spike on the back of the heightened uncertainty. However, they had moderated somewhat by the end of the period as fears of contagion subsided, but many are still above their pre-March levels reflecting that some uncertainty remains.

On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty

list to 35 days as a precautionary measure. No changes were made to the names on the list.

As 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.

Local authorities remain under financial pressure, but Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree caution is merited with certain authorities.

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Audit and Governance Committee Work Programme 2023

25 Sep 2023		
Appointment of Co-opted Members	Introduce the new Independent Co-opted Members. To recommend seeking endorsing appointment by Full Council in Oct.	Officer Contact- Marc Eyre
Risk Management Update	Update	Officer Contact- Marc Eyre and David Bonner
Report of Internal Audit Activity Progress Report 2023/2	Update	Officer Contact- Sally White
Treasury Management Annual Review 2022/23	Report	Officer Contact- David Wilkes
13 Nov 2023		
Treasury Management Mid-Year Review 2023/24	Report	Officer Contact- David Wilkes
Honorary Freemen of the Dorset Council Area	Report	Officer Contact- Jacqui Andrews
Q2 Finance Management Report	Report	Officer Contact- Heather Lappin
Committee Timings	Report	Officer Contact- Susan Dallison
15 Jan 2024		
Quarterly Risk Management Report	Report	Officer Contact- Marc Eyre
Internal Audit Update	Update	Officer Contact- Sally White

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	<p>It is understood that some work is being undertaken in this area.</p> <p>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.</p> <p>The issue will be covered within the Annual Information Governance Report in 12th June 2023 meeting.</p>	At committee on 7 November 2019

Annual Information Governance Report	Record retention will be covered in the annual report. Will be coming to committee either July or September.	
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