



Audit and Governance Committee

Date: Monday, 23 September 2024
Time: 6.30 pm
Venue: Council Chamber, County Hall, Dorchester, DT1 1XJ

Members (Quorum: 3)

Gary Suttle (Chair), Spencer Flower (Vice-Chair), Belinda Bawden, Matt Bell, Neil Eysenck, Jill Haynes, Alex Fuhrmann, Andrew Parry, Andy Todd and Ben Wilson

Co-opted Members: R Ong and S Roach.

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 - 10
To confirm the minutes of the meeting held on 22 nd July 2024.	
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 18th September 2024.

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. RISK MANAGEMENT UPDATE

11 - 22

To receive a report by Chris Swain, Risk Management and Reporting Officer.

7. REPORT OF INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2024/25- SEPTEMBER 2024

23 - 40

To receive a report by Angie Hooper, Principal Auditor for SWAP.

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|-----|---|--------------|
| 8. | JULY 2024 (PERIOD 4) FINANCIAL MANAGEMENT REPORT 2024/25 | 41 - 82 |
| | To receive a report by Sean Cremer, Corporate Director Finance and Commercial. | |
| 9. | TREASURY MANAGEMENT ANNUAL REPORT 2023/24 | 83 - 98 |
| | To receive a report by David Wilkes, Service Manager Treasury and Investments. | |
| 10. | UPDATE ON THE BACKSTOP FOR AUDITED BODIES. | 99 - 100 |
| | To receive an update by Jackson Murray, Grant Thornton. | |
| 11. | INFORMING THE AUDIT RISK ASSESSMENT FOR DORSET COUNCIL AND DORSET PENSION FUND 2023/24 | 101 -
118 |
| | To receive an update by Jackson Murray, Grant Thornton. | |
| 12. | IT AUDIT FINDINGS DORSET COUNCIL AND PENSION FUND | 119 -
146 |
| | To receive a report by Jackson Murray, Grant Thornton. | |
| 13. | WORK PROGRAMME | 147 -
148 |
| | To consider the work programme for the Committee. | |
| 14. | 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. | |
| 15. | EXEMPT BUSINESS | |
| | There is no exempt business. | |

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AUDIT AND GOVERNANCE COMMITTEE

MINUTES OF MEETING HELD ON MONDAY 22 JULY 2024

Present: Cllrs Gary Suttle (Chair), Spencer Flower (Vice-Chair), Belinda Bawden, Matt Bell, Neil Eysenck, Jill Haynes, Andrew Parry, Andy Todd, Ben Wilson, and Alex Fuhrmann

Co-Opted Members: Roger Ong

Present remotely: Cllrs Barry Goringe

Also present: Cllrs Nick Ireland and Craig Monks

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

Susan Dallison (Democratic Services Team Leader), Aidan Dunn (Executive Director - Corporate Development S151), Marc Eyre (Service Manager for Assurance), Angie Hooper (Principal Auditor SWAP), Jonathan Mair (Director of Legal and Democratic and Monitoring Officer), John Miles (Democratic Services Officer), Sally White (Assistant Director SWAP), Chris Swain (Risk Management and Reporting Officer), and James Fisher (Data Protection Officer)

Officers present remotely (for all or part of the meeting): James Ailward (Head of ICT Operations)

17. **Apologies**

An Apology for absence was received from Simon Roach.

18. **Declarations of Interest**

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

19. **Public Participation**

There was no public participation.

20. **Annual Emergency Planning Report**

The Service Manager for Assurance, Marc Eyre introduced and summarised the report. The committee requested a periodic update on Emergency Planning, and this was the first time an Annual Emergency Planning report had been presented. The significant impacts globally following the Covid Enquiry and CrowdStrike reinforced the need for strong business continuity arrangements. It was noted that the CrowdStrike issue had only a minor impact on the Council in terms of small external provider provision. The Emergency Planning Team had responded to

approximately 1 incident per week over the last 12 months. The team regularly debriefed incidents, to ensure that organisational lessons were learnt. Work had been done alongside local resilience partners to improve community resilience, with recruitment of a pan-Dorset Community Resilience Liaison Officer. The report identified a number of priorities such as, improving training compliance rates, further improvement of business continuity arrangements, and delivery of statutory exercises.

Cllr Haynes informed the Committee that last winter there were considerable incidences of flooding and was alarmed to find that officers that had been sent out to discuss potential measures to deal with flooding in villages did not understand the extent of flooding. She raised concerns about how flooding was being recorded and the potential for unreported flooding, as numerous houses were flooded but she had been told by officers only two houses had been impacted.

Cllr Todd referenced Pg 9 of the report, section 2.6 and 6.5. He raised that gold and silver officers receive refresher training every 3 years. Gold was standing at 54% completion and silver at 65%. He inquired how benchmarks compared to other similar organisations and how completion rates could be improved.

In response to Cllr questions, the Service Manager for Assurance informed that he would take away Cllr Haynes questions and raise them with the appropriate officers. He highlighted that the Community Resilience Liaison Officer was trying to get out to communities more and work with them to develop their resilience plans. In response to Cllr Todd's questions, the Council operated a different gold and silver regime to other authorities and so would be difficult to compare. He added that there would be a paper coming to the Senior Leadership Team in August in which the numbers would be reviewed and aimed to reduce numbers of officers down which would assist training compliance.

Cllr Monks called for greater communication with Town and Parish Councils in order to deal with incidences on the ground level. The Service Manager agreed to liaise with the Local Resilience Forum to understand hit rates on the Dorset Prepared website.

21. **Annual Fraud and Whistleblowing Report**

Marc Eyre presented the Annual Fraud and Whistleblowing Report. He provided some past context and highlighted the benchmarking and baseline work and the progress of the fraud management arrangements maturity. The key outstanding action was around training particularly about stronger training for higher risk roles. The paper summarised whistleblowing activity which had increased from 7 last year to 14 within the last financial year. This doubling was attributed to the policy becoming more visible.

The Co-opted Member, Mr Roach submitted questions to the Committee. Paragraph 23/1.2.5 Culture and Awareness. In the outstanding action why are "Services identified with highest risk exposure to fraud" only "encouraged" and not mandated to undertake fraud and whistleblowing training? If they have high risk exposure, encouraging them seems too soft an approach.

The Service Manager for Assurance responded to questions from the Committee. In terms of progress being made, 40% was still showing as amber but within the 40% there were a small number of actions such as, training which crossed over a number of criteria. For training, SWAP had been developing an E Learning Module as the present module was quite generic. He agreed with Mr Roach's comment that training requirement should be mandatory for those higher fraud risk areas and agreed to liaise with the Learning and Development Team.

In response to Cllr Haynes questions regarding comparing benchmarking to other authorities. The Service Manager for Assurance informed that SWAP had undertaken a baseline review which looked across a range of SWAP partners to compare maturity of arrangements.

22. Annual Information Governance Report

Marc Eyre presented the Annual Information Governance Report. He summarised and presented the highlights of the report. Mandatory training levels remained lower than what the service wanted at 73% for cyber and 84% for data protection but noted that there had been some improvements to figures since the report was issued. Cyber remained one of the Councils most significant risks. There had been 82% reduction in technical vulnerabilities on devices since introduction.

From a performance perspective, just below target of 90% of Freedom of Information Requests and there were some capacity challenges, but the service was improving by automation work. For Subject Access Requests, response rates had improved. The number of data breaches increased from 295 to 376 last year with 20 meeting the criteria for escalation to the Information Commissioners Office. 73% of those breaches related to email. It was noted that a change to Microsoft licensing arrangement could provide technical capability to reduce the risk.

Mr Roach submitted question: Pg 35- Oct, Nov, Dec were months with relatively low numbers of FOI and EIR requests so why were they also the worst in terms of response time?

Marc Eyre responded that it could be a range of things like one service area receiving a number of FOI requests on a single subject based on local or national publicity. Issues of absence either across the corporate team or to individual service areas also impact.

Mr Roach submitted question: Para 3.5.2 says that Data protection compliance training is at 84% vs 95% target and Cyber security training compliance at 73%. Para 4.7 says that this training is mandatory. What are the consequences for those not completing? If these are not defined and communicated, they should be. Those requiring training should not have the option to self-opt out.

In response Marc Eyre informed that training rate compliance had been a challenge. Training rates were below the 95% compliance rate set out in the NHS Data Security and Protection toolkit, which was compulsory to enable access to health data sets. An improvement action plan was in operation. He informed that there was a paper going to the Senior Leadership Team next month from the Learning and Development Team, which would look more widely across data

protection and cyber training, in addition to wider mandatory training. One of the recommendations within the report would be to consider further actions needed to improve compliance. One of the considerations would be to remove system access for those that had not completed training.

The Committee noted the resources challenges and recognised that this may require further focus. It was agreed that a further report should be presented back to the Committee to present progress.

23. Quarterly Risk Management Update

The Risk Management and Reporting Officer, Chris Swain presented the Quarterly Risk Management Update. On the 15th of January, the level of compliance for risk updates was around 41%. Which improved to 90% in April and today compliance was now over 92%. The last time risk was presented to Audit and Governance on the 15th of April, Mr Roach (co-opted member) flagged that despite the overall improvement of compliance a significant percentage of the higher risks were still overdue, including 29% in Children's, 60% in Place and 62% in Corporate Development. The report presented showed 100% compliance with risks rated high and very high, except for Place which at the time of writing was engaging with a risk pilot to re-evaluate all risks in the directorate, which was now 100% compliant. The exercise was the first step to standardising risk at Dorset Council including coaching around risk articulation, risk assessment and risk recording. His aspirations were to undergo a continuous cycle of plan, implement, measure and learn to improve compliance and improve the quality of risk information. The risk register now benefits risk owners by sending automated reminders that are sent directly 14 days and 7 days prior to and on the day a risk becomes overdue, including direct links to the risk that requires attention.

24. SWAP Update Report

The Principal Auditor SWAP Internal Auditor Services, Angie Hooper presented the SWAP Update Report for the 2024/25 financial year. SWAP offered a reasonable interim opinion and had not identified any significant corporate risks. Since the last update report there had been no limited assurance opinions reports issued. With regard to the actions to the response to the Climate Emergency Audit, SWAP continued to keep in contact with the Corporate Director, Transformation and Digital and his team and planned to undertake another formal follow-up in early 2025. A follow up of premises health and safety audit had been undertaken and reported that 2 out of the 3 outstanding actions including the priority 1 action had now been implemented, with a revised implementation date for the remaining priority 2 action. SWAP believed that sufficient action had been taken by the service to mitigate the significant corporate risk so will no longer be formally reporting this to the Committee. All priority 1's and 2's from all of SWAP's audits would now be reported. 24 actions had passed their original due dates where a revised date had been agreed and 12 overdue actions where either the original date or revised date had passed. The number of overdue actions and revised timescales remained high, but SWAP was in contact with officers to ensure actions were implemented.

SR Comments: Pg 72 and 76- The revised dates for priority 2 actions seem mostly be in the region of 6 months to a year later than the original date. Those extensions seem excessively large to me.

SR Questions: Pg 72 and 76- My contention is that if the priority 2 actions can be **extended** by many months and as much as a year, the owners cannot truly believe the risks are that significant. Can SWAP please comment? Have we got a mismatch (passively expressed by long implementation timelines) in assessment of the significance of the risks between SWAP and auditees/action owners?

In response to questions, the Assistant Director for SWAP Internal Audit Services, Sally White informed that there had been a couple of Audits where the actions had been quite complex and had taken a bit longer to complete than previously anticipated. Additionally, there had been changes in structure and staffing that had potentially delayed the implementation. SWAP had continued to highlight their concerns around the speed of implementation, both at senior management level and at committee. However, only the service managers themselves would be able to explain in detail regarding why an action had been delayed. Senior Leadership Team had a performance indicator regarding overdue actions and asked for information where the date had been extended. She added that the committee might want to consider that they also have a role in questioning service managers where implementation of actions had been delayed.

The Executive Director for Corporate Development, Aidan Dunn responded to questions. He highlighted that there were some good points and the importance of accountability of officers. He added that some recommendations may at first appear simple to implement but as they progressed became more complex. This meant that the action date needed to be delayed but did not necessarily mean the action point was being ignored.

25. **Work Programme**

26. **Urgent items**

Minutes of the Audit and Governance Meeting Held on 8th July 2024 were confirmed.

No Meetings held from the Audit and Governance Sub-Committee.

27. **Exempt Business**

There was no exempt business.

Duration of meeting: 6.30 - 7.30 pm

Chairman

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Audit and Governance Committee

23 September 2024

Risk Management Update

For Review and Consultation

Cabinet Member and Portfolio:

Cllr N Ireland, Leader of the Council, Climate, Performance and Safeguarding

Executive Director:

A Dunn, Executive Director, Corporate Development

Report Author: Chris Swain

Job Title: Risk Management & Reporting Officer

Tel: 01305 228691

Email: chris.swain@dorsetcouncil.gov.uk

Report Status: Public

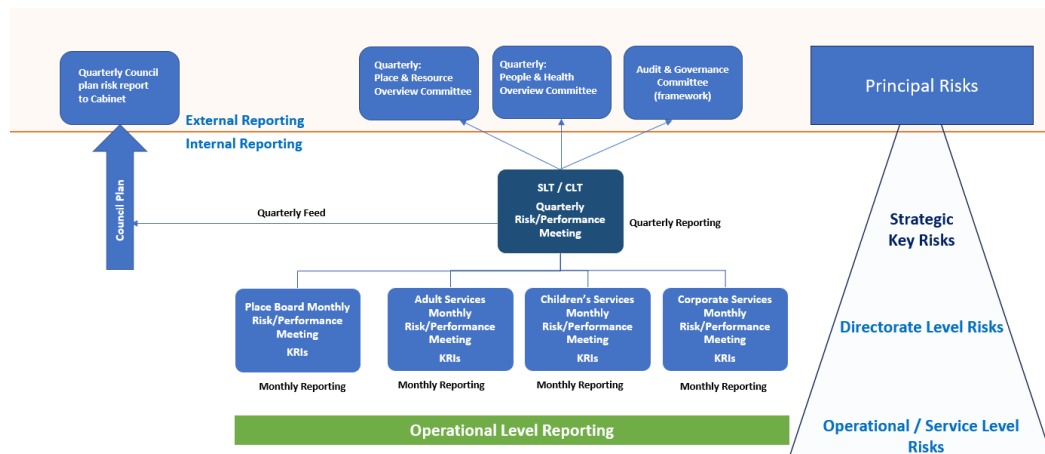
Brief Summary: The continual development and promotion of risk management is integral to strong performance, business continuity, compliance and delivering strong outcomes for the residents of Dorset. Strong risk management with a clear understanding and governance of strategic and operational risks will ensure that Dorset Council remains well placed to demonstrate that objective and informed decisions are being taken. The senior leadership team (SLT) owns strategic risk management, with an agreed risk management framework and policy statement both of which set out the council's commitment. The focus of this report is to provide an overview of the highest-level risks identified within the service risk registers, as well as provide an overview of the processes and work that has been implemented to drive enhancements in risk management since Audit and Governance Committee on the 22 July 2024.

Recommendation: The 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 informed decisions based on identified risks to be made.

1. Report

- 1.1 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.
- 1.2 Work continues towards the provision of principal risks and a risk appetite statement for the organisation, linked to the efforts of the Council Plan Working Group and the development of a new Council Plan. This will strengthen the links between strategic performance management and risk and further information in this area will be presented once available. The aspiration is the principal risks will become those at the top of the hierarchy, with other risks at strategic, directorate and operational level becoming subsets. As outlined in 1.5 of the Audit and Governance Committee report on the 22 July 2024, the following diagram indicates where the principal risks (external reporting) will sit in the overall hierarchy in comparison to, strategic, directorate and operational level risks (internal reporting):



- 1.3 Significant work has gone into reworking the narrative for risks, with guidance and support ensuring that both the articulation of risk and the associated methodologies meets a more consistent and accepted approach. Additionally, alongside work being undertaken in performance, the number and relevance of risks has also been revisited to ensure that risks are up to date and that there is a clearer demarcation between operational / directorate, and strategic risks (high & worsening and very high) based on the existing framework.

- 1.4 Following the success of the risk training pilot in the Place Directorate a “wash up” meeting was conducted to understand the strengths and weaknesses of the exercise to facilitate improvement for the next iteration. The Children’s Directorate is next in line to complete this exercise, which is scheduled for October, with the aspiration of yielding similar benefits. Further risk meetings have also been scheduled with colleagues in the Place Directorate to provide further support to those that missed the original risk training or require additional clarification.
- 1.5 The Risk management & Reporting Officer with assistance from colleagues in ICT has implemented a workflow to provide automatic risk register update reminders to risk owners 14 and 7 days prior to as well as the day a risk becomes overdue. To date this has provided increased risk register compliance and enhanced the quality of risk information.
- 1.6 Overall Dorset Council Risk Register compliance since January 2024 as per published Audit and Governance Committee papers:

Month	January	April	July	September
Overall Compliance	41%	90%	92%	100%

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. Natural Environment, Climate & Ecology 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: N/A

Residual Risk: N/A

This is a report detailing the risks faced by Dorset Council and therefore does not have a rating to consider relating to a decision. Appendix A provides an update on those Very High risks which are currently identified within the Council's risk register, which would have a very high level of risk impact attached to them including business continuity, reputational and financial.

7. **Equalities Impact Assessment**

None specifically, however the risk register itself identifies several equality related risks.

8. **Appendices**

Appendix A - Summary of Very High Risks

9. **Background Papers**

None.

10. **Report Sign Off**

This report has been through the internal report clearance process and has been signed off by the Director for Legal and Democratic (Monitoring Officer), the Executive Director for Corporate Development (Section 151 Officer) and the appropriate Portfolio Holder(s)

Audit and Governance Committee

23 September 2024



Risk Management Exception - Quarterly Update Report

Very High Risks

As of 30 August 2024

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

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 48 hours. 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 48 hours. 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 .

Overall Risk Summary – 30 August 2024

		Likelihood					Overall Compliance 100%	Total Risks 382
		Very unlikely	Unlikely	Possible	Likely	Certain		
Impact	Catastrophic	1	2	4	3	0	Very High / High Compliance 100%	Overdue 0 (0.00%)
	Major	3	40	14	11	0		
	Moderate	10	59	88	16	1		
	Slight	4	79	26	7	3		
	Limited	3	4	4	0	0		

Adults and Housing

		Likelihood					Overall Compliance 100%	Total Risks 35
		Very unlikely	Unlikely	Possible	Likely	Certain		
Impact	Catastrophic	0	0	0	0	0	Very High / High Compliance 100%	Overdue 0 (0.00%)
	Major	0	0	0	2	0		
	Moderate	3	7	10	2	0		
	Slight	0	7	4	0	0		
	Limited	0	0	0	0	0		

Adults and Housing - Very High: None

Children's Services

		Likelihood					Overall Compliance 100%	Total Risks 27
		Very unlikely	Unlikely	Possible	Likely	Certain		
Impact	Catastrophic	0	1	0	1	0	Very High / High Compliance 100%	Overdue 0 (0.00%)
	Major	0	2	5	1	0		
	Moderate	0	2	3	2	0		
	Slight	0	5	2	2	0		
	Limited	0	1	0	0	0		

Children's Services - Very High:

1. Instability in the High Needs Block budget may create a increased deficit in the Dedicated Schools Grant (DSG) resulting in a deficit in Dorset Councils financial position.

Corporate Development

		Likelihood					Overall Compliance 100%	Total Risks 118
		Very unlikely	Unlikely	Possible	Likely	Certain		
Impact	Catastrophic	0	0	0	2	0	Very High / High Compliance 100%	Overdue 0 (0.00%)
	Major	0	14	7	2	0		
	Moderate	0	10	29	5	0		
	Slight	1	37	6	2	0		
	Limited	2	1	0	0	0		

Corporate Development - Very High:

1. A successful cyber-attack to IT systems causes loss of service or data.
2. There is a business continuity risk from delayed ICT recovery after a disruption such as a power failure.

Legal and Democratic

Impact	Likelihood					Overall Compliance 100%	Total Risks 43
	Very unlikely	Unlikely	Possible	Likely	Certain		
Catastrophic	1	0	0	0	0	Very High / High Compliance 100%	Overdue 0 (0.00%)
Major	1	7	1	1	0		
Moderate	2	7	11	3	0		
Slight	0	8	1	0	0		
Limited	0	0	0	0	0		

Legal and Democratic - Very High: None

Place

Impact	Likelihood					Overall Compliance 100%	Total Risks 152
	Very unlikely	Unlikely	Possible	Likely	Certain		
Catastrophic	0	1	4	0	0	Very High / High Compliance 100%	Overdue 0 (0.00%)
Major	2	17	1	5	0		
Moderate	5	33	33	4	1		
Slight	3	22	10	2	2		
Limited	1	2	4	0	0		

Place - Very High: None

Public Health

	Likelihood									
	Very unlikely	Unlikely	Possible	Likely	Certain					
Impact	Catastrophic	0	0	0	0	0	Overall Compliance 100%	Total Risks 7		
	Major	0	0	0	0	0			Very High / High Compliance 100%	Overdue 0 (0.00%)
	Moderate	0	0	2	0	0				
	Slight	0	0	3	1	1				
	Limited	0	0	0	0	0				

Public Health – Very High: None

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Dorset Council

Report of Internal Audit Activity

Progress Report 2024/25 – September 2024

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Agenda Item 7

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 24 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 2024/25 financial year.

Our live Rolling Plan dashboard available through our audit management system AuditBoard [AuditBoard | Login \(auditboardapp.com\)](#), and specifically the Audit Coverage (*which can be found on the first tab of the dashboard 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 2024, we have issued one **Limited** assurance opinion on Estates Income and Debt Management. The one-page report can be found on page 8.

Addendum: Since writing this report, we have had further dialogue with the service regarding this Limited opinion report (on page 8) and understand that there was more evidence that wasn't provided at the time of the audit which may have altered our assurance rating. We have agreed with the Corporate Director Assets & Regeneration that we will undertake some follow up work promptly in order to demonstrate appropriate process control and evidence and will report to the Committee accordingly.

Significant Corporate Risks

Update on Response to Climate Emergency

In April, we reported that all actions that were due had been completed. The remaining one priority 1 and one priority 2 actions are not due until 30th April 2025, so we will undertake another formal follow up nearer that time to allow the actions to become embedded.

Internal Audit Charter

In the Internal Audit Planning paper that was presented to the committee in April, we explained that there have been some significant changes to the Charter as a result of the new Global Internal Audit Standards. The Charter

now includes an Internal Audit Mandate that specifically covers our roles and responsibilities and details the scope of internal audit work within Dorset Council. A copy of the signed Charter is included in Appendix B.

Follow Up of Agreed Audit Actions

Graphs showing the numbers of overdue priority 1 and 2 actions and those actions with revised due dates can be found on page 5. There are 11 overdue actions where either the original date or the revised date has passed and 26 actions that have passed their original due date where a revised date has been set.

Whilst the number of overdue actions has reduced, those with revised timescales remain high, but we are in contact with officers to ensure that actions are implemented in a timely way. Further details on outstanding actions can be found by viewing the Management Actions tab of the SWAP Executive dashboard which is stored in AuditBoard and can be viewed by clicking on this link [AuditBoard | Login \(auditboardapp.com\)](#)

Internal Audit Plan Progress 2024/25

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 since November 2022 when we started using our audit management system, AuditBoard [AuditBoard | Login \(auditboardapp.com\)](https://auditboardapp.com). 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 of the corporate risk themes. It is possible on the dashboard to also view coverage of our recent audit work mapped by Corporate Priorities, Directorates, SWAP Top 10 Risk Themes, and Core Areas of Recommended Assurance. The audits that make up the coverage can be viewed by right clicking in the coverage cell, select drill through and audit details.

Strategic Risk	Coverage (Completed Audits)	Average Opinion of Completed Audits
DC R01 - Finance	Good	Reasonable
DC R02 - Compliance	Adequate	Reasonable
DC R03 - Health, Safety, Wellbeing	Adequate	Reasonable
DC R04 - Communities	Adequate	Reasonable
DC R05 - Digital & Technology	Some	Reasonable
DC R06 - Safeguarding	Some	Limited
DC R07 - Transformation	Some	Limited
DC R08 - Workforce	Some	Limited
DC R09 - Political & Leadership	Some	Limited
DC R10 - Service Delivery	Good	Limited

Coverage	Description
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

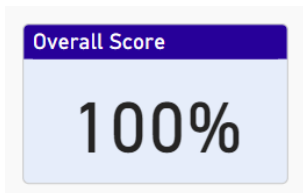
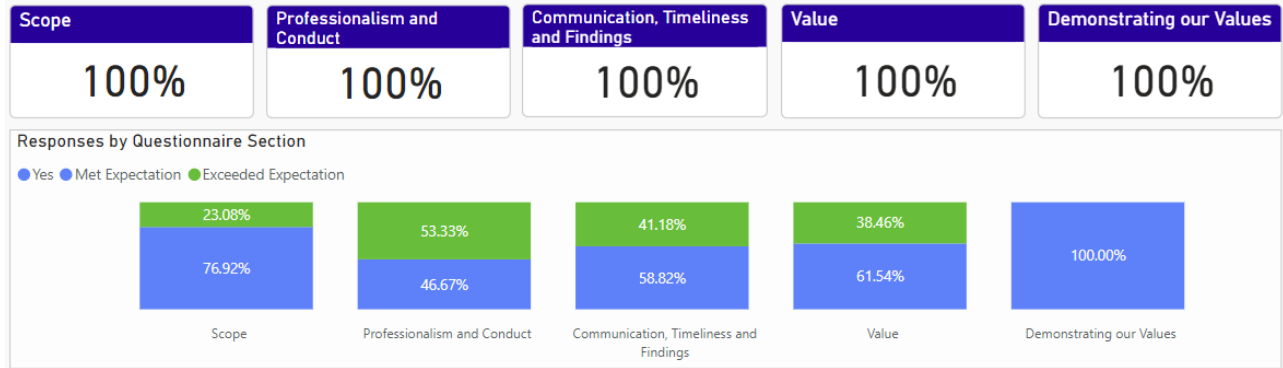
Assurance	Description
Substantial	Sound system of governance, risk management and controls exist
Reasonable	Generally sound system of governance, risk management and control in place
Limited	Significant gaps, weaknesses or non-compliance were identified
No Assurance	Fundamental gaps, weaknesses or non-compliance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

Internal Audit Plan Progress 2024/25

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

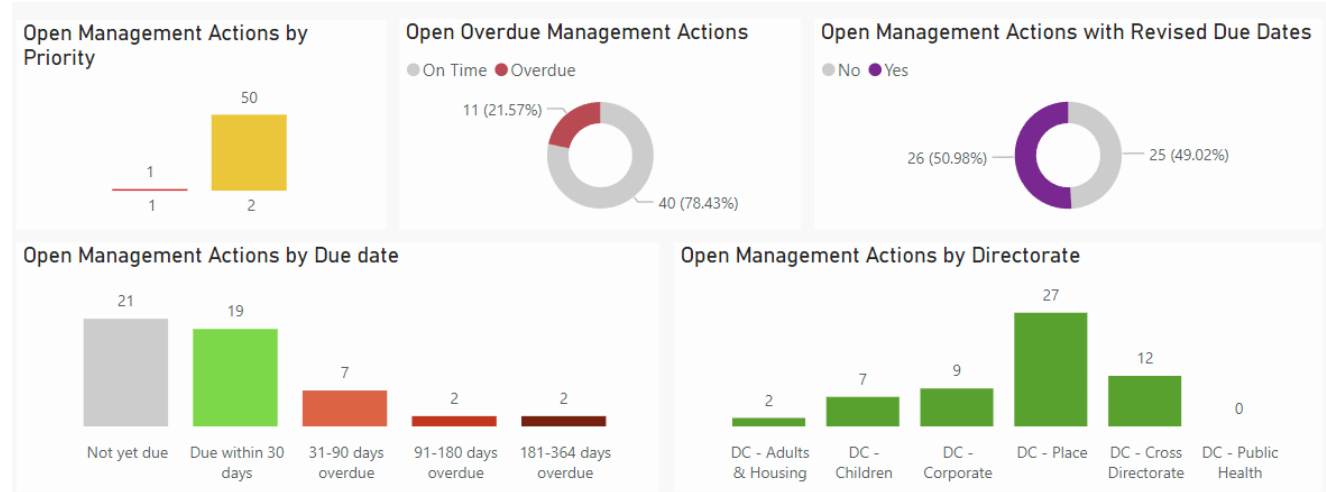
Performance scores from post audit questionnaires:



Internal Audit Plan Progress 2024/25

We monitor the Council's performance for implementation of agreed actions.

Outcomes from Follow Up Audit Work



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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 ICT Services are continuing with the project to see if it is possible to use Application Programming Interface (API) between Mosaic and Cifas to upload data directly which would enable a real time search of all Adult Service Users to identify deceased cases. Potential new areas include checking of senior officers, but re-checks of staff and contractors are not taking place due to capacity issues in those services. Previously agreed areas continue to be run through the database with matches being identified and action taken where necessary.

Whistleblowing Investigations

SWAP's Counter Fraud team has recently completed an investigation which is a result of whistleblowing, and this may lead to a follow-on piece of investigative work. The team has also just started another unrelated investigation which is a result of whistleblowing.

Data Analytics

Data analytics are used to inform audit findings and to provide additional insight wherever possible.

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	The review identified fundamental gaps, weaknesses or non-compliance, which require immediate action. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	The review identified significant gaps, weaknesses or non-compliance. The system of governance, risk management and control requires improvement to effectively manage risks to the achievement of objectives in the area audited
Reasonable	The review highlighted a generally sound system of governance, risk management and control in place. We identified some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Substantial	The review confirmed a sound system of governance, risk management and control, 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 dashboard held in AuditBoard, including 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.

Estates Income and Debt Management – Final Report – July 2024



Audit Objective

To provide assurance that procedures are in place to ensure that Estates income is recorded, received, managed, collected and if required, written off effectively and in a timely manner.

Executive Summary

	Assurance Opinion	Management Actions	Organisational Risk Assessment	Medium
	The review identified significant gaps, weaknesses, or instances of non-compliance. The system of governance, risk management, and control requires improvement to effectively manage risks to the achievement of objectives in the area audited	Priority 1	0	Our audit work includes areas that we consider have a medium organisational risk and potential impact.
		Priority 2	4	
		Priority 3	3	The key audit conclusions and resulting outcomes warrant further discussion and attention at senior management level.
Total	7			

Key Conclusions	Audit Scope
<p>Management were unable to provide sufficient evidence such as copies of payment plans or correspondence with tenants, to demonstrate that there is a robust process in place for chasing rent arrears. Further information was provided following the issue of the draft report, however this did not demonstrate the evidence required. The process for following up aged debt and rent arrears should be reviewed to ensure that it is robust.</p>	The scope of the audit fieldwork included the following: <ul style="list-style-type: none"> The procedures in place for recording, collecting and managing Estates income. The monitoring processes used to ensure monies are received in a timely way. The processes in place for chasing overdue income. Senior management oversight of the Estates income and debt management processes. Processes used to write off debt. The use of TechForge by the Estates service. An assessment of documented processes and procedures.
<p>Despite the provision of further information following the issue of the draft report, management were unable provide sufficient evidence to demonstrate that rent reviews and lease renewals had been actioned appropriately. Separate to this internal audit, a firm of surveyor consultants (HTC) are reviewing lease documentation to ensure it matches what is captured in TechForge. Upon completion of that work management should review the process for tracking and completing lease events.</p>	
<p>Neither the current TechForge system, nor its replacement TF Cloud interface with SAP. The benefits of this were highlighted to management in internal documents in December 2020 and again in a review by external consultants during November 2023 however, no work has been undertaken to investigate this further, and this should be explored. The benefits would include reducing effort and duplication, supporting budget monitoring processes and reducing some of the risk around the use of manual spreadsheets. Once TF Cloud has been implemented, a benefits realisation exercise should be carried out to establish the value added by the system and identify gaps.</p>	
<p>Although the Estates service does have key performance indicators, the majority of staff in surveyor roles who we spoke to were either unaware of their existence, or had very limited knowledge of the KPIs. Management should engage with staff and develop meaningful KPIs which are aligned to the service's objectives.</p>	

Next Steps
 This report highlights four key issues which are worthy of management attention. The "Findings & Action Plan" includes a further three issues and details of the management actions, which once completed, will enhance the control environment.

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Dorset Council

Internal Audit Charter and Mandate

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INTERNAL AUDIT CHARTER AND MANDATE

Purpose

SWAP Internal Audit Services creates, protects, and sustains value by providing the audit committee and management with independent, risk-based, and objective assurance, advice, insight, and foresight, that meets rigorous professional standards.

The internal audit function enhances:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

The internal audit function is most effective when:

- Internal auditing is performed by competent professionals in conformance with the Institute of Internal Auditors Global Internal Audit Standards™ which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the audit committee.
- Internal auditors are free from undue influence and committed to make objective assessments.

Commitment to Adherence to the Global Internal Audit Standards

The internal audit function will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. The chief audit executive will report annually to the partner audit committee and senior management regarding the internal audit function's conformance with the Standards, which will be assessed through a quality assurance and improvement program, managed and monitored by the SWAP senior management team and the SWAP board.

Authority

The audit committee grants the internal audit function the mandate to provide the audit committee and senior management with objective assurance, advice, insight, and foresight.

The internal audit function's authority is created by its direct reporting relationship to the audit committee. Such authority allows for unrestricted access to the audit committee.

The audit committee authorises the internal audit function to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.

- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- Obtain assistance from the necessary personnel of the Partner and other specialized services from within or outside the Partner organisation to complete internal audit services.

Independence, Organisational Position and Reporting Relationships

The chief audit executive will be positioned at a level in the organisation that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the internal audit function. The chief audit executive will report functionally to the audit committee and administratively (for example, day-to-day operations) to the Service Manager Assurance and Chief Financial Officer (Section 151 Officer). This positioning provides the authority and status to bring matters directly to senior management and escalate matters to the audit committee, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

The chief audit executive will confirm to the audit committee, at least annually, the organisational independence of the internal audit function. If the governance structure does not support organisational independence, the chief audit executive will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The chief audit executive will disclose to the audit committee any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfill its mandate.

Changes to the Mandate and Charter

Circumstances may justify a follow-up discussion between the chief audit executive, audit committee, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards.
- A significant re-organisation within the organisation.
- Significant changes in the chief audit executive, audit committee, and/or senior management.
- Significant changes to the organisation's strategies, objectives, risk profile, or the environment in which the organisation operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

Audit Committee Oversight

To establish, maintain, and ensure that the internal audit function has sufficient authority to fulfill its duties, the audit committee will:

- Discuss with the chief audit executive and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.

- Ensure the chief audit executive has unrestricted access to, communicates, and interacts directly with the audit committee, including in private meetings without senior management present.
- Discuss with the chief audit executive and senior management other topics that should be included in the internal audit charter.
- Participate in discussions with the chief audit executive and senior management about the “essential conditions,” described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- Approve the internal audit function’s charter, which includes the internal audit mandate and the scope and types of internal audit services.
- Review the internal audit charter [annually] with the chief audit executive to consider changes affecting the organisation, such as the employment of a new chief audit executive / head of internal audit or changes in the type, severity, and interdependencies of risks to the organisation; and annually approve the internal audit charter.
- Approve the risk-based internal audit planning process and review the live plan that is available on-line .
- Collaborate with senior management to determine the budgets, qualifications and competencies the organisation expects in a chief audit executive, as described in the Global Internal Audit Standards.
- Review the chief audit executive’s performance, provide feedback to the SWAP CEO, plus senior management and the organisation’s CEO.
- Receive communications from the chief audit executive about the internal audit function including its performance relative to its plan.
- Ensure a quality assurance and improvement program has been established.
- Review of the results of the quality assurance and improvement program annually.
- Make appropriate inquiries of management and the chief audit executive to determine whether scope or resource limitations are inappropriate.

Chief Audit Executive Roles and Responsibilities

Ethics and Professionalism

The chief audit executive will ensure that internal auditors:

- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the Partner organisation and be able to recognise conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture within SWAP and Dorset Council.
- Report organisational behavior that is inconsistent with the SWAPs and Dorset Council’s ethical expectations, as described in applicable policies and procedures.

Objectivity

The chief audit executive will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the chief audit executive determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for Dorset Council or its affiliates.
- Initiating or approving transactions external to the internal audit function.
- Directing the activities of a Dorset Council's employee that is not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the chief audit executive, audit committee, management, or others.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

Managing the Internal Audit Function

The chief audit executive has the responsibility to:

- Communicate a risk-based internal audit plan to the audit committee and senior management for review.
- Communicate the impact of resource limitations on the internal audit plan to the audit committee and senior management.
- Review and adjust the internal audit plan, as necessary, in response to changes in Dorset Council's business, risks, operations, programs, systems, and controls.
- Communicate with the audit committee and senior management if there are significant interim changes to the internal audit plan.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the audit committee and senior management regularly as appropriate.

- Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Global Internal Audit Standards and fulfill the internal audit mandate.
- Identify and consider trends and emerging issues that could impact the Partner organisation and communicate to the audit committee and senior management as appropriate.
- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide the internal audit function.
- Ensure adherence to the Partner organisation's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the audit committee and senior management.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the chief audit executive cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the audit committee.

Communication with Audit Committee and Senior Management

The chief audit executive will report at least annually to the audit committee and senior management regarding:

- The internal audit function's mandate.
- The internal audit plan and performance relative to its plan (live reporting available on-line).
- Significant revisions to the internal audit plan (live reporting available on-line).
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include the internal audit function's conformance with The IIA's Global Internal Audit Standards and action plans to address the internal audit function's deficiencies and opportunities for improvement.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the audit committee.
- Results of assurance and advisory services.
- Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond the Partner organisation's risk appetite.

Quality Assurance and Improvement Programme

The SWAP senior leadership team in collaboration with the chief audit executive / will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations

relevant to internal auditing. Also, if applicable, the assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.

Annually, the chief audit executive will communicate with the audit committee and senior management about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be completed at least once every five years by a qualified, independent assessor or assessment team from outside both SWAP and the Partner Organisation; qualifications must include at least one assessor holding an active Certified Internal Auditor® credential.

Scope and Types of Internal Audit Services

The scope of internal audit services covers the entire breadth of the organisation, including all of Dorset Council's activities, assets, and personnel. The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the audit committee and management on the adequacy and effectiveness of governance, risk management, and control processes for Dorset Council.

The nature and scope of advisory services may be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements.

These opportunities will be communicated to the appropriate level of management.

Internal audit engagements may include evaluating whether:

- Risks relating to the achievement of Dorset Council's strategic objectives are appropriately identified and managed.
- The actions of Dorset Council's officers, directors, management, employees, and contractors comply with the organisations's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programs are consistent with established goals and objectives.
- Operations and programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact Dorset Council.
- The integrity of information and the means used to identify, measure, analyse, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

Approval/Signatures

Sally White

02/09/24

Chief Audit Executive

Date



Audit Committee Chair

02/09/24

Date



Executive Director (SWAP)

02/09/24

Date

Revised August 2024

Audit and Governance Committee

23 September 2024

July 2024 (Period 4) financial management report 2024/25

For Decision

Portfolio Holder:

Cllr S Clifford, Finance & Capital Strategy

Local Councillor(s):

All

Executive Director:

A Dunn, Executive Director, Corporate Development

Report Author: Sean Cremer

Job Title: Corporate Director, Finance and Commercial

Tel: 01305 228685

Email: sean.cremer@dorsetcouncil.gov.uk

Report Status: Public

Brief Summary:

Following presentation to Cabinet on 10th September 2024, this report comes to Cabinet with information about the Council's forecast financial performance for the full 2024/25 financial year. The forecasts are based on data as at 31st July 2024 (Period 4).

Recommendation:

Audit & Governance is asked to:

1. note SLT's forecast of the full year's outturn for the Council, made at the end of July 2024 including progress of the transformational and efficiency savings incorporated into the budget;
2. note the capital programme for 2024/25;

Reason for Recommendation:

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

Cabinet

10 September 2024

July 2024 (Period 4) financial management report 2024/25

Portfolio Holder:

Cllr S Clifford, Finance & Capital Strategy

Local Councillor(s):

All

Executive Director:

A Dunn, Executive Director, Corporate Development

Report Author: Sean Cremer

Job Title: Corporate Director, Finance and Commercial

Tel: 01305 228685

Email: sean.cremer@dorsetcouncil.gov.uk

Report Status: Public

Brief Summary:

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Recommendation:

Cabinet is asked to:

1. note SLT's forecast of the full year's outturn for the Council, made at the end of July 2024 including progress of the transformational and efficiency savings incorporated into the budget;
2. note the capital programme for 2024/25;

Reason for Recommendation:

The Council provides a mix of statutory and discretionary services to communities across Dorset and is legally required to set a balanced budget

every year, and so must deliver services within the resources made available through the revenue and capital budgets for 2024/25. This report summarises the Council's forecast financial performance for the year at the end of July 2024.

The operating environment for Local Authorities across the UK remains challenging given the ongoing and sustained impact through the recovery phase of the pandemic, as well as international conflict driving inflation. These external factors are bringing pressure to bear through increased demand, rising costs and complexity, in addition to reducing funding. As a result, effective control and monitoring of activities and budgets has never been more important.

It is therefore essential to understand 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 Council Plan's priorities, and to that the organisation remains in good financial health and that service delivery remains sustainable. The Council makes a significant contribution in supporting employment, training and economic prosperity, as well as being a provider and commissioner of critical public services. Balancing all of these strategic, and often, competing priorities is a responsibility which should not be taken lightly.

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. Well-being and Health Implications

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

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

Council finances are under extreme pressure. This report outlines pressure within the revenue budgets which, in the absence of mitigation, will be required to be funded from reserves. Reserves have reduced from 2023/24 to 2024/25 and will reduce further if required to meet the revenue overspend. The report also identifies areas such as Adult Social Care where the Council is exposed to further in-year pressures which may be realised over the Winter of 2024/25.

Looking ahead, further pressure on the Council's reserves comes from the cumulative deficit on the Dedicated Schools Grant (DSG), which could exceed available reserves if a solution is not identified before the statutory override ends in March 2026.

Early expectations are for a further national one-year funding settlement for 2025/26, which does not provide confidence that the underlying, systemic underfunding for Local Government service delivery will be addressed. As a result, it is expected that the local and national pressures the Council is facing in the current financial year can be expected to continue over the medium term.

Taking both the local and national operating environment into consideration, the S151 Officer, the Council's Chief Finance Officer, establishes the current risk assessment as *high* and that readers of the report should expect:

- i. the budget gap for next year (2025/26) should be expected to widen
- ii. delivering a balanced budget to require a reprioritisation of service delivery to ensure ongoing financial sustainability.

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
Appendix B – Climate Wheel

8. Background Papers

[2023/24 draft outturn report](#)
[2024/25 budget strategy report](#)

9. Budget Setting 2024/25 and context

- 9.1 2023/24 ended with an overspend of £15.9m in service budgets, offset by Central Finance adjustments of £14.9m, resulting in a net £1m overspend. Setting the budget for 2024/25 saw rebasing of the ongoing pressures within service budgets increasing by £39m, £23m of which was in the Place directorate.
- 9.2 Setting the budget for 2024/25 involved setting a strategic budget and MTFP against another one-year settlement from Government.
- 9.3 The Council's *budget requirement* is £376.7m and was funded from rural services delivery grant (£3.2m), new homes bonus (£0.9m), business rates (£64m), revenue support grant (£0.7m) and council tax (£307.9m). More detail is set out in the [budget strategy report](#).
- 9.4 When setting the 2024/25 budget the Council approved a savings requirement from the Our Future Council programme of £8.6m, this figure is made up of an undelivered £0.5m from 2023/24 and a new £8.1m for 2024/25. The risk of non-delivery is underwritten by reserves.
- 9.5 The Council's budget is essentially fixed in cash terms at the start of each year and its ability to raise additional 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 There are also major national policy changes within our planning horizon – such as work on education funding formulae. One piece of policy change that has been cancelled is the [Social Care reform](#) which had previously been due to come in for October 2023 but had been delayed for 2 years.

Overall projection

- 9.7 At the end of July, the Council is forecasting an overspend of £10.1m, which represents 2.7% of the Council's budget requirement (£376.7m). £8.6m of this overspend had previously been anticipated as it relates to the Our Future Council transformation programme, for which a risk reserve has been established.
- 9.8 This forecast is of significant concern as it identifies unbudgeted service pressures of £9.7m, which are only partially mitigated by Central Finance funding improvements of £7.9m.
- 9.9 The current forecast will require use of reserves. In previous years where there has been improvement during the year, this has typically been due to 'central finance' mitigation, such as releasing the contingency or

improvements to collection fund. For Period 4, these have already been deployed and are therefore not available to mitigate any future pressures.

9.10 Section 14 of the report also outlines a number of forecast uses of reserves. In the event that the £10.1m forecast improves, there remains an underlying reliance on reserves during 2024/25, which will need to be replenished during the life of the current MTFP.

9.11 The directorate variances are summarised in the table below.

Directorate	Net Budget	Forecast	Forecast (Overspend)/	
	£'000	Outturn	Underspend	
	£'000	£'000	£'000	
People - Adults & Housing	153,436	157,298	(3,862)	(2.5%)
People - Children's	85,023	89,672	(4,649)	(5.5%)
Place	105,198	106,588	(1,389)	(1.3%)
Corporate Development	38,803	38,773	31	0.1%
Legal & Democratic Services	7,526	7,340	186	2.5%
Public Health	276	276	0	0.0%
Total Service Budgets	390,262	399,946	(9,684)	(2.5%)
Our Future Council savings	(8,622)	0	(8,622)	(100.0%)
General Funding	(29,283)	(29,666)	383	1.3%
Capital Financing	17,850	17,857	(7)	(0.0%)
Contingency	(2,219)	(7,089)	4,869	219.4%
Precepts/Levy	19,438	19,442	(4)	(0.0%)
Central Finance	(396,267)	(399,267)	3,000	0.8%
Retirement Costs	1,727	1,759	(32)	(1.9%)
Whole Authority	(7,113)	2,982	(10,095)	
Dedicated Schools Grant budgets	7,113	36,968	(29,855)	

More detail on the specific directorates is set out in the following paragraphs.

Children's Services

9.12 The Children's Services forecast is £89.672m compared with a net budget of £85.023m an overspend of £4.649m (5.5%).

People Services - Children	Net Budget	Forecast Outturn	Forecast (Overspend)/ Underspend	
	£'000	£'000	£'000	
Quality Assurance	2,988	2,976	12	0.4%
Care & Protection	63,085	66,046	(2,961)	(4.7%)
Commissioning and Partnerships	3,632	5,333	(1,700)	(46.8%)
Director's Services	2,500	2,500	0	0.0%
Education and Learning	13,271	13,271	0	0.0%
DSG Recharges	(454)	(454)	0	0.0%
Total Directorate Budget	85,023	89,672	(4,649)	(5.5%)

Care & Protection

- 9.13 Most of the overspend sits within Care and Protection, the social services side of the directorate, partially compensated through the Social Care grant, announced in the Local Government Settlement.
- 9.14 Dorset is part of the temporary mandate National Transfer Scheme, accepting transfers of children into our care to provide crucial placements for up to 67 children (Dorset's threshold and subject to change).
- 9.15 The National Transfer Scheme provides a degree of funding to support unaccompanied children, however this mainly covers the direct placement costs. The funding varies depend upon the number of unaccompanied children, the age of the child or young person and whether the child is part of the National Transfer Scheme. Supporting unaccompanied asylum-seeking children (UASC) or unaccompanied children is forecast an overspend of £0.4m.
- 9.16 Costs other than for the placement include additional social worker and quality reviewing officer costs to maintain caseloads, interpreter fees, travel costs and support function costs.
- 9.17 At the end of June, Dorset were claiming for 53 under 18 year old unaccompanied children. 70 unaccompanied young people over 18 were being supported by the Leaving Care Service.
- 9.18 The support required to meet the needs of children who are disabled is forecast to overspend by £1m. This predominantly is for externally commissioned support packages, direct payments and short breaks. The cause is a mixture of inflation, increased complexity and the difficulty finding providers through the direct payment mechanism.

Commissioning and Partnerships

- 9.19 At the end of July, only one transformation saving is rated as red. This is £1.55m for the Birth to Settled Adulthood project. £1.3m of transformational savings are defined as amber and £3.3 are rated green. The Children's Services Transformation Team monitor and review the progress of these projects monthly.

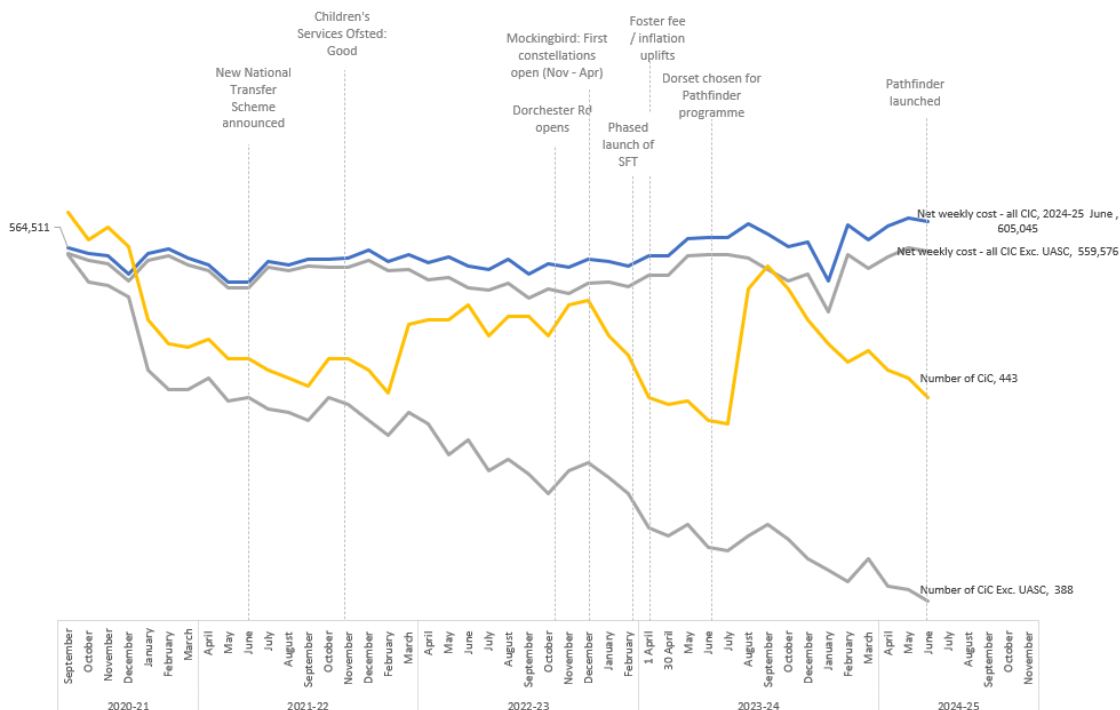
Families First for Children Pathfinder

- 9.20 In June 2023, Dorset was announced as one of three authorities for the Families First for Children Pathfinder, containing four workstreams. Dorset were awarded £4.9m from the DfE until March 2025 to help implement and test the four workstreams. At present, the full allocation is forecast to be received.

Children in care

- 9.21 As mirrored nationally, pressure on external placements for our children in care population remains, however this has largely been offset by the Social Care Grant.
- 9.22 Dorset's Children in Care population continues to reduce since September 2020. This is a result of a combination of planned and strategic activity, including the transformation programme, locality working, putting the child at the heart of decision making, investing in the No Wrong Door approach and strong commissioning, all delivered by a dedicated workforce. This trend is not mirrored nationally.

Dorset Council: Children in Care - net weekly cost and number of children



- 9.23 If the number of children in care (exc. our unaccompanied children) had remained at 475, at June 2024 averages, it is estimated an additional £6.8m of annual cost would be incurred.
- 9.24 An overspend is reported for supporting our children in care, and this is mainly driven by three factors: our children’s needs increasing in complexity, inflation and an external residential placement market that isn’t functioning effectively, as referenced in the Competition and Markets Authority (CMA) published in 2022, which was a market study into children’s social care provision. [Children's social care market study final report - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/111111/Childrens-social-care-market-study-final-report.pdf)
- 9.25 This is the forecast outturn position at the end of July, in what could be a 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), delivering capital projects on time and on budget (there are revenue implications for late projects), new placements and placement changes, delivery of transformation savings, and increasing new burdens that may not be fully funded. This includes Chickerell Camp, unaccompanied young people and new responsibilities for the Virtual School.

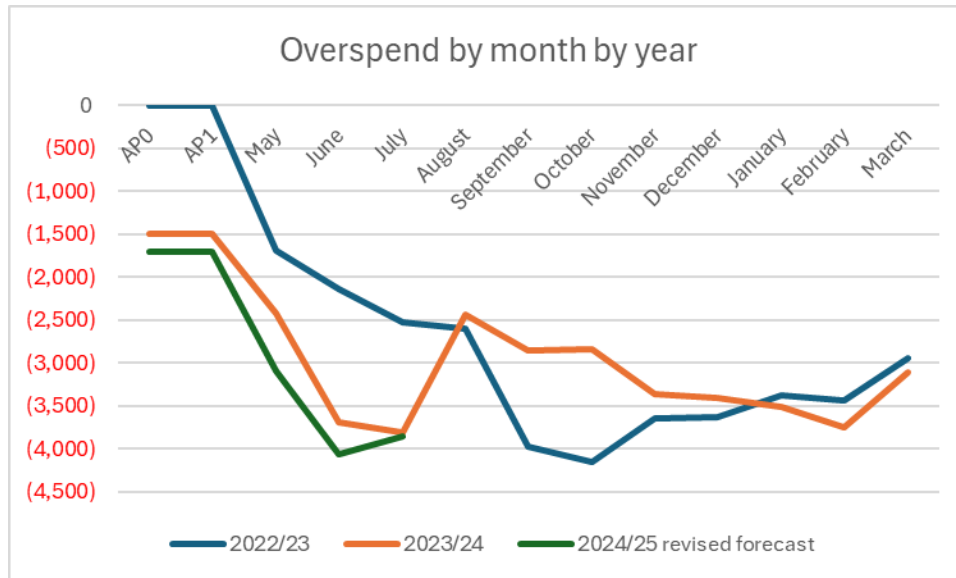
Adults Services & Housing

- 9.26 The Adults Services & Housing forecast is £157.298m compared with a net budget of £153.436m, an overspend of £3.862m (2.5%).

People Services - Adults	Net Budget £'000	Forecast Outturn £'000	Forecast (Overspend)/ Underspend £'000	
Adult Care Packages	120,331	124,237	(3,906)	(3.2%)
Adult Care	16,866	16,566	300	1.8%
Commissioning & Improvements	8,059	8,041	18	0.2%
Directorate Wide	1,719	1,720	(0)	(0.0%)
Housing & Community Safety	6,461	6,734	(273)	(4.2%)
Total Directorate Budget	153,436	157,298	(3,862)	(2.5%)

Adult care packages

- 9.27 The forecast overspend within adult care packages is £3.906m and is based on the current cohort of adults being supported. As with any needs-led service, it is challenging to completely predict the future need at this early stage of the budget cycle. Our review of performance against last year shows that we have stabilised unit costs but seen additional people in the baseline over and above the budget level.
- 9.28 Additional demand management work is underway with system partners to look at the hospital and over-65 year old demand and we expect that this will help towards budget containment in future forecasts this year and build for next year and subsequent years. Previous years have also been supported by the in-year allocation of additional grant funding, and given the national position of adult social care services this remains a possibility for the current year, together with a reconsideration of any alternative use of past dedicated social care grants, based on agreements with Children's and SNT colleagues.
- 9.29 Care packages are reviewed via Corporate Directors as per the scheme of delegation for oversight and rigour. There is existing activity in the system to review packages and to address the appropriate need for joint funding and continuing healthcare, and account of the potential impact is currently being assessed to strengthen forecasting.
- 9.30 The graph below compares current early forecasts for the year with the emerging forecasts through the two previous years; whilst trends currently match those seen previously, it will also be noted that the remainder of each previous year saw more volatility than the early months.



- 9.31 Based on previous trends and performance following the first quarter of the financial year, we see stabilisation in quarter 2 as provider uplifts and full-year projections are accounted for. The significant improvement mid-year in 2023/24 was an additional grant funding allocation received from government. Nonetheless, the second part of the year is then less challenging, with reconciliation of movements at end of year improving the position. The service will continue to review its financial performance and deliver its planned transformation work in year, with an active review of any savings that could be bought forward in year to help mitigate the current forecast.
- 9.32 Work is already taking place to manage cost and demand within the directorate. This activity, combined with the prevention programmes, should enable the directorate to contain the forecast overspend to the currently predicted £3.9m.
- 9.33 The budget continues to be actively managed, with the intention of reducing the forecast overspend during the later part of 2024/25. However, the Adult Care budget is demand driven so will need constant management – experience shows that a ‘bad winter’ could bring the risk of a further £3m-£5m of cost pressure which the directorate would need to absorb. Mitigation plans are being prepared accordingly.

Care Dorset

- 9.34 There is a forecast overspend relating to pressure within the Care Dorset contract of £1m. Discussions have commenced regarding efficiencies that can be made with respect to the contract. The remaining pressure is within care packages. Since the budget was set there has been an increase in the demand for placements, which is reflected in the forecast.

Housing

- 9.35 Housing is currently forecasting an overspend of £0.273m (4.22%). The overspend is due to the Bad Debt Provision forecast.
- 9.36 Homelessness approaches remain high but resources are targeted at our front door and changes in triage processes have meant that the directorate is working without any backlogs, which assists with early intervention and prevention work.
- 9.37 Effective early prevention work by the triage and tenancy sustainability team means less clients are facing homelessness. The move to upstream prevention work has been very effective. Whilst this can be labour intensive, the savings for the Council are clear in terms of reduced numbers in B&B and temporary accommodation. Outcomes for those affected improve and the risk of homelessness reduces for all households. Successful preventions are up 99% on the same period last year, which is immense performance by the team.
- 9.38 The number of households in bed and breakfasts continues to reduce. Single households remain high. Successful placement for individuals can be dependent on accommodation being self-contained to meet the needs of individuals. Demand currently outstrips supply. Improvements in void management have helped to keep the numbers static.
- 9.39 Family placements have reduced. Those in bed and breakfasts are being allocated alternative temporary accommodation more quickly. The number of family households in bed and breakfasts for longer than 6 weeks has significantly reduced, with only 1 household at the end of June.

Public Health

- 9.40 The public health grant for 2024/25 for BCP Council is £21.772m and for Dorset Council is £15.433m. Agreed local authority contributions for the year gave a shared service budget of £25.962m after retained amounts.
- 9.41 The forecast for the shared service stands at £212k overspent. This is largely due to the following:
1. A new community health Improvement services contract, live from April 2024. Costs are now higher and activity is forecast to increase. It is still too early to assess impact.
 2. Anticipated non-recurrent costs agreed through Joint Public Health Board. Current forecast includes £358k such costs, and £168k moved in from reserves to cover.
 3. Pay budget assumed 5% pay award and 5% vacancy factor. No current vacancies in team.

9.42 As Public Health is funded by a ringfenced grant, the existing public health reserve will cover any overspend within public health.

Place directorate

9.43 When setting the 2024/25 budget for Place, the Council approved a net increase in the budget of £23m. This year, the overall forecast for Place directorate as at the end of July is a projected overspend of £1.389m (1.3%), with a projection of £106.588m net spend against a net budget of £105.198m.

9.44 Significant budget pressures due to less projected income in Assets and Regeneration, Planning and Building Control, where income targets were uplifted by 5% as part of the budget-setting process, despite adverse market conditions, are being contained by a favourable budget position in waste management and strict expenditure control across the whole of the Place directorate.

Place	Net Budget £'000	Forecast Outturn £'000	Forecast (Overspend)/ Underspend £'000	
Assets and Regeneration	4,214	5,150	(936)	(22.2%)
Highways	5,563	5,851	(288)	(5.2%)
Planning	5,057	5,954	(897)	(17.7%)
Travel	40,048	40,015	32	0.1%
Business Support	2,115	2,115	0	0.0%
Environment and Wellbeing	8,321	8,321	0	0.0%
Community and Public Protection	3,810	3,844	(34)	(0.9%)
Waste - Commercial & Strategy	17,845	16,837	1,008	5.6%
Waste - Operations	16,679	16,854	(175)	(1.0%)
Directors Office	1,547	1,647	(100)	(6.5%)
Total Directorate Budget	105,198	106,588	(1,389)	(1.3%)

Assets and Regeneration

9.45 The Assets and Regeneration forecast overspend is £0.936m against a £4.2m net budget.

The major items within the forecast are as follows.

A. A change in operating model for the design and delivery teams will see less funding claimed from capital for staffing costs due to staff no longer carrying out the same level of fee-earning work. The estimate for this is an adverse £115k against the budget of £715k. Consultants have input to a review of the future operating model.

- B. Dorset Innovation Park, including Battlelab, is budgeted to break even, however based on current occupancy there is a forecast shortfall of £300k for 2024/25.
- C. Within County Farms, 6 are currently void and there are some increased costs, estimate for 2024/25 is £63k adverse. Farms are subject to a strategic review, which may determine further actions in due course.
- D. There is an income budget for car parking at County Hall of £169k. Following reinstating charges from October 2024, an underachievement of income is estimated here at £100k. This forecast will need to be refined and monitored once the new scheme goes live.
- E. Industrial sites rental income is forecasting an adverse variance of £80k.
- F. Pressure on the staffing and interims budget is estimated at £250k at this early stage but will be subject to ongoing monitoring and updates.
- G. There is a target saving in relation to reduced property estate running costs by disposing of surplus property. It is now assumed that this target (£486k) will not be met in full this year due to delays in the sale of Furzehill, assumed adverse £200k. The sale is expected to be complete in 2025/26.
- H. There is an estimated £250k cost in relation to backdated NNDR liability around the Dorset Council landlord element of Coombe House. Together with the previously reported underachievement of rental income of £185k, Coombe House, with an adverse impact of £435k, now equates to 31% of the total projected overspend of £1.389m across the Place directorate budget.
- I. Planned spend on the R&M budget has been reduced by £200k in order to assist with containing overall expenditure within the available funds.
- J. Within Assets and Property, “compliance spend” is taking place to make properties compliant with current building safety legislation, as Dorset Council inherited a stock of buildings that were in variable conditions and states of compliance from its predecessor councils in 2019 and work continues to bring them up to an acceptable minimum standard. At the time of writing, spend is just under £5.7m. An estimate of final spend for the year is circa £10m - £11m. This is not part of the Assets and Property normal revenue spend, being exceptional by nature, and the funding for this work is to be met from a combination of funds agreed by the Senior Leadership Team, with a contribution from existing Property repairs and maintenance budgets where applicable. Where this work cannot be capitalised, this will fall to reserves to fund the revenue elements of the £10m-11m spend.

Highways

- 9.46 The net highways revenue expenditure budget is £5.6m. Underneath this headline figure, the expenditure budget lines amount to circa £30m and income and other contributions of circa £24m. This is separate from the value of highways schemes which form part of the capital programme. Highways revenue budgets are made up of three services, which are Parking Services (net income budget £7.7m), Highways Infrastructure (net expenditure budget £8.8m) and Network Operations (net expenditure budget £4.5m). On that basis, it can be seen how the income generated from car parks reduces the overall cost of Highways activity. Highways are currently projected to be £288k adverse overall.
- 9.47 Of the £288k projected overspend:

- the Highways services are projecting a £218k overspend, primarily related to the Modelling team being unable to access capital funding.
- This year also sees a reduction of circa £120k income due to loss of car parking at Portland which has gone back to the landowners, the Crown Estate. The additional, temporary capacity at the North Quay (Weymouth) site will mitigate some of the losses, but again further ongoing monitoring will be needed as usage of the temporary car park becomes established.
- Parking Services – £70k adverse variance which relates to the net impact of the Parking Services forecast. Within this is the estimate of a reduction in income of £100k following the trial change to reduce car parking rates in three car parks across the County. The £70k is the net impact after taking into account the agreed mitigation from the removal of lead members (£59k) and parking income to date. Parking income remains closely monitored.

Planning

- 9.48 The Planning service has an overall £897k forecast adverse variance, largely due to a projection of £579k adverse in relation to Development Management, planning applications received, and now also a £274k projected adverse variance in Building Control due to a downturn in the housing market. The figures also include £100k of additional funding that has been provided from the corporate centre towards the cost of planning inquiries. The shortfall against the expected costs of the Alderholt appeal is expected to be met from staff savings (vacancies) (115k).

Dorset Travel

- 9.49 Overall, Dorset Travel is expected to be broadly on budget with an underspend (£32k) on a net budget of £40m. The budget for 2024/25 was

uplifted by £12m, based on actual spend in recent years and the expected continued growth trajectory. Nationally this sector is seeing both growth in demand and also significant cost uplift in excess of inflation.

- 9.50 School transport costs are predicted to overspend as a result of unfunded costs in relation to school transport for school age children accommodated at the Chickerell Camp, included here at an estimate of £281k. Early work on SEN transport costs to date suggest a £237k underspend. However, given the scale of activity, and the price volatility seen in the market in previous years, these figures should be considered as indicative only and need to be kept under regular review.
- 9.51 In SEN Transport, the number of children on vehicle provided transport (taxis, minibuses etc) has been increasing by 10% year on year for 3 years, with this year looking likely to continue that trend. Volume growth combined with the under-supply of taxis and drivers is predicted to be the cause for cost per client increases but anticipating that should be mitigated by inflation and fuel crisis having less of an effect as previous years.

Business Support

- 9.52 Business Support are projecting to eliminate their cost pressures through use of vacancies and shown here as on budget.

Community and Public Protection

- 9.53 CPP are forecasting an adverse variance of £34k on a net budget of £3.8m. Licencing income looks healthy but unbudgeted costs/lost income on CCTV and Community Safety Accredited Scheme (CSAS) services reduce this to £78k favourable overall in Licencing. Bereavement services are looking at a forecast of £130k adverse in the area of income generation and staffing costs. There are no other variances of significance evident at this early stage of the year.

Environment & Wellbeing

- 9.54 The overall E&W forecast is a nil variance. Whilst there are known pressure areas such as weed spraying costs and other savings and income targets to be achieved, the current assumption is that these costs can be contained within the existing budget.

Waste Strategy

- 9.55 Waste Strategy are forecasting an underspend of £1.008m at the end of July (AP4). The favourable position is mainly due to an improving recycle (DMR) market and continued favourable prices for recycled glass. In

addition, there are also favourable positions on both the Garden and Commercial services.

- 9.56 It remains the case that a lot of the disposal budgets within Commercial Waste & Strategy are extremely volatile, and the outlook can change within a short period of time.

Waste Operations

- 9.57 Waste Operations is currently forecasting an adverse variance of £175k on a net budget of £16.7m. Budget pressures are predicted in areas where reductions have been applied to budgets, in street cleansing and in agency staff.

Directors Office

- 9.58 The Directors Office has a forecast adverse variance of £100k, primarily as a result of unachieved planned management changes (£57k) and other unbudgeted management costs.

Fees & Charges

- 9.59 The table below highlights the level of fees and charges that are brought into Place directorate. It can be seen the directorate brings in circa £50m of fees and charges, albeit that the forecasting for the current year suggests nearer to £49m with adverse areas, as mentioned above, in Planning and Assets and Property in particular.

2024/25	Budget	Forecast	Forecast Variance
	£	£	£
Highways	-16,351,747	-16,113,348	-238,399
Planning	-4,530,900	-3,618,000	-912,900
Dorset Travel	-629,976	-628,640	-1,336
Environment and Wellbeing	-10,193,087	-10,235,615	42,528
Community & Public Protection	-3,352,122	-3,474,620	122,498
Commercial Waste & Strategy	-7,676,039	-7,964,960	288,921
Waste Operations	-120,384	-198,636	78,252
LUF & Economic Development	-92,133	-92,133	0
Assets & Property	-8,231,167	-7,115,933	-1,115,234
Place	-51,177,555	-49,441,885	-1,735,670

Corporate Development

Corporate Development	Net Budget £'000	Forecast Outturn £'000	Forecast (Overspend)/ Underspend £'000	
Financial & Commercial	9,989	9,884	105	1.1%
Human Resources	1,745	1,745	0	0.0%
ICT Operations	8,761	8,691	71	0.8%
Chief Executive's Office	1,122	1,122	(0)	(0.0%)
Directors Office	354	354	0	0.0%
Strategy, Performance and Sustainability	6,558	6,502	56	0.9%
Transformation, Customer and Cultural Services	10,273	10,475	(201)	(2.0%)
Total Directorate Budget	38,803	38,773	31	0.1%

- 9.60 The Corporate Development forecast to be broadly on budget. With a variance of £31k (0.1%).
- 9.61 **Finance & Commercial** has undertaken a review of current vacancies and based on recruitment timelines pay savings have been released.
- 9.62 **ICT Operations** are reporting a forecast underspend of £71k. This comprises of pay savings of £321k from vacant posts, which are being utilised within the service area to offset increased Microsoft licensing costs resulting from a package upgrade that provides enhanced cyber security and other benefits, and other inflationary increases.
- 9.63 **Strategy, Performance and Sustainability** comprises Organisational Development, Business Intelligence and Performance, Communication and Engagement and Climate & Ecological Change. The forecast underspend of £56k is largely the result of pay savings due to vacant posts and contract changes.

Transformation, Customer and Cultural Services

- 9.64 Within Transformation, Customer and Cultural Services there are several forecast movements. Digital & Change are forecasting an underspend of £151k pay savings. In addition, Customer Services are forecasting an underspend of £31k pay savings.
- 9.65 The Front Door and Ways of Working transformation projects have a shortfall of £182k if all projects are completed.

9.66 Following the Libraries restructure redundancy costs are forecast to reach £390k. This overspend has been offset to a large extent by vacancy management prior to the launch of the new operation model, so the net position for the service is £202k overspent.

Legal & Democratic Services

9.67 The Legal & Democratic forecast is £7.340m compared with a net budget of £7.526m, an underspend of £186k (2.5%).

Legal & Democratic	Net Budget £'000	Forecast Outturn £'000	Forecast (Overspend)/ Underspend £'000	
Assurance	1,706	1,709	(3)	(0.2%)
Democratic & Elections Services	3,088	3,088	0	0.0%
Land Charges	(274)	(275)	1	0.3%
Legal Services	3,006	2,818	188	6.3%
Total Directorate Budget	7,526	7,340	186	2.5%

9.68 Legal Services have a number of vacancies, there is active recruitment underway, however, following consideration of the likely start dates £188k of pay savings have been released.

Central budgets

9.69 The forecast for central budgets is £396.964m compared with a net income budget of £397.376m, is a forecast overspend of £411k (0.1%).

Central Finance	Net Budget £'000	Forecast Outturn £'000	Forecast (Overspend)/ Underspend £'000	
Our Future Council	(8,622)	0	(8,622)	(100.0%)
General Funding	(29,283)	(29,666)	383	1.3%
Capital Financing	17,850	17,857	(7)	(0.0%)
Contingency	(2,219)	(7,089)	4,869	219.4%
Schools Balance	0	0	0	0.0%
Precepts/Levy	19,438	19,442	(3)	(0.0%)
Central Finance	(396,267)	(399,267)	3,000	0.8%
Retirement costs	1,727	1,759	(32)	(1.9%)
Total Central Budgets	(397,376)	(396,964)	(411)	(0.1%)

Our Future Council

9.70 When setting the 2024/25 budget the Council approved a savings requirement from the Our Future Council programme of £8.6m, this figure is

made up of an undelivered £0.5m from 2023/24 and a new £8.1m for 2024/25. The risk of non-delivery is underwritten by reserves.

- 9.71 Significant cross organisational work has been undertaken since May 2024 to develop plans to deliver this savings requirement, and detailed proposals are anticipated in late September 2024. Only at that point can an assessment be made as to what extent those plans will achieve savings during the later part of 2024/25, prior to a full year delivery in 2025/26.
- 9.72 Prudently, the financial assumption at month 4 is that all the Our Future Council reserve will be used in 2024/25. However, this assumption will be reviewed in the Q2 finance report.
- 9.73 Further detail of work is contained in section 11 of this report.

Contingency

- 9.74 The Council's base budget included a contingency of £5m which is to meet unexpected costs that arise in the year. Given the overspends within service budgets already reported £4.9m has been released to offset the other pressures across the Council. The remaining £100k has been earmarked for the Youth Service.

Central Finance

- 9.75 Central Finance includes income generated from both council tax and business rates. The business rates estimate included in the budget is £63.976m, which is based on the MTFP. The amount declared on the NNDR1 was £68.473m and this is based on the valuation list from the revenues system adjusted for provisions. After taking account of contributions towards climate change and the LEP there is forecast favourable variance of £3.0m.

10. Dedicated Schools Grant (DSG)

- 10.1 2023/24 ended with a £23.6m overspend. At the 31 July 2024, the forecast outturn is a £29.8m overspend for 2024/25. Adding the historic cumulative deficit position, a revised cumulative deficit would be £88.2m. This figure reflects the withholding of DfE contributions whilst the safety valve agreement is being reviewed. In the event that the agreement is reinstated and previously committed contributions are received this would reduce to a cumulative deficit of £62.8m after DfE and Council contributions.
- 10.2 Any deficit associated with the DSG is kept off councils' balance sheets as a result of the statutory override set out in The Local Authorities Capital

Finance and Accounting (England) Regulations. It was announced in December 2022 that this would apply for a one-off period of three years up to 31 March 2026.

- 10.3 Until March 2026 the deficit is therefore held separately from the general fund, however there remains an underlying cashflow pressure from carrying a £88.2m deficit meaning that the Council has access to £88.2m less cash than it would otherwise. As a result, interest foregone during 2024/25 on the deficit equates to £4.6m of pressure met by the General Fund. This is £4.6m which could otherwise be spent on local service delivery.
- 10.4 Furthermore, as the deficit grows, at the point at which it exceeds Council reserves, the Council would be technically insolvent. With no certainty as to the Governments plans as to how this financial to address this, the Council must therefore plan for the known situation, which is the ending of the override in March 2026.

Safety Valve

- 10.5 To address the deficits nationally the DfE introduced the Safety Valve Programme. As mentioned earlier in this report, Dorset's agreement is currently under review, with partner contributions being withheld.
- 10.6 The agreement with the Department for Education 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 of revenue as part of the agreement. Additionally, Dorset are investing £47m into capital schemes across the county.
- 10.7 To date, the DfE funding received totals £23.75m and Dorset Council contributions equal £15m. As at the 31 July 2024, no DfE contributions for 2023-24 and 2024-25 have been received as the review has not yet concluded.
- 10.8 The revised plan is part of the DfE Enhanced Monitoring and Support (EMS) programme and includes allocated DfE advisors.

Quality of SEND provision

- 10.9 In March 2024 Dorset had an inspection for local area arrangements for children and young people with special educational needs and/or disabilities (SEND). The report from that inspection was published in May 2024. The inspection report stated that: *'the local area partnership's special educational needs and/or disability (SEND) arrangements typically lead to positive experiences and outcomes for children and young people*

with SEND...Children and young people with SEND and their families are placed at the heart of all that leaders do.'

10.10 This is the best possible outcome from an inspection and Dorset Council is the first unitary authority to receive this outcome under the new SEND inspection framework. Testament to the hard work and dedication of the teams supporting children and young people with SEND and their families and the whole Council and partners approach to supporting their work.

Local Context

10.11 A significant driver for the historic deficit is the continued rise in the number of children and young people who require an Education, Health, and Care Plan (EHCP). Chart 1 demonstrates this growth since the introduction of the SEND reforms introduced in 2014.

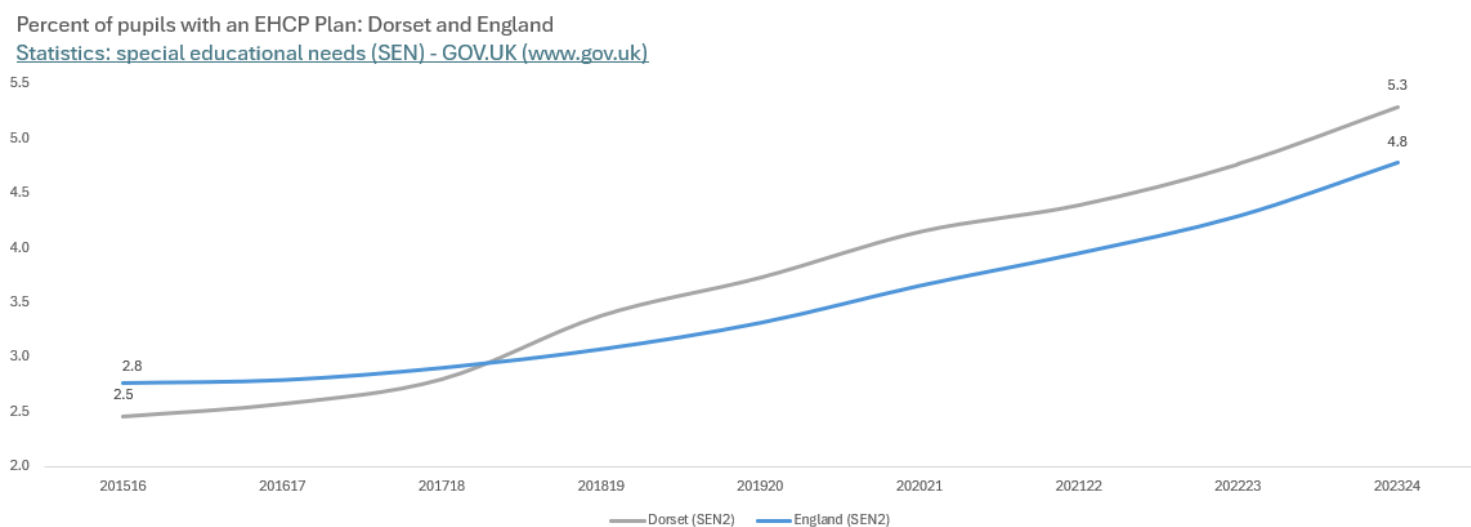


CHART 1: Percent of pupils with an EHCP since 2015

10.12 The percentage of pupils with an EHCP in Dorset is 5.3% on the latest SEN2 return, compared with a national average of 4.8%. As you can see from the graph, since 2018/19 the change year on year in Dorset follows a similar trend to the national figure.

10.13 From analysis at the end of June, 49% of our children and young people with an EHCP are within mainstream provision. Of the net movements since 31 March 2024, there has been an increase of 24 within the 'Specialist Provision' section, 23 within the Independent Special School placement category.

Placement	EHCP	%
Specialist Provision	1,633	39%
Mainstream Provision	2,051	49%
Other Provision	448	11%
30 June 2024 - TOTAL EHCP:	4,132	

- 10.14 Spend on high-cost placements is £7.2m over budget, this includes places at independent special schools and specialist post 16 provision.
- 10.15 Dorset have 450 children and young people now educated within an Independent Special School or Specialist Post 16 Placement, 11% of Dorset's children and young people EHCP population.
- 10.16 Increasing complexity may also explain the increase in the number of exceptional packages within mainstream settings. There are now 149 children (FTE) receiving packages compared with 122 during 2023-24.

11 Progress against budgeted savings

- 11.1 In setting the budget strategy for 2024/25, the Council identified a budget gap of £23m. The subsequent reports to Cabinet and Full Council set out how the gap was calculated. Part of the process of setting the budget involved identification of new service savings.
- 11.2 Savings carried forwards from prior years increased the total savings required for 2024/25 to £34m.
- 11.3 More detail on the delivery of the savings is set out below:

Savings - Adults & Housing

- 11.4 The Adults and Housing directorate has a savings programme in place to deliver £8.0m. At this stage, £3.134m (39%) has been achieved. Below details the progress on each of the programmes.
- 11.5 **Market Management £5.00m** – To date, £2.5m is confirmed as having been delivered through negotiations with providers at the start of the year, mostly around spot purchase arrangements. Framework providers were further supported, as planned, through market sustainability and other grant funding. Work continues to confirm further delivery against this saving.
- 11.6 **Commissioned care £1.5m** – To date, £0.344m has been delivered, with further active casework underway on continuing healthcare and joint funding.

- 11.7 **Home First Accelerator £0.926m** – Reablement has, as intended, avoided some long-term care costs. Work is currently underway to capture the implications and forecast year-end impact.
- 11.8 **Working age accelerator £0.500m** –To date, £0.290 delivered with some service redesign work completed which is yet to be accounted for.
- 11.9 **Accommodation with care £0.74m** – Extra care scheme opens in October 2024

Savings – Children’s

- 11.10 The Children’s Services directorate has a savings programme to deliver £6.235m in 2024/25. To date, £3.342m has been achieved.
- 11.11 Children’s Services compare and benchmark nationally and against statistical neighbours who are Ofsted Good or Outstanding to help demonstrate value for Money. From the LG Futures ‘Finance Intelligence Toolkit 2023/24 Subscription – Children’s Social Care Report’, Dorset’s expenditure per resident (aged 0 to 17) is 6.9% lower than the England average. The Ofsted inspection of Dorset local authority children’s services in September 2021 was deemed ‘Good’ with an ‘Outstanding’ grade for leadership, and the Ofsted Area SEND inspection of Dorset Local Area Partnership in March 2024 achieved the highest result possible.
- 11.12 **Family Hubs** – a network of Family Hubs, embedded in communities in Dorset where families can get the support they need. External contributions (£1m), earned through successful bids, has enabled six family hubs to be opened across the county (Ferndown, Wimborne, Wareham, Swanage, Bridport and Dorchester), with four more to be opened over the coming months. In line with Department for Education service expectations, all Hubs are providing activities for young children (aged 0-5), while also enabling multi-agency professionals to deliver additional support during stay and play sessions where possible.
- 11.13 **Mockingbird** – the first Mockingbird Constellation was launched in November 2022. There are currently 5 constellations, and the sixth constellation will launch in August 2024, making Dorset Council the largest in the South-West region and on par with Leeds in the country. The aim is to have a total of 10 Constellations over the 5-year programme. Evidence of real impact has been recorded for the foster carers and the children they are caring for: prevention of 3 foster carer household resignations, stability support preventing 4 children moving from 2 households, nurturing relationships between the children and young people within the

constellation, supportive relationships formed between foster carers, and recognition of hidden talents within our young people. An additional £96k of external funding has been awarded to this project.

- 11.14 **Safeguarding Families Together** - is a whole family, strengths-based approach to safeguarding children. The design encompasses a co-located multi-disciplinary team that includes children's social workers and specialist adult practitioners from domestic abuse, substance use/recovery and mental health services, which has been implemented in three pilot localities. Since the commencement of the pilot, which was live by January 2023, 338 children and their families have received help from SFT. Out of the 133 children who have closed to SFT, we are now seeing evidence of families successfully stepping down from Child Protection plans or Child in Need plans and sustaining change.
- 11.15 **Early Support and Digital Family Offer** – is about creating a Children's Services that is digital by design: in how we think, work and shape our services around the needs of children and families. The project is focused on improving access to both universal and specialist services, creating online services that become the preferred choice. Work is underway to identify how the savings target of £1.343m (£593k 2023/24 and £750k 2024/25) can be realised, and where there is synergy, the elements of the project which can be transferred to Our Future Council. There is significant interdependence with this work and the Our Future Council programme to identify and deliver against our ambitions, such as machine learning and AI capability, to enable savings to be achieved. This is also contingent on its digital capacity to support development work so that project delivery remains on track and benefits are realised.
- 11.16 **Birth to Settled Adulthood** – in April 2024 the new 0-25 Birth to Settled Adulthood Service for children with disability and complex needs was launched. This is a partnership between Children's Services, Adult Services, the Health Service, and Dorset Parent Carer Council, and managed within Children's Services. It is designed and committed to the provision of a consistently good service for disabled children and young people and their families, which continues seamlessly from childhood to young adulthood. The phase 2 timeline working on the integration with Health is underway. To date the savings of £1.550m have not been realised – the savings and overall budget (Children's and Adults) is being reviewed as part of the B2SA Finance project. Dorset Council have repurposed and updated a property at minimal capital cost, Hayeswood, to help deliver respite care for children with a disability and may reduce the need to use high-cost external providers. For example, a child at one

provider received respite care (including one-to-one / two-to-one during the week and once at weekends) cost £6.4k for the month or estimated £76.8k annually.

- 11.17 **Service by Service Review** – We have undertaken this to ensure, where appropriate there is a redirection of services or change where others can deliver as effectively as we can. For example, the music service runs independently and has reduced the headcount of Dorset Council staff, whilst improving the quality of music education across the county. We are currently reviewing our in-house nurseries and after school provision to enable this to be managed by partners with extensive experience in early education. Our Outdoor Education service is also being redesigned to ensure it is sustainable and meeting children and young people’s needs, with an eradication of overspend.

Savings - Place

- 11.18 Place directorate put forward £5m of savings for 2025/26. At that time, Customer Services, Archives and Libraries were part of Place directorate but have subsequently moved to Corporate Resources, meaning that £4.081m of savings targets remain in Place directorate. In addition, there are £1.363m of saving targets rolled forward from 2023/24, meaning that £5.444m of savings targets are monitored.

- 11.19 The savings fall against service areas as follows:

- i. Assets and Regeneration £2.022m
- ii. Place Services £2.229m
- iii. Economic Growth and Infrastructure £1.193m

- 11.20 The savings can be broadly categorised as follows:

- i. Additional income target built into base budgets £1.459m
- ii. Changes to service delivery £0.681m
- iii. Realignment of budget £0.250m
- iv. Operational savings £3.054m

- 11.21 The headline position for Place directorate savings is that, of the total saving target of £5.444m, £0.375m (7%) is declared as not achievable at this stage, with all other savings considered as achievable.

- 11.22 An overview of material savings is contained in the following paragraphs.

- 11.23 Within Waste Operations, savings targets put forward by Place for reduction of agency (£159k) and reduction in street sweeping (£350k) are

expecting a shortfall of £175k as the proposed changes to street sweeping have not been implemented.

- 11.24 Within Assets and Property, there is a savings target to reduce the running costs of the property portfolio through property disposals (£486k). This relates to the disposal of Furzehill which is expected to complete in 2025/26.
- 11.25 Some of the more significant savings that have been achieved, or are on course to be achieved, are as follows:
- 11.26 The withdrawal from Queen Elizabeth Leisure Centre in Wimborne has saving £331k.
- 11.27 Increased income for trade waste and Garden Waste services are on track to achieve the £500k uplift as is glass recycling £325k.
- 11.28 The reduction of the vehicle fuel budget by £250k, based on fuel market prices, looks on track to be achieved.
- 11.29 Savings through additional vacancy management is on track in the year to date.

Savings – Corporate

- 11.30 The Corporate savings target for 2024/25 is £1.6m, the majority of which, £1.2m, has a green RAG rating as it is deemed to have been achieved.
- 11.31 There are savings within Customer Services £168k, Sundry debt £150k and Libraries £47k that are less certain at this point in the year, so they have a RAG rating of amber until there is more information that will clarify their status.

Savings - Our Future Council

- 11.32 To accelerate delivery of transformation across the Council PwC have been commissioned to undertake a review of the transformation programme and identify the required £8.6m of savings in-year. The output of this work is due in the Autumn of 2024 which leaves limited time to realise the financial benefits before the end of the financial year, March 2024.
- 11.33 PwC, an advisory partner, who bring with them extra resource and a wealth of experience in helping local authorities.

11.34 PwC will be working with the council to recommend ways to reduce the cost of delivering services by looking at how services work within the council and the processes that are used. They have been asked to find ways that processes can be streamlined and use technology in smarter ways so the council can deliver sustainable services for Dorset residents.

12 Local Authority Trading Companies (LATC)

12.1 The council has involvement with three LATC's that support the work of the council. This report focuses on the financial performance of the LATC's and highlights any material financial matters which could impact the Council's finances.

Care Dorset

12.2 Care Dorset was established in October 2022. The accounting year end for Care Dorset is the 30th September.

12.3 Turnover for the company's first year of trading was £29.583m. The company made an operating loss of £0.394m.

12.4 Care Dorset has a 5-year strategy to modernise services and meet emerging need, significantly expanding services such as reablement, rehabilitation and intermediate care. This strategy also looks to modernise offerings in day services, invest in growing extra care and supported living and continue to work with our commissioners to develop services further.

12.5 By ensuring that Care Dorset's strategies align with Dorset Council commissioning strategies they are confident they will achieve long-term growth with a sustainable strategic fit to support sustainable delivery of Adult Social Care.

Dorset Centre of Excellence Ltd

12.6 The Dorset Centre of Excellence Ltd was established in June 2021. The Company became leaseholder of the site previously owned and occupied by St Mary's Independent School in May 2022 and opened Coombe House School in the same month.

12.7 Coombe House provides education for children with special educational needs and/or disability (SEND). The Dorset Centre of Excellence Ltd is a limited company, 100% owned by Dorset Council.

12.8 The accounting year end for the Dorset Centre of Excellence Ltd is 31 March.

- 12.9 Turnover for the Company was £3.3m in 2023/24 (£1.9m for 2022/23). The Company received fees from Dorset Council of £2,989k for 2023/24 (£1,554k for 2022/23).
- 12.10 The Company expect to report a loss of approximately £600k for 2023/24 (£1.3m loss 2022/23). This is significantly ahead of the performance forecast in the 5-year Business Plan (approved June 2023) which anticipated a loss of £1m.
- 12.11 The Company continues to meet growth targets in pupil numbers and staff in line with the 5-year Business Plan (revised March 2024) and expect to achieve a surplus of £300k in 2024/25 which is year 3 of trading. This milestone is achieved with minimal development of other commercial activities on the site, pupil numbers not yet at capacity and despite cost pressures from inflation and Teachers' Pension Scheme employer contribution increases.
- 12.12 The Company purpose is to provide special school places for Dorset children at a fee significantly below the market rate. The fee has remained at £42k per pupil since opening in May 2022 and no increase has been forecast in the 5-year Business Plan. Any future surplus will support maintaining a low fee for Dorset placements.

Connect2Dorset

- 12.13 Connect2Dorset is a new joint venture with Commercial Services Group (a company wholly owned by Kent County Council). The new service went live at the beginning of April 2024 and will provide the Council with contingent agency, contract and interim employees.
- 12.14 The long-term aim of Connect2Dorset is to improve the quality of our agency workers, and where suitable convert agency workers to permanent employees.
- 12.15 Commentary on Connect2Dorset's financial performance commentary will be included in future reports.

13 Flexible Use of Capital Receipts

- 13.1 As part of the 2024/25 budget the Flexible Use of Capital Receipts policy was approved which included projects within two service areas; Assets and Regeneration and Housing.
- 13.2 As part of the policy it stated the following savings were expected to be delivered which would fund future transformation in those areas.

- 13.3 Where savings are expected recurrently, these will support closing the 25/26 budget gap.

Assets & Regeneration

- 13.4 Assets and Regeneration savings were scheduled to be realised on a year on year basis with payback under two years.

Assets & Regeneration projects - Expenditure	2023/24	2024/25
Strategic Asset Management Plan and Effective Property Services (Corporate Landlord)	£158,547	£494,004
RAPID Asset Reviews	£129,965	£250,000
Acceleration of Disposals	£204,340	£481,938
Property Management System		£206,264
Total	£492,852	£1,432,206

Assets & Regeneration projects - savings	2024/25
Strategic Asset Management Plan and Effective Property Services (Corporate Landlord)	£240,333
RAPID Asset Reviews	£285,000
Acceleration of Disposals	£200,000
Property Management System	£219,650
Corporate Office and Depot Rationalisation	£85,094
A&R Realignment & resulting efficiencies	£258,707
TOTAL	£1,288,784

Current Status – Assets & Regeneration

- 13.5 At the time of writing, £539,517.97 has been incurred as spend, over years 2023/24 (£493k) and 2024/25 (47k). No further expenditure is expected. The spend and savings are subject to re-profiling, which is currently a work in progress, and a further update will follow as part of the Quarter 2 report.
- 13.6 Housing projects were scheduled to payback in two years:

Housing Services projects – expenditure	2024/25
Temporary accommodation management plan and effective temporary accommodation housing management services	£379,985
Housing Register management and lettings services	£404,194
Housing Strategy Delivery Plan	£263,338
Strategic Performance and Improvement Delivery Plan	£125,924
Effective Empty Homes Services	£49,689
Effective Homeless Prevention Services	£282,065

Total	£1,505,195			
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Housing Services Projects - Savings	2024/25	2025/26	2026/27	2027/28
Asset Review (Temporary Accommodation / Bed & Breakfast Exit)	£90,000	£1,053,400	£218,400	£83,400
Temporary accommodation housing management system	£0	£49,000	£0	£0
Effective Empty Homes Services	£0	£0	£0	£13,800
Effective Homeless Prevention Services	£127,800	£127,800	£127,800	£127,800
Total	£217,800	£1,230,200	£346,200	£225,000

Current Status – Housing

- 13.7 The council has identified £1.5 million of unallocated Capital receipts to be used by Housing services to fund the service reconfiguration, structural changes, and operating model refinements. This will ensure the Council provides an improved housing offer, which benefits both the Council and those who approach us for help.
- 13.8 The additional investment has resulted in greater efficiency and effectiveness across the housing service, enable a more ‘customer focussed’ approach and enabling earlier efficiencies and effectiveness.
- 13.9 Spend to the end of June was £0.164m. Recruitment is currently taking place to support the above schemes with additional new starts in July.
- 13.10 Despite not all staff being in post good progress has been made on improving performance and outcomes for individuals as noted as part of the main narrative on Housing contained in section 9.

14 General fund position and other earmarked reserves at year-end

- 14.1 Any overspend at the end of the year will mean a drawn down from reserves will be required. At the end of financial year 2023/24 the council held £37.686m in the general fund and £121.872m in earmarked reserves which was a reduction of £16.1m from the previous year.
- 14.2 Based on the revenue forecast as at the end of 2024/25 there will be a requirement for the following use of reserves:
- 1) £10.1m from the general fund overspend, £8.6m of which is required to cover Our Future Council

- 2) £2m Cost of Living support in 2024/25
 - 3) Estimated up to £7m on compliance spend in 2024/25 with a similar level of spend expected in 2025/26
 - 4) £5.1m contribution to the Dedicated Schools Grant.
- 14.3 Unless some currently earmarked reserves can be repurposed, this could mean the Council is required to use its General Fund reserve, reducing the balance from 10% of General Fund to 5.71%. Depleting reserves at this rate in a single year would be a cause for real concern as the minimum operating level for the council to hold in its general fund would be 5%.

15 Capital programme and financing

- 15.1 The capital strategy and capital programme for the MTFP period, which totalled almost £373m, was agreed by Cabinet in February 2024.
- 15.2 The 2023/24 capital outturn was reported to Cabinet in June 2024 and the result of that was that there was programme slippage of £28.844m into 2024/25.
- 15.3 This, along with the approved budget and updates since that date, mean a programme of £328.7m for the next five years, as summarised in the table below.

Capital Programme	Total Budget					Total Budget 24/25-29/30
	2024/25	2025/26	2026/27	2027/28	2028/29	
Full external funding	11,484	9,658	138	0	0	21,280
Partial external funding	74,397	8,387	0	0	0	82,784
Partial external funding	0	42,951	15,740	0	0	58,691
Council funded	42,461	24,985	14,335	(5,974)	(17,013)	58,794
Funded from other Reserves	0	0	0	0	0	0
Capital Receipts Applied	2,000	5,000	1,000	1,000	1,000	10,000
Minimum Revenue Provision	10,588	11,566	12,966	14,116	16,013	65,249
Self Funded	9,666	9,933	9,932	2,350	0	31,881
Total funding	150,596	112,480	54,111	11,492	0	328,679

- 15.4 The spend and commitments against the programme of £150.5m at 31 July 2024 was £36.3m (24%). The programme is under continuous review to monitor the progress of all approved projects and to identify any issues that may impact on the overall programme. Where slippage is identified the project budgets will be refiled within the overall programme.
- 15.5 The project budgets for the current year are outlined below.

Project spend	No. of projects	Project Budget £,000	Spend / Commitments £,000	Variance £,000	% Spent
Adults & Housing	16	9,998	601	9,397	6%
Children's	15	22,907	3,000	19,907	13%
Place	118	107,795	31,052	76,743	29%
Corporate	10	9,896	1,662	8,234	17%
Total	159	150,596	36,315	114,281	24%

15.6 The movements in the project budgets since the beginning of the financial year are shown in the table below.

Directorate	01/04/2024 £,000	Adjustments £,000	Re-profiling £,000	New funding £,000	Q1 Budget £,000
Adults & Housing	12,790	0	-2,792	0	9,998
Children's	29,769	1,000	-7,862	0	22,907
Place	109,009	92	-20,357	19,051	107,795
Corporate	15,457	-61	-5,500	0	9,896
Total	167,025	1,031	-36,511	19,051	150,596

15.7 Changes to the Capital scheme since the 2023/24 quarter 4 outturn report include the following items.

15.8 There has been re-profiling of £36.5m into future years to more accurately reflect the timing of works, and therefore spend incurred. This includes LUF projects £9.3m; SEND capital strategy £7.8m, ERP Replacement £5.5m, Weymouth Transport Improvements £2.6m, Lyme Regis Environmental Plan phase 5 £1.8m and Dorset Council Fleet Replacement Programme of £1.5m.

15.9 There has also been new external funding of £19.0m confirmed, most significantly £18.4m relating to the Local Transport Plan programme of works.

15.10 It is too soon to forecast what level of slippage we might anticipate into future years, based on previous financial years it is unlikely that all aspects of the programme will be deliverable this year based on the current rate of spend.

15.11 The delivery of the capital programme is reviewed monthly by the Capital Strategy and Asset Management Group (CSAMG).

16 Sundry debt management

New invoices for 2024/25

- 16.1 The total value of debts (invoices) raised between 1 April 2024 and 31 July 2024 is £90.6m, a breakdown by directorate is shown below:

Total debt raised	2024/25 £'000
Adults & Housing	£22,923
Children's Services	£3,212
Place	£24,404
Corporate	£40,087
Total	£90,626

Overall amounts owed

- 16.2 Looking at debt across all years, the balance of sundry debt outstanding at 31 July 2024 was £37.4m.
- 16.3 The breakdown of the current sundry debt is as follows:

Total Debt					
Directorate	2024/25 £'000	Less than 30 days £'000	30-90 days £'000	90-365 days £'000	Over 365 days £'000
Adults & Housing	27,415	2,132	2,215	10,346	12,722
Children's Services	1,527	415	263	696	152
Place	6,871	919	2,300	1,722	1,930
Corporate	1,658	820	125	429	283
Grand Total	37,470	4,287	4,903	13,193	15,087

- 16.4 £27.4m of the £37.4m of outstanding debt is within Adults & Housing. Of which, some relates to deferred payment arrangements, or care provided through gross without prejudice.
- 16.5 After adjusting for these the debt which is currently collectable is as follows:

Collectable Debt					
Directorate	2024/25 £'000	Less than 30 days £'000	30-90 days £'000	90-365 days £'000	Over 365 days £'000

Adults & Housing	16,205	2,050	979	5,967	7,210
Children's Services	1,527	415	263	696	152
Place	6,870	919	2,300	1,722	1,930
Corporate	1,658	820	125	429	283
Total	26,259	4,204	3,667	8,814	9,575

Prior year performance

16.6 At the end of 2023/24 the Collectable Debt arrears were £46.0m and to date £31.4m (68%) has been collected.

16.7 The next table breaks down performance for prior year debts.

Prior year arrears	Amount owed 31/03/2024 £,000	Collected in year £,000	Amount outstanding 31/07/2024 £,000	% collected
Pre 1 April 2019	1,317	64	1,253	5%
2019/20	928	23	905	2%
2020/21	1,342	47	1,295	4%
2021/22	1,688	146	1,542	9%
2022/23	3,124	393	2,732	13%
2023/24	37,606	30,820	6,786	82%
Total	46,005	31,493	14,513	68%

Deferred payments

16.8 Deferred payments are debts that relate to adult care provided by Dorset Council, which have been secured against the property of the customer. The Council will eventually receive full payment of the debt when the property is sold.

Deferred Payments	2024/25 £'000	Less than 30 days £'000	30-90 days £'000	90-365 days £'000	Over 365 days £'000
Adults & Housing	3,607	42	563	1,096	1,991

Gross without prejudice

16.9 Gross without prejudice debts also relate to adult care, the debt is raised but not actively pursued whilst a care act assessment and subsequent financial assessment is undertaken to determine whether the recipient of

the care is financially assessed as able to contribute towards the cost of their care.

Gross Without Prejudice					
Directorate	2024/25	Less than 30 days	30-90 days	90-365 days	Over 365 days
	£'000	£'000	£'000	£'000	£'000
Adults & Housing	7,604	125	674	3,284	3,522

Write-offs

- 16.10 The write-offs processed so far this year are shown in the table below. There is adequate provision to cover these debts, which are a relatively small proportion of the total outstanding debt (0.28%).

Debts written off	2024/25
	£'000
Adults & Housing	74
Children's Services	0
Place	30
Corporate	0
Total	104

17 Council tax and business rates debt management

Council tax

- 17.1 The Government has recently published statistics showing the collection rates for council tax and business rates in 2023/24. The average council tax collection rate for unitary authorities in England is 96.20% and Dorset Council achieved 96.23%, so Dorset performed 0.03% above average which is around £100k more than an average performance.
- 17.2 The value of council tax debt raised in 2024/25 is £393.2m and £149.9m has been collected to date. The collection rate at 31 July 2024 is 38.14%, which is marginally better than the corresponding position from the previous year, which was 38.07%.

Business rates (non-domestic rates – NDR)

- 17.3 In relation to business rates, the Governments statistics show that the average for unitary authorities is 97.2%. Dorset achieved 96.17% in 2023/24 and whilst this is almost exactly 1% down on the National average it is important to recognise that this is a significant improvement

previous year end position of 92.07%. It is worth noting that for the last few years the covid relief schemes saw a significant number of businesses receive reduced bills. Support was focussed on the Retail, Hospitality & Leisure sector, which provided businesses in areas such as Dorset with a significant visitor economy significant support. With this support tapering off it is perhaps expected to see collection is somewhat dampened compared to National averages as businesses readjust to operating with reduced Government support.

- 17.4 The value of business rates debt raised in 2024/25 is £103.9m and £47.0m has been collected to date. The collection rate at 31 July 2024 is 45.27%, which is an improvement on the corresponding position from the previous year, which was 43.88%.

Write offs

- 17.5 The write-offs processed by the Revenues & Benefits Service during the year are shown in the table below.

Debts written off	2024/25 £'000
Council tax	1
Business rates	1
Housing Benefit overpayments	9
Total	11

18 Financial planning, strategy and the MTFP

- 18.1 The Council has already started the process of refreshing the MTFP and developing the budget strategy for 2025/26 which, as well as meeting new pressures, will also need to deal with any ongoing pressures from 2024/25.
- 18.2 Early expectations are for a further one-year settlement for 2025/26, which does not provide confidence that the underlying, systemic underfunding for local government service delivery will be addressed. As a result, it is expected that the local and national pressures the Council is facing in the current financial year can be expected to continue over the medium term.
- 18.3 Taking both the local and national operating environment into consideration, readers of the report should expect:
- i. the budget gap for next year (2025/26) to widen
 - ii. delivering a balanced budget to require a reprioritisation of service delivery to ensure ongoing financial sustainability.

- 18.4 Recent budget rounds have seen significant turbulence and volatility, and the backdrop to setting the budget for next year is likely to be very similar, with uncertainty around prices, markets and labour.
- 18.5 The first update of the refreshed update of the MTFP financial model will come to Cabinet in November for endorsement of the planning assumptions for the year ahead, as well as the longer-term financial planning horizon.

19 Summary, conclusions and next steps

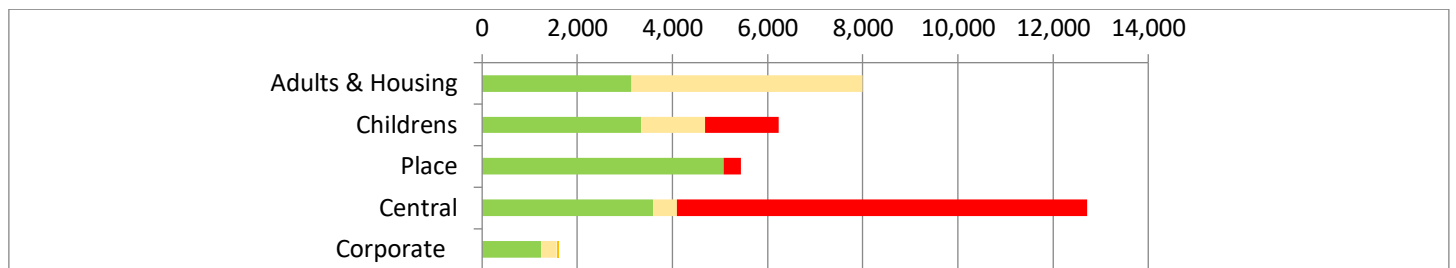
- 19.1 2024/25 continues to be an extremely challenging time for local government, with inflationary and demand pressures impacting on income and expenditure. There remains a large degree of financial uncertainty and, having reviewed expenditure for the first four months of the year, Dorset Council's prudent financial forecast is a £10.1m budget pressure.
- 19.2 The information contained within this report will form the basis of the starting position for the 2025/26 budget setting process, which will once again prove to be extremely tough as the Council seeks to achieve its priorities whilst meeting the growing cost of demand, all from within limited funds.

Aidan Dunn

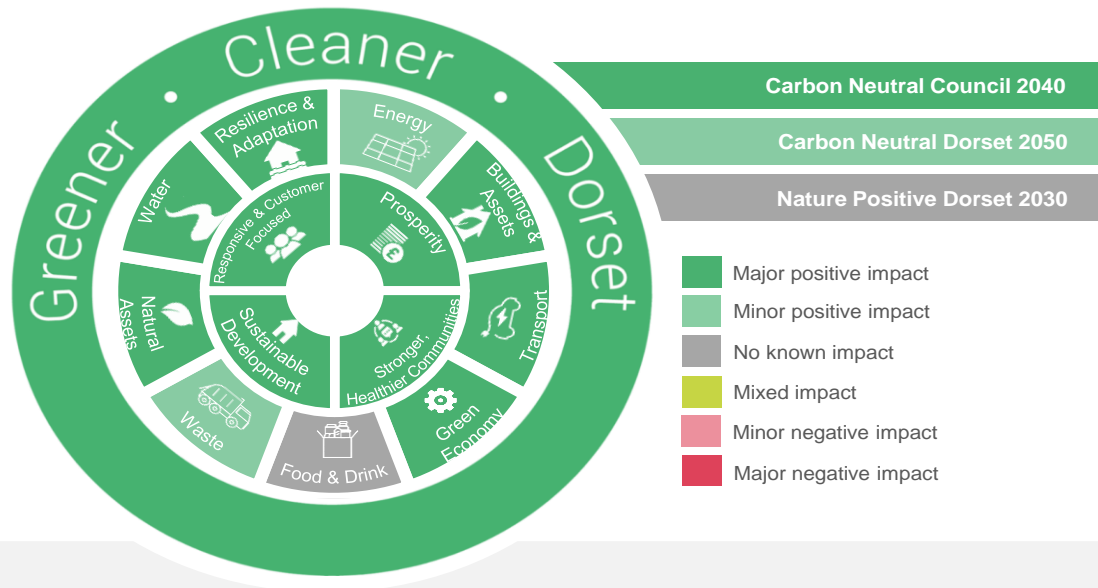
Executive Director - Corporate Development (S151 Officer)

Appendix A

2024/25 Savings Plans		Green	Amber	Amber 2	Red
	£000's	£000's	£000's	£000's	£000's
Adults & Housing	8,000	3,134	4,866	0	0
Childrens	6,235	3,342	1,343	0	1,550
Place	5,444	5,069	0	0	375
Central	12,722	3,600	500	0	8,622
Corporate	1,608	1,243	318	47	0
Total Savings Plans	34,009	16,388	7,027	47	10,547



Appendix B



Quantitative Impact on CEE targets (if known)		
	Unit	Number of units (+/-)
2030 - Natural asset extent & condition	Ha	0
2040 - Operational Emissions	CO ₂ (tonnes)	0

ACCESSIBLE TABLE SHOWING IMPACTS

Natural Environment, Climate & Ecology Strategy Commitments	Impact
Energy	minor positive impact
Buildings & Assets	major positive impact
Transport	major positive impact
Green Economy	major positive impact
Food & Drink	No known impact
Waste	minor positive impact
Natural Assets & Ecology	major positive impact
Water	major positive impact
Resilience and Adaptation	major positive impact

Corporate Plan Aims	Impact
Prosperity	strongly supports it
Stronger healthier communities	strongly supports it
Sustainable Development & Housing	strongly supports it
Responsive & Customer Focused	strongly supports it

TABLE OF RECOMMENDATIONS

Recommendations	Responses -will this be incorporated into your proposal? How? And if not, why not?
Energy	
Find out energy use of buildings that are being brought into the Dorset Council carbon footprint, as this will affect our ability to hit our carbon reduction targets	
Find out energy use of any new build buildings that are being added to the Dorset Council carbon footprint, as this will affect our ability to hit our carbon reduction targets	
Support the acceleration of heating and energy and water efficiency through cavity and solid wall insulation, draught proofing, improved glazing and shading, and high energy and water efficient smart appliances	
Buildings & Assets	
No recommendations found for this category	
Transport	
No recommendations found for this category	
Green Economy	
No recommendations found for this category	
Food & Drink	
No recommendations found for this category	
Waste	
Look at ways to reduce the amount of waste produced	
Natural Assets & Ecology	
No recommendations found for this category	
Water	
No recommendations found for this category	
Resilience & Adaptation	
No recommendations found for this category	

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Audit and Governance Committee Monday, 23 September 2024 Treasury Management Annual Report 2023/24

For Decision

Portfolio Holder: Cllr S Clifford, 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 2024.

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 2024 was £388m, compared to £367m at the start of the year and an estimated £400m when the capital strategy was approved in February 2023.

As at 31 March 2024, the Council had outstanding external borrowing of £225m plus other capital financing liabilities of £18m equalling £243m total external debt, with £7.9m total interest paid servicing this external debt for the year.

The difference between the CFR and external debt was approximately £145m, financed temporarily by 'internal borrowing' (the use of reserves, working capital and other balance sheet resources that could otherwise have been invested had they not been used to 'offset' the Council's borrowing requirement).

As at 31 March 2024 the Council held cash and cash equivalents of £22m and treasury investments valued at £52m, in total £74m, down from £115m from 31 March 2023. The total interest receivable and investment income for the Council for the year was approximately £6.2m.

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 2023/24 was approved by a meeting of Dorset Council on 13 February 2024.
- 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 decline of inflation in the UK from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year headline consumer price inflation (CPI), had fallen to 3.2% in March but was still above the Bank of England's 2% target at the end of the period. In response the Bank of England increased Bank Rate to 5.25% in August 2023 this rate was maintained at every meeting of the Monetary Policy Committee (MPC) during the period to March 2024.
- 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

	31.3.23 Balance £m	2023/24 Movement £m	31.3.24 Balance £m
Total CFR	367.0	21.2	388.2
Less other debt liabilities	21.0	-2.4	18.6
Loans CFR	346.0	23.6	369.6
External borrowing	198.4	26.2	224.6
Internal borrowing	147.6	-2.6	145.0
Cash and investments	114.4	-40.5	73.9

3.2 The treasury management position at 31 March 2024 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.23 Balance £m	2023/24 Movement £m	31.3.24 Balance £m
Long-term borrowing	158.4	16.6	175.0
Short-term borrowing	40.0	9.6	49.6
Total borrowing	198.4	26.2	224.6
Long-term investments	19.9	-0.8	19.0
Short-term investments	53.7	-21.2	32.5
Cash and cash equivalents	41.1	-18.7	22.4
Total investments	114.6	-40.7	73.9
Net borrowing	83.8	66.9	150.7

3.3 The increase in net borrowing over the year is a result of financing the unfunded element of the capital programme.

3.4 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).

3.5 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.

4. Borrowing

- 4.1 At 31 March 2024 the Council held £225m of loans, a net increase of £26m from 31 March 2023, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans as at 31 March 2024 are summarised in Table 3 below.

Table 3: Borrowing

	31.3.23 Balance £m	Net Movement £m	31.3.24 Balance £m	31.3.24 Weighted Average Rate %	31.4.24 Weighted Average Maturity (years)
Public Works Loan Board	61.8	29.2	91.0	4.3%	17.4
Banks (LOBO)	11.0	0.0	11.0	4.6%	52.6
Banks (fixed-term)	25.6	0.0	25.6	4.7%	53.1
Local authorities (long-term)	15.0	0.0	15.0	4.4%	35.7
Local authorities (short-term)	40.0	-3.0	37.0	5.5%	0.3
Other lenders (fixed-term)	45.0	0.0	45.0	3.3%	42.5
Total borrowing	198.4	26.2	224.6	4.4%	28.8

- 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 2024. 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 2024 was £18.6m.
- 4.6 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Council. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.
- 4.7 The Council has not invested in assets primarily for financial return or that are not primarily related to the functions of the Council.

5. Cash and Treasury Investments

- 5.1 The CIPFA Treasury Management Code defines treasury management investments as those investments which arise from an authority'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 2024 are summarised in Table 4 below.

Table 4: Cash and Treasury Investments

	31.3.23 Balance £m	Net Movement £m	31.3.24 Balance £m
Cash & Cash Equivalents	41.2	-18.8	22.4
Investments:			
Short-dated bond funds	4.2	-1.3	2.8
Strategic bond funds	9.5	0.4	10.0
Equity income funds	26.0	-12.3	13.7
Property funds	19.9	-0.8	19.0
Multi asset income funds	14.0	-8.0	6.0
Total Investments	73.5	-22.0	51.5
Total Cash & Investments	114.7	-40.8	73.9

- 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 The Council 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 £51.5m in total as at 31 March 2024.

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 31.03.24 £m	Actual 31.03.24 £m	Variance £m	
Interest Payable	8.0	7.9	0.1	F
Interest and Investment Income	-5.8	-6.2	0.4	F
Net Payable / (Receivable)	2.2	1.7	0.5	F
Unrealised (Gains) / Losses in Fair Value	0.0	-0.7	0.7	F
Net (Surplus) / Deficit	2.2	1.0	1.2	F

- 6.2 The unrealised gains of £0.7m in the fair value of investments relate to the Council’s investments in strategic pooled investment vehicles.
- 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 limits on cash and treasury investments is demonstrated in the table below.

Table 6: Cash and Investments Limits

	2023/24 Maximum	31.3.24 Actual	2023/24 Limit	Complied Yes/No
Any single organisation, except the UK Government	16.2	1.1	20.0	Yes
Any group of organisations under the same ownership	16.2	1.1	20.0	Yes
Any group of pooled funds under the same management	20.4	0.0	50.0	Yes
Negotiable instruments held in a broker's nominee account	0.0	0.0	50.0	Yes
Limit per non-UK country	0.0	0.0	20.0	Yes
Registered providers and registered social landlords	0.0	0.0	50.0	Yes
Unsecured investments with banks and building societies	16.2	1.1	20.0	Yes
Loans to unrated corporates	0.0	0.0	20.0	Yes
Money Market Funds	108.1	33.8	unlimited	Yes
Strategic pooled funds	73.7	51.5	unlimited	Yes
Real Estate Investment Trusts	0.0	0.0	50.0	Yes

7.3 The Council is legally obliged to set an affordable "authorised limit" for external debt each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table below.

Table 7: Debt Limits

	2023/24	31.3.24	2023/24	2023/24	Complied
	Maximum	Actual	Operational	Authorised	Yes/No
	£m	£m	Boundary	Limit	
			£m	£m	
External borrowing	224.6	224.6	400	420	Yes
PFI and Finance Leases	21.0	18.6	30	35	Yes
Total debt	245.6	243.1	430	455	

8. Treasury Management Indicators

- 8.1 The Council measures and manages its exposures to treasury management risks using the following indicators.
- 8.2 Liability Benchmark: This new indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping cash and investments at a minimum 'liquidity allowance' of £30m to manage day-to-day cash flows.

Table 8: Liability Benchmark

	31.3.23	31.3.24	31.3.25	31.3.26
	Actual	Actual	Forecast	Forecast
Loans CFR	346.0	369.6	463.0	525.0
Less estimated balance sheet resources	263.0	218.9	240.0	230.0
Net loans requirement	83.0	150.7	223.0	295.0
Plus liquidity allowance	30.0	30.0	30.0	30.0
Liability benchmark	113.0	180.7	253.0	325.0
Actual borrowing	198.4	224.6	313.0	374.0

- 8.3 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 9: Security

	2023/24 Target	31.3.24 Actual	Complied? Yes/No
Portfolio average credit rating	< 6	5.18	Yes

8.4 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 £30m readily available in same day access bank accounts and Money Market Funds.

Table 10: Liquidity

	31.3.24 Actual	2023/24 Target	Complied? Yes/No
Total cash available within 100 days	74%	> 30%	Yes
Total sum borrowed in past 100 days without prior notice	0%	0%	Yes

8.5 Interest Rate Exposure: This indicator is set to control the Council's exposure to interest rate risk. Bank Rate rose by 1.00% from 4.25% on 1st April 2023 to 5.25% by 31st March 2024. The upper limits on the one-year revenue impact of a 1% rise or fall in interests were:

Table 11: Interest Rate Exposure

Interest rate risk indicator	2023/24 Target £000's	31.3.24 Actual £000's	Complied? Yes/No
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	< 1,000	867	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	< 1,000	-867	Yes

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

8.7 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 12: Investments longer than one year

	2023/24	2024/25	2025/26
	£m	£m	£m
Limit on principal invested beyond one year	20.0	20.0	20.0
Actual principal invested beyond one year	0.0	0.0	0.0
Complied (Yes/No)	Yes	Yes	Yes

8.8 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 13: Maturity Structure of Borrowing

	31.3.24 Actual	% of Total Borrowing	Upper Limit	Lower Limit	Complied Yes/No
Under 12 months	49.5	22.0%	25%	0%	Yes
12 Months to 2 Years	2.5	1.1%	25%	0%	Yes
2 Years to 5 Years	7.6	3.4%	25%	0%	Yes
5 Years to 10 Years	22.7	10.1%	35%	0%	Yes
10 Years to 15 Years	3.8	1.7%	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	42.0	18.7%	45%	0%	Yes
30 Years to 35 Years	15.0	6.7%	45%	0%	Yes
35 Years to 40 Years	0.0	0.0%	45%	0%	Yes
40 Years to 45 Years	45.0	20.0%	45%	0%	Yes
45 Years to 50 Years	0.0	0.0%	45%	0%	Yes
50 Years and above	36.6	16.3%	75%	0%	Yes
Total	224.8	100.0%			

9. Financial Implications

This report summarises the performance of the Council's treasury management activity in 2023/24. 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 2024)

16. Background Papers

Treasury Management Strategy 2023/24

Capital Strategy 2023/24

Appendix 1: External Context (Arlingclose April 2024)

Economic background

UK inflation continued to decline from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year headline consumer price inflation (CPI) had fallen to 3.4% in February, but was still above the Bank of England's 2% target at the end of the period. The core measure of CPI, i.e. excluding food and energy, also slowed in February to 4.5% from 5.1% in January, a rate that had stubbornly persisted for three consecutive months.

The UK economy entered a technical recession in the second half of 2023, as growth rates of -0.1% and -0.3% respectively were recorded for Q3 and Q4. Over the 2023 calendar year GDP growth only expanded by 0.1% compared to 2022. Of the recent monthly data, the Office for National Statistics reported a rebound in activity with economy expanding 0.2% in January 2024. While the economy may somewhat recover in Q1 2024, the data suggests that prior increases in interest rates and higher price levels are depressing growth, which will continue to bear down on inflation throughout 2024.

Labour market data provided a mixed message for policymakers. Employment and vacancies declined, and unemployment rose to 4.3% (3mth/year) in July 2023. The same month saw the highest annual growth rate of 8.5% for total pay (i.e. including bonuses) and 7.8% for regular pay growth (i.e. excluding bonuses). Thereafter, unemployment began to decline, falling to 3.9% (3mth/year) in January and pay growth also edged lower to 5.6% for total pay and 6.1% for regular pay, but remained above the Bank of England's forecast.

Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023 with a 3-way split in the Committee's voting as the UK economy appeared resilient in the face of the dual headwinds of higher inflation and interest rates. Bank Rate was maintained at 5.25% through to March 2024. The vote at the March was 8-1 in favour of maintaining rates at this level, with the single dissenter preferring to cut rates immediately by 0.25%. Although financial markets shifted their interest rate expectations downwards with expectations of a cut in June, the MPC's focus remained on assessing how long interest rates would need to be restrictive in order to control inflation over the medium term.

In the Bank's quarterly Monetary Policy Report (MPR) released in August 2023 the near-term projection for services price inflation was revised upwards, goods price inflation widespread across products, indicating stronger domestic inflationary

pressure with second-round effects in domestic prices and wages likely taking longer to unwind than they did to emerge. In the February 2024 MPR the Bank's expectations for the UK economy were positive for the first half of 2024, with a recovery from the mild recession in calendar H2 2023 being gradual. Headline CPI was forecast to dip below the 2% target quicker than previously thought due to declining energy prices, these effects would hold inflation slightly above target for much of the forecast horizon.

Following this MPC meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% remains the peak in Bank Rate and that interest rates will most likely start to be cut later in H2 2024. The risks in the short-term are deemed to be to the downside as a rate cut may come sooner than expected, but then more broadly balanced over the medium term.

The US Federal Reserve also pushed up rates over the period, reaching a peak range of between 5.25-5.50% in August 2023, where it has stayed since. US policymakers have maintained the relatively dovish stance from the December FOMC meeting and at the meeting in March, economic projections pointed to interest rates being cut by a total of 0.75% in 2024.

Following a similarly sharp upward trajectory, the European Central Bank hiked rates to historically high levels over period, pushing its main refinancing rate to 4.5% in September 2023, where it has remained. Economic growth in the region remains weak, with a potential recession on the cards, but inflation remains sticky and above the ECB's target, putting pressure on policymakers on how to balance these factors.

Financial markets

Sentiment in financial markets remained uncertain and bond yields continued to be volatile over the year. During the first half of the year, yields rose as interest rates continued to be pushed up in response to rising inflation. From October they started declining again before falling sharply in December as falling inflation and dovish central bank attitudes caused financial markets to expect cuts in interest rates in 2024. When it emerged in January that inflation was stickier than expected and the BoE and the Federal Reserve were data dependent and not inclined to cut rates soon, yields rose once again, ending the period some 50+ bps higher than when it started.

Over the financial year, the 10-year UK benchmark gilt yield rose from 3.44% to peak at 4.75% in August, before then dropping to 3.44% in late December 2023

and rising again to 3.92% (28th March 2024). The Sterling Overnight Rate (SONIA) averaged 4.96% over the period to 31st March.

Credit review

In response to an improving outlook for credit markets, in January 2024 Arlingclose moved away from its previous temporary stance of a 35-day maximum duration and increased its advised recommended maximum unsecured duration limit on all banks on its counterparty list to 100 days.

Earlier in the period, S&P revised the UK sovereign outlook to stable and upgraded Barclays Bank to A+. Moody's also revised the UK outlook to stable, Handelsbanken's outlook to negative, downgraded five local authorities, and affirmed HSBC's outlook at stable while upgrading its Baseline Credit Assessment. Fitch revised UOB's and BMO's outlooks to stable.

In the final quarter of the financial year, Fitch revised the outlook on the UK sovereign rating to stable from negative based on their assessment that the risks to the UK's public finances had decreased since its previous review in October 2022, the time of the mini- budget.

Moody's, meanwhile, upgraded the long-term ratings of German lenders Helaba, Bayern LB and LBBW on better solvency and capital positions, despite challenges from a slowing German economy and exposure to the commercial real estate sector. Moody's also upgraded or placed on review for an upgrade, Australian banks including ANZ, CBA NAB and Westpac on the back of the introduction of a new bank resolution regime.

Credit default swap prices began the financial year at elevated levels following the fallout from Silicon Valley Bank and collapse/takeover of other lenders. From then the general trend was one of falling prices and UK lenders' CDS ended the period at similar levels to those seen in early 2023. Earlier in the year some Canadian lenders saw their CDS prices rise due to concerns over a slowing domestic economy and housing market, while some German lenders were impacted by similar economic concerns and exposure to commercial real estate towards the end of the period, with LBBW remaining the most elevated.

Heightened market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

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XX August 2024

To Audit and Governance Committee Chair
Dorset Council

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Dear Cllr Suttle

Dorset Council: An update on the application of the local authority backstop

On 30 July 2024, the Minister of State for Local Government and English Devolution, Jim McMahon, provided the following written statement to Parliament [Written statements - Written questions, answers and statements - UK Parliament](#). This confirms the government's intention to introduce a backstop date for English local authority audits up to 2022/23 of 13 December 2024. A backstop date for 2023/24 is proposed of 28 February 2025.

In this letter, I set out more details of the approach Grant Thornton plans to take in respect of the backstop, and how this is likely to impact your authority. I should be happy to discuss this further including at the next Audit and Governance Committee.

Applying the backstop for years up to 2022/23

Grant Thornton have taken over as your auditor from financial year 2023/24. We understand that your previous auditor Deloitte has not completed the audit for 2022/23 and that Deloitte intends to issue a backstop opinion in respect of this year. Please do continue to liaise with Deloitte to ensure that you have agreed with them the next steps. This should include arrangements for receiving the draft Auditor's Report. We set out below the implications a backstopped audit opinion is likely to have on our 2023/24 audit.

The recovery period – 2023/24 onwards

The government has set out its intention that from 2023/24, auditors should work with local authorities to begin the process of recovery. A backstop date for 2023/24 has been proposed of 28 February 2025, and a date for 2024/25 audits of 27 February 2026.

As part of our commitment to supporting the recovery period we have already begun work on your financial statements audit for 2023/24.

The fact that a previous audit has been disclaimed brings with it a number of challenges. Not least of these is the fact that we will not have assurance over the opening balances in the financial statements for 2023/24. In addition, there are risks that the allocation of funds between different reserves could be misstated, and also that prior year errors in areas such as the Minimum Revenue Provision could have gone undetected.

Our intention is that over time we will re-build assurance in respect of prior years. The NAO and FRC are currently working on guidance to support auditors and we will update you as and when this is received. In the meantime, recognising that the next backstop date is set for 28 February 2025, our intention is to prioritise (amongst other things) the following areas:

- risk assessment and evaluation of the control environment for 2023/24 including ISA 315 assessment;
- audit of closing balances as at 31 March 2024;
- audit of income and expenditure and movements within financial year 2023/24 and associated cut off testing;

- testing of journals within 2023/24;
- testing of Movement of Reserves statements and other primary statements (within the constraints that we will not have opening balance assurance);
- review of financial statements disclosure; and
- recognising the sensitivity of cash, we propose to look at the opening cash position as at 1 April 2023.

Our current aim is to be able to complete the above work to allow us to issue our audit opinion shortly after Deloitte issue their 2022/23 opinion. We will provide an Audit Findings Report to those charged with governance setting out the findings from our work and any key outcomes. We have also already reported our findings from 2023/24 Value for Money work to the Audit and Governance Committee.

At this stage, given the inherent challenges outlined above, we consider that it is unlikely to be possible to undertake sufficient audit work by 28 February 2025 that would enable us to regain full assurance on opening balances.

The consequence of this is that there is a strong possibility audit year 2023/24 will be disclaimed in respect of opening balances. We are working with the NAO and FRC to identify the best way to regain full assurance and return to a clean opinion as quickly as possible over the coming years.

We will keep you updated on the progress of our work. Do please ensure that a suitable Audit and Governance Committee date is arranged in advance of the 2023/24 backstop date of 28 February 2025.

For the audit of your Pension Fund, our focus will be on movements in year and closing balances, rather than opening balances. As Pension Fund assets are revalued annually, and there is not the same inherent challenge in respect of usable reserves that we face for a local authority audit, we envisage that it should be possible to return to a clean audit opinion by 2025/26. Years 2023/24 and 2024/25 are likely to be qualified in respect of opening balances and comparative figures respectively.

Looking ahead

We recognise these are unusual and difficult times for all authorities that will be subject to the backstop. We believe that public confidence is best enabled by returning to a position of timely audit reporting and clean opinions as soon as possible. We will work actively with you and others in the sector to do our best to achieve this.

Yours sincerely

Jackson Murray

For Grant Thornton UK LLP

CC Executive Director (Corporate Development S151)

Audit and Governance Committee

23 September 2024

Informing the audit risk assessment for Dorset Council and Dorset Pension Fund 2023/24

FOR INFORMATION

Portfolio Holder:

Cllr S Clifford, Finance & Capital Strategy

Local Councillor(s):

All

Executive Director:

A Dunn, Executive Director, Corporate Development

Report Status: Public

Brief Summary:

The report covers details on questions received from Grant Thornton, and responses from Dorset Council Officers which form the auditors risk assessment for the audit of the 2023/24 statement of accounts.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Dorset Council's and Dorset Pension Fund's external auditors and the Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Governance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports the Audit and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

This is a combined document with questions relating to both the Council and the Pension Fund.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the local authority's oversight of the following areas:

General Enquiries of Management

Fraud,
Laws and Regulations,
Related Parties,
Going Concern, and
Accounting Estimates.

This report includes a series of questions on each of these areas and the response we have received from Dorset Council's management. The Audit and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response - Council	Management response - Pension Fund
1 What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24?	None	None.
2 Have you considered the appropriateness of the accounting policies adopted by Dorset Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	The appropriateness of the accounting policies adopted by Dorset Council for will be considered before and during the process of preparing the financial statements. We do not anticipate any events or transactions that may cause us to change or adopt new accounting policies.	The appropriateness of the accounting policies adopted by Dorset Council for the preparation of the pension fund accounts will be considered before and during the process of preparing these statements. We do not anticipate any events or transactions that may cause us to change or adopt new accounting policies.
3 Is there any use of financial instruments, including derivatives? If so, please explain	Yes. For further details please see the 2022/23 disclosure notes.	Yes. For further details please see the 2022/23 disclosure notes.
4 Are you aware of any significant transaction outside the normal course of business? If so, What are they?	No, none that I am aware of.	No, none that I am aware of.
5 Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	Nothing Specific - we were relatively recently concerned by the RAAC issues - but inspections confirmed RAAC was not present in our school buildings.	n/a, question relates to Dorset Council.
6 Are you aware of any guarantee contracts? If so, please provide further details	No, none that I am aware of.	No, none that I am aware of.
7 Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No, none that I am aware of.	No, none that I am aware of.
8 Other than in house solicitors, can you provide details of those solicitors utilised by Dorset Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Contract team VWV Solicitors and Simon Keating of Keating Chambers - procurement advice - now resolved VWV – contract advice - resolved Lux Nova and Browne Jacobson - relating to an investment opportunity – resolved Peter Doughty of Pallant Chambers - contract advice - resolved	Please see comment for Dorset Council.
8	Governance Richard Wald KC and Jake Thorold of 39 Essex Chambers – judicial review - resolved	Please see comment for Dorset Council.
8	Regulatory team Solicitors Ashfords Section 106 work – on-going Compulsory Purchase Order – on-going Regeneration schemes - ongoing Michelmores Compulsory Purchase Order – on-going NPLaw Compulsory Purchase Order – on-going	Please see comment for Dorset Council.

Question	Management response - Council	Management response - Pension Fund
8	<p>Counsel –</p> <p>FTB Simon Bird KC and Merrow Golden – 2023/24 – planning advice - work completed Stephanie Bruce-Smith – 2023/24 – Judicial Review advice -work complete Brendan Brett – Planning inquiries 2023/24 and 2024/25 financial year - some work complete and some ongoing. Emyr Jones – 2023/24 – public inquiry - work complete Mark Westmoreland Smith – advice on Compulsory Purchase Order - work ongoing George Mackenzie – public inquiry this year and next Jeremy Phillips KC –advice 2023/24 - work complete Michael Rhimes – advice 2023/24 - work complete Annabel Graham-Paul – advice 2023/24 - work complete</p> <p>Landmark Chambers Mellissa Murphy – public inquiry – work complete across 2023/24 and 2024/25 Matthew Henderson – hearing this year – will have injunction proceedings 2024/25 James Neill - Public inquiry 2024/24 - work ongoing</p>	Please see comment for Dorset Council.
8	<p>Counsel –</p>	Please see comment for Dorset Council.
8	<p>Governance</p> <p>John Turnbull and Helen Randall, Trowers & Hamlins LLP – company governance and equal pay advice – completed 2023/24 Russell Holland PHP Law – advice and representation including judicial review [ongoing] Claire Wiles, Essex Legal Services – advice and representation [ongoing]</p>	Please see comment for Dorset Council.
9	No reports that I am aware of.	n/a, question refers to Dorset Council.
10	SWAP are asked as and when required to undertake audits on specific matters that may occur during the year. The only one I am aware of relates to the Repairs and Maintenance Framework.	Apex Group (formerly MJ Hudson): quarterly reports to the Pension Fund Committee summarising market conditions and the potential implications for investment performance and decisions, input into strategic asset allocation review. Mercer: strategic asset allocation review
11	This will be reviewed as part of the production of the financial statements.	No pension fund assets identified for which expected credit loss provisions may be required.

Fraud risk assessment

	Question	Management response - Council	Management response - Pension Fund
1a	Has Dorset Council assessed the risk of material misstatement in the financial statements due to fraud?	The Council is subject to a continuous review of key control areas through SWAP audits. The authority is also part of the National Fraud Initiative and takes part in data matching exercises to assist in the prevention and detection of fraud.	Please see comment for Dorset Council.
1b	How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?	The Council has a Anti Fraud, Corruption and Bribery policy; a whistleblowing policy and anti-money laundering policy. These can be viewed from this link - https://www.dorsetcouncil.gov.uk/chief-executives-policies-and-strategies . Key fraud risks are recorded within the risk register, and reviewed and updated by risk owners. Where incidents are fraud are identified (for instance, via whistleblowing) they are subject to investigation. A fraud action plan is reviewed and updated to reflect any actions from internal audits etc	Please see response for Dorset Council. All staff involved in the administration of the pension fund are employees of Dorset Council and therefore subject to the controls summarised.
1c	How do the local authority's risk management processes link to financial reporting?	Monitoring of ongoing risks and financial management are linked via a strategic reporting framework. This includes the use of a balanced scorecard reporting tool which monitors risk and the authority's financial position together. The dashboard is discussed as part of the monthly performance and risk reporting process. Additionally, risk is reflected as a dedicated element of the cabinet and committee reporting process for elected members, where each paper includes an assessment of the risk relating to the topic covered. – this includes financial papers/budget reports. Specific financial risks are detailed in the corporate risk register.	Please see comment for Dorset Council.
2	What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	The types of transactions that are deemed most at risk include high value creditor and housing benefit payments.	Pension benefits payments.
3	Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within	None found	No
4	As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	An annual fraud report is issued to Audit and Governance committee. Risk is reported quarterly to Audit and Governance Committee (those charged with governance) , and both Scrutiny Committees will also use the risk register to inform the Forward Plans. Senior Leadership Team are sighted on key risks via the performance monitoring framework.	Please see response for Dorset Council. All staff involved in the administration of the pension fund are employees of Dorset Council and therefore subject to the controls summarised.
5a	Have you identified any specific fraud risks? If so, please provide details	No.	No.
5b	Do you have any concerns there are areas that are at risk of fraud?	No.	No.

	Question	Management response - Council	Management response - Pension Fund
5c	Are there particular locations within Dorset Council where fraud is more likely to occur?	A whistleblow reported a number of incidents of potential fraud at a DC depot, which led to two members of staff leaving the authority. As a result of an internal audit investigation commissioned re these incidents, a report is due to be released imminently in respect of the wider depot assets.	Please see response for Dorset Council. All staff involved in the administration of the pension fund are employees of Dorset Council and therefore subject to the controls summarised.
6	What processes do Dorset Council have in place to identify and respond to risks of fraud?	Fraud risk is identified, recorded and managed within the Council's risk management process. There are currently 59 fraud related risks, most of which are ranked as Low. In line with the Councils zero tolerance for fraud, and fraud policy, where identified or alleged, investigations are undertaken	Please see response for Dorset Council. All staff involved in the administration of the pension fund are employees of Dorset Council and therefore subject to the controls summarised.
7a	How do you assess the overall control environment for Dorset Council, including: the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control?	A Local Code of Corporate Governance is reviewed and updated annually, to inform the Annual Governance Statement. The risk register is a living document, including identification and review of fraud risks. An ongoing plan of internal audit is maintained	Please see response for Dorset Council. All staff involved in the administration of the pension fund are employees of Dorset Council and therefore subject to the controls summarised.
7b	If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been	Following the depot incident of fraud, a set of recommendations were set out with the internal audit report. Wider whole authority recommendations will be issued	Please see response for Dorset Council. All staff involved in the administration of the pension fund are employees of Dorset Council
7c	What other controls are in place to help prevent, deter or detect fraud?	A whistleblowing policy is available and promoted at least annually. Where fraud is identified, consideration is given to whether the outcomes of investigation are communicated more widely.	Please see response for Dorset Council. All staff involved in the administration of the pension fund are employees of Dorset Council and therefore subject to the controls summarised.
	Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details	None that I am aware of.	None that I am aware of.
8	Are there any areas where there is potential for misreporting? If so, please provide details	None that I am aware of	None that I am aware of.
9a	How does Dorset Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?	Where fraud is identified, consideration is given to whether the outcomes of investigation are communicated more widely. More generally, the Council has a behaviours framework.	Please see response for Dorset Council. All staff involved in the administration of the pension fund are employees of Dorset Council and therefore subject to the controls summarised.
9b	How do you encourage staff to report their concerns about fraud?	A whistleblowing policy is available to all staff and others working on Council busines. This is promoted at least annually.	Please see response for Dorset Council. All staff involved in the administration of the pension fund are employees of Dorset Council and therefore subject to the controls summarised.
9c	What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details	The whistleblowing identifies reporting of "financial irregularities, including fraud, corruption or unauthorised use of public funds", alongside other areas of conduct/action. In the last 12 months, one issue of fraud was reported via whistleblowing and was investigated by internal audit. Following investigation, two members of staff left the employment of the authority	Please see response for Dorset Council. All staff involved in the administration of the pension fund are employees of Dorset Council and therefore subject to the controls summarised.
10a	How are the risks relating to these posts identified, assessed and managed?	See below	Please see response for Dorset Council. All staff involved in the administration of the pension fund are employees of Dorset Council and therefore subject to the controls summarised.

Question	Management response - Council	Management response - Pension Fund
10b From a fraud and corruption perspective, what are considered to be high-risk posts?	At present we identify high risk services, rather than individual posts. Following an update to our fraud action plan high risks posts will be identified for training purposes.	Please see response for Dorset Council. All staff involved in the administration of the pension fund are employees of Dorset Council and therefore subject to the controls summarised.
11 Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details	None that I am aware of	None that I am aware of.
12a What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?	An annual fraud report is issued to Audit and Governance committee. More regularly reporting to committee by internal audit as and when required. If higher risk fraud is identified, this is captured within risk management reporting (currently reporting extreme risks).	Please see response for Dorset Council. All staff involved in the administration of the pension fund are employees of Dorset Council and therefore subject to the controls summarised.
12b How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?	Consideration of the annual report. The Chair of Audit and Governance Committee is also identified as the member fraud champion	Please see response for Dorset Council. All staff involved in the administration of the pension fund are employees of Dorset Council and therefore subject to the controls summarised.
12c What has been the outcome of these arrangements so far this year?	The Annual Fraud report was considered and discussed at the Audit and Governance Committee on 22nd July 2024.	Please see response for Dorset Council. All staff involved in the administration of the pension fund are employees of Dorset Council and therefore subject to the controls summarised.
13 Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	See 9c above	See 9c above
14 Have any reports been made under the Bribery Act? If so, please provide details	None	None

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management. Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Dorset Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Governance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Dorset Council's management.

Impact of laws and regulations

Question	Management response - Council	Management response - Pension Fund
1a How does management gain assurance that all relevant laws and regulations have been complied with?	Dorset Council has a statutory Monitoring Officer, appointed under section 5 Local Government Housing Act 1989. The Monitoring Officer is required to intervene and report under Section 5A of the 1989 Act to the Cabinet if he thinks it likely that any act or omission by the Council is or is likely to be unlawful. As well as being a practising solicitor the Monitoring Officer is a member of the Council's Senior Leadership Team and so is able to provide direct assurance and if necessary challenge on legal compliance to the rest of SLT. The Monitoring Officer is supported in his role by the Head of Legal Services (Deputy Monitoring Officer) and by each of the legal services business partners and their teams (aligned to the work of the Council's directorates in delivering council priorities).	Please see comment for Dorset Council.
1b What arrangements does Dorset Council have in place to prevent and detect non-compliance with laws and regulations?	The Monitoring Officer (MO) is consulted on and signs off reports to the Full Council, the Cabinet and committees. Reports cannot go forward without approval of the MO. The MO is also represented at all of the Council's decision making meetings as part of ensuring that the Council acts within and through the law. The MO meets monthly with the lead officer from the South West Audit Partnership to review progress in delivering the internal audit programme and any emerging issues. The MO oversees the Council's Whistleblowing policy and procedure through which staff are encouraged to raise concerns, including of legal non-compliance. The Council has joined Cifas, an important step in helping us to counter fraud whether fraud perpetrated by our own staff or service users.	Please see comment for Dorset Council.
1c Are you aware of any changes to the local authority's regulatory environment that may have a significant impact on the local authority's financial statements?	No, none that I am aware of.	No, none that I am aware of.
2 How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?	Through the role of the Monitoring Officer, outlined above. The Monitoring Officer attends or is represented at all meetings of the Audit and Governance Committee. The Monitoring Officer is responsible for keeping the Council's Constitution up to date and within the law and he reports directly to the Audit and Governance Committee on changes to the Constitution. The Assurance Team, which sits within Legal and Democratic Services is accountable to Monitoring Officer. The Assurance Team plays a key role, not only in developing and reporting to the Audit and Governance Committee on key assurance approaches and documents, including the Annual Governance Statement. It also plays a key role in ensuring transparency in our decision making, a central component in ensuring that the council acts within and through the law. In addition to the Audit and Governance Committee's responsibility for good governance and the Council's control framework there are two overview committees and two scrutiny committees more closely involved in service issues and again the Monitoring Officer attends or is represented at these committees to ensure that they act within and through the law.	Please see comment for Dorset Council.

Question	Management response - Council	Management response - Pension Fund
3 Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2023 with an on-	No, none that I am aware of.	No, none that I am aware of.
4 Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	Contracts team and Governance do not have any actual or potential cases involving claim by or against the council for more than £500k.	Please see comment for Dorset Council.
5 What arrangements does Dorset Council have in place to identify, evaluate and account for litigation or claims?	An exercise is undertaken for closing the accounts each financial year, whereby senior officers, including the Monitoring Officer and Head of Legal Services (Deputy Monitoring Officer) , are contacted to provide information about any such matters that they are aware of. This information is then evaluated by Finance and appropriate action taken, which would include to accrue, make a provision or include as a disclosure in the published accounts.	Please see comment for Dorset Council.
6 Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No, not that I am aware of.	No, none that I am aware of.

Law and regulations

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Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Governance Committee, is responsible for ensuring that Dorset Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Related parties

Question	Management response - Council	Management response - Pension Fund
<p>1 Have there been any changes in the related parties including those disclosed in Dorset Council's 2023/24 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> • The nature of the relationship between these related parties and Dorset Council • Whether Dorset Council has entered into or plans to enter into any transactions with these related parties • The type and purpose of these transactions 	<p>Collaborative relationships are identified and reviewed for closedown each financial year. The working paper for 2022/23 will be provided to accompany this response.</p> <p>Relevant information is disclosed in the related party transactions disclosure note to the accounts. The published draft 2022/23 accounts will be provided alongside this response. The 2023/24 accounts may include a disclosure for a new HR consultant/agency recruitment LATC with Kent Council, effective from 1 April 2024.</p>	<p>No</p>
<p>2 What controls does Dorset Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Councillors are required to declare all relevant information about related parties for the Register of interests. This process is overseen by the Monitoring Officer and members of the Democratic and Electoral Services team.</p> <p>An exercise is also undertaken for closing the accounts each financial year, whereby Councillors and the Senior Leadership Team, are contacted to provide information about interests in related parties and transactions between those organisations and Dorset Council.</p> <p>This information is all evaluated by Finance and appropriate action taken, and relevant disclosures made in the related party transactions disclosure note to the accounts.</p>	<p>Please see comment for Dorset Council.</p>

Matters in relation to Related Parties

Dorset Council is required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Dorset Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the local authority,
- key management personnel, and close members of the family of key management personnel, and

-post-employment benefit plans (pension fund) for the benefit of employees of the local authority, or of any body that is a related party of the local authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the local authority's perspective but material from a related party viewpoint then the local authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions.

We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Going concern

Question	Management response - Council	Management response - Pension Fund
1 What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Dorset Council will no longer continue?	This is identified as part of the budget setting process. Services provide details of their pressures (in a template) which are overseen by management.	n/a
2 Are management aware of any factors which may mean for Dorset Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	No	n/a
3 With regard to the statutory services currently provided by Dorset Council, does Dorset Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Dorset Council to cease to exist?	Yes	n/a

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Accounting estimates - General Enquiries of Management

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Question	Management response - Council	Management response - Pension Fund
1 What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The disclosure notes to the accounts for critical accounting judgements, and for sources of estimation uncertainty, identify and explain consideration of a) asset classifications, valuations and useful lives, b) lease classifications, c) providing for potential liabilities, d) assessment of requirement for group accounts, e) pension liability, f) property, plant and equipment.	Please refer to the 2022/23 disclosure notes to the pension fund accounts.
2 How does the local authority's risk management process identify and address risks relating to accounting estimates?	The council holds a risk register which is regularly updated (by quarter) and a report goes to Audit and Governance Committee. The register is maintained by the BI and Performance Team	Please see comment for Dorset Council.
3 How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Changes in accounting estimates would be updated subject to changes in the CIPFA code or if errors have been identified in the accounts.	Please refer to the 2022/23 disclosure notes to the pension fund accounts.
4 How do management review the outcomes of previous accounting estimates?	Any changes to accounting estimates would have an impact to quarterly monitoring and the outturn reports which is reported to members, with explanations about the changes. As part of the review of the statement of accounts, this are reviewed by S151 officer, Deputy S151 Officer and the Policy & Compliance management team.	Please refer to the 2022/23 disclosure notes to the pension fund accounts.
5 Were any changes made to the estimation processes in 2023/24 and, if so, what was the reason for these?	No - there were no changes to processed for 2023/24.	No.
6 How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Management allocate the tasks to appropriately qualified staff and will obtain specialist contractors expertise as and when required.	Please refer to the 2022/23 disclosure notes to the pension fund accounts.
7 How does the local authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	The two main areas of accounting estimates are the pension liability and the valuations of land and buildings.	Please refer to the 2022/23 disclosure notes to the pension fund accounts.
8 How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	If there are significant changes in movement then the council will query these with the specific expert, as this is why their expertise was sought. The council does rely on their specialist skills because that is why they were commissioned.	As Council response.
9 What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	Management completes quarterly budget monitoring reports and the outturn report which is reported publicly to members at Cabinet and Audit and Governance (those charged with governance) which includes any consideration of changes to accounting estimates and the assumptions that have been made. The Statement of Accounts which includes the estimates of the actuary and asset valuer are presented to the Audit & Governance Committee.	Quarterly reporting to the Pension Fund Committee and Local Pension Board.
10 Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	Appendix A provides the detail of the accounting estimates.	Please refer to the 2022/23 disclosure notes to the pension fund accounts.
11 Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	The management responses for the accounting estimates in Appendix A are accurate.	n/a, question relates to Dorset Council.
12 How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The work is carried out by the accountant and then it is checked by a senior manager to ensure the estimate is reasonable. The S151 officer, Deputy S151 officer	The work is carried out by one member of the Treasury and Investment team then checked by another member of the team and reviewed by the Service Manager to

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit and Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Appendix A Accounting Estimates - Council

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: <ul style="list-style-type: none"> Assessment of degree of uncertainty Consideration of alternative estimates 	Has there been a change in accounting method in year?
Land and buildings valuations	Land/Buildings are revalued by qualified external valuers. The CIPFA code states it is acceptable to have buildings revalued as part of a rolling 5-year programme - but we have decided to get buildings revalued on a rolling 4-year programme instead to ensure greater accuracy. External Valuers will rely on Existing Use valuations or fair value valuation depending on asset class.	The disclosure notes to the accounts for critical accounting judgements, and for sources of estimation uncertainty, identify and explain consideration of asset classifications, valuations and useful lives and property, plant and equipment.	Qualified external valuers are used for the purpose.	Qualified external valuers are used for the purpose - who would consider the most accurate basis for forming an opinion of the value in line with the CIPFA code requirements.	No.
Depreciation	Straight line method over the estimated useful life of the asset in question.	The disclosure notes to the accounts for critical accounting judgements, and for sources of estimation uncertainty, identify and explain consideration of asset classifications, valuations and useful lives and property, plant and equipment.	The system processes depreciation based on UELs entered for each asset so no external experts required. UEL's would be updated if valuers suggest a new UEL would be more appropriate.	The depreciated cost of each asset will naturally be regulated over time because the accumulated depreciation is written out when we receive a revaluation from the qualified external valuers. This helps to ensure the estimates never stretch too far from a true valuers view of the true asset value.	No.
Valuation of defined benefit net pension and liabilities	Please refer to the 2022/23 disclosure notes.	Please refer to the 2022/23 disclosure notes.	Barnett Waddingham are engaged to the Council with expert advice about the assumptions to be applied	Please refer to the 2022/23 disclosure notes.	No.
Fair value estimates	Please refer to the 2022/23 disclosure notes.	Please refer to the 2022/23 disclosure notes.	Please refer to the 2022/23 disclosure notes.	Please refer to the 2022/23 disclosure notes.	No.
Provisions	NNDR Appeals - Data from VO, local knowledge and professional judgement.	The VOA appeals downloads provide some tangible evidence on which the estimates are based.	No	The level of appeals provision is discussed and agreed by Finance in conjunction with the Revenues & Benefits Business & Finance Lead.	No.
Accruals	Data from SAP, information from services and professional judgement.	The accruals are reviewed by the accountants who support the budget area and signed off by the Service Managers.	No	All accruals will be supported by relevant evidence.	No.
Credit loss and impairment allowances	Please refer to the 2022/23 disclosure notes.	Please refer to the 2022/23 disclosure notes.	Treasury management advisors - Arlingclose	Please refer to the 2022/23 disclosure notes.	No.
PFI Liabilities	Fair value will be assessed by calculating the NPV of the cashflows expected of the remaining life of the contract.	The code requires disclosure of the PFI liabilities.	Property valuer - Savills	The will be no impact on the primary financial statements as this will be a disclosure.	No.

Appendix A Accounting Estimates – Pension Fund

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: <ul style="list-style-type: none"> • Assessment of degree of uncertainty • Consideration of alternative estimates 	Has there been a change in accounting method in year?
Level 2 investments	Please refer to the 2022/23 disclosure notes.	Please refer to the 2022/23 disclosure notes.	Please refer to the 2022/23 disclosure notes.	Please refer to the 2022/23 disclosure notes.	No.
Level 3 Investments	Please refer to the 2022/23 disclosure notes.	Please refer to the 2022/23 disclosure notes.	Please refer to the 2022/23 disclosure notes.	Please refer to the 2022/23 disclosure notes.	No.
Actuarial present value of future retirement benefits	Please refer to the 2022/23 disclosure notes.	Please refer to the 2022/23 disclosure notes.	Please refer to the 2022/23 disclosure notes.	Please refer to the 2022/23 disclosure notes.	No.
Management to add any further material estimates	n/a	n/a	n/a	n/a	No.

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IT Audit Findings

Dorset Council and Pension Fund

Year ended 31 March 2024

Issued 12 September 2024

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Section 1: Executive summary

- 01. Executive summary
- 02. Scope and summary of work completed
- 03. Summary of IT audit findings
- Detail of IT audit findings

To support the financial statement audit of Dorset Council and Pension Fund (“Dorset”) for year ended 31 March 2024, Grant Thornton has completed a design and implementation review of the IT General Controls (ITGC) for applications identified as relevant to the audit.

This report sets out the summary of findings, scope of the work, the detailed findings and recommendations for control improvements.

We would like to take this opportunity to thank all the staff at Dorset for their assistance in completing this IT Audit.

Section 2: Scope and summary of work completed

01. Executive summary

02. Scope and summary of work completed

Summary of IT audit findings

Detail of IT audit findings

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The objective of this IT audit was to complete a design, implementation and operating effectiveness controls review over Dorset's IT environment to support the financial statement audit. The following applications were in scope for this audit:

- SAP
- Capita
- UPM
- Active Directory

We completed the following tasks as part of this IT Audit:

- Evaluated the design, Implementation and operating effectiveness for security management and change management controls and cybersecurity
- Performed high level walkthroughs, inspected supporting documentation and analysis of configurable controls in the above areas
- Completed a detailed technical security and authorisation review of Dorset's SAP system as relevant to the financial statements audit, and
- Documented the test results and provided evidence of the findings to the IT team for remediation actions where necessary.

Section 3: Summary of IT audit findings

- 01. Executive summary
- 02. Scope and summary of work completed
- 03. Summary of IT audit findings**
- Detail of IT audit findings

Summary of IT audit findings

This section provides an overview of results from our assessment of the relevant Information Technology (IT) systems and controls operating over them which was performed as part of obtaining an understanding of the information systems relevant to financial reporting. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT system	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks / other risks
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
SAP	Detailed ITGC assessment (design effectiveness only)					n/a
Capita	Detailed ITGC assessment (design effectiveness only)					n/a
UPM	Detailed ITGC assessment (design effectiveness only)					n/a
Active Directory	Detailed ITGC assessment (design effectiveness only)					n/a

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Assessment


- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements / significant deficiencies identified but with sufficient mitigation of relevant risk
- IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Not in scope for testing

Section 4: Detail of IT audit findings




- 01. Executive summary
- 02. Scope and summary of work completed
- 03. Summary of IT audit findings
- Detail of IT audit findings**

SAP ITGC Assessment Findings

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Assessment	Issue and risk	Recommendations
1.	<p data-bbox="196 319 238 364"></p> <p data-bbox="327 319 1044 372">Users with inappropriate access to ABAP debugger in production ABAP debugger is used for performing debugging functions such as inserting a code to correct any errors in the source code. Users are therefore able to execute unauthorised transactions through these amendments to code.</p> <p data-bbox="327 518 1044 601">We noted that there were 26 active Dialog(A) accounts and 1 Service (S) assigned with access to ABAP Debugger in production granted via S_DEVELOP authorisation object.</p> <p data-bbox="327 632 758 659">Refer to Appendix 1 for the list of users.</p> <p data-bbox="327 691 1044 831">We further observed that 20 users had made program attributes changes, accounting header documents changes and master data changes during the audit period. The 7 others have access to ABAP debugger in production but have not made any changes during the period.</p> <p data-bbox="327 869 393 896">Risks</p> <p data-bbox="327 911 982 938">Unauthorised access to ABAP debugger increases the risk of:</p> <ul data-bbox="327 951 1025 1139" style="list-style-type: none"> • unauthorised change or deletion of table entries including tables that are typically protected by SCC4, • the ability to perform debugging functions by inserting break-point statements into program code • the ability to bypass authority checks and execute transactions 	<p data-bbox="1054 319 1995 372">It is recommended that management remove ABAP debugger access permanently from production.</p> <p data-bbox="1054 385 1995 438">It is best practise to use Firefighter accounts with an approved business case and set validity period.</p> <p data-bbox="1054 495 1317 522">Management response</p> <p data-bbox="1054 535 1995 789">As discussed, our understanding was that the ability to debug and amend code was not possible simply with the S_DEVELOP authorisation and that access to the object types was also required to carry out any debugging. In finding that the object type was embedded within another role, which then did give the ability to debug, we have since removed access from that role. In which case, debug access can now only be gained through being granted access to the debug role, which can only be gained through a request to the Security Officer and authorised by the ICT Operations Manager. We also capture this approval in the monthly audit reports for full transparency as to who has been granted access at any time.</p>

Assessment

-  Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
-  Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
-  Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

SAP ITGC Assessment Findings

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Assessment	Issue and risk	Recommendations
2.	<p data-bbox="196 322 238 365">●</p> <p data-bbox="327 322 1044 372">Segregation of Duties Conflict as developers have access to production</p> <p data-bbox="327 379 1044 458">We compared all users with the ability to develop changes in development with those with the ability to create/import transports in production and identified the following:</p> <ul data-bbox="327 465 1044 629" style="list-style-type: none"> <li data-bbox="327 465 1044 544">• there were 4 users with the ability to develop changes in development and create/import transports in production via STMS. <li data-bbox="327 551 1044 629">• of the 4 users, 3 users had the ability to develop changes in development and import them into production via Standard Transport Management System (STMS). <p data-bbox="327 665 1044 801">In response, we compared the list of users that created transports in development and those that created/imported transports in production and noted that there was 1 user that had created transports in development and released the same transports in production.</p> <p data-bbox="327 836 712 858">Refer to Appendix 2 for usernames.</p> <p data-bbox="327 901 395 922">Risks</p> <p data-bbox="327 936 1044 1051">The combination of access to develop and implement those changes in the production environment creates a risk that inappropriate or unauthorised changes are made to data and/ or programs</p>	<p data-bbox="1054 322 1995 401">Management should segregate a user’s ability to develop and implement changes. Privileged access to the production environment should be revoked from users that are involved in development.</p> <p data-bbox="1054 415 1995 522">If for operational reasons access cannot be fully segregated, alternative options to mitigate the risk could include performing a review of change implementation activity logs. These should be regularly reviewed for appropriateness by an independent individual with evidence retained.</p> <p data-bbox="1054 579 1317 608">Management response</p> <p data-bbox="1054 622 1995 672">Developers hand off their transports to the BASIS and Security teams, so development transports are not promoted into Production by the same person that created it.</p> <p data-bbox="1054 686 1995 829">Security teams are technical stewards of the system, which is the reason for them to be able to transport into production, as they facilitate the transports into production for the rest of the team. However, for patching, security maintenance and system configuration, their day-to-day role also requires them to have permissions to develop and create transports themselves.</p> <p data-bbox="1054 843 1995 1036">It would not be feasible for us to have a technical subject matter expert that was only able to transport into production but did not have development permissions also. Transports being promoted into production by the same person that created it only happens by exception and is now logged and monitored through our monthly audit report. In the example provided, the team were in firefighting mode, immediately after the SAP legislative patch had been applied, so is classed as an exceptional circumstance.</p>

Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

SAP ITGC Assessment Findings

	Assessment	Issue and risk	Recommendations
3.	●	<p>Users with inappropriate access to maintain all SAP Standard or Customised tables in production</p> <p>Our IT audit procedures identified 22 Dialog user accounts that were assigned access to maintain all SAP standard or customised tables via SM30 or SM31.</p> <p>Refer to Appendix 3 for the list of users.</p> <p>Risks</p> <p>Access to maintain all standard or customised SAP tables creates a risk that unauthorised table maintenance functions can be performed and result in data integrity issues.</p>	<p>Management should segregate a user's ability to maintain all the standard or customised SAP tables within production.</p> <p>We recommend that for the users identified, management should consider assigning access to relevant table groups or individuals tables via S_TABU_DIS and S_TABU_NAM authorisation objects rather than assigning the authorisation values to '*'.</p> <p>Management response</p> <p>To maintain SAP tables, the client needs to be opened which can only be done through a request to the BASIS team and authorisation from the ICT Operations Manager, which is then also recorded on the monthly audit report for full transparency. The table changes are also logged in addition. Having access to SM30 and SM31 alone is not sufficient to be able to maintain SAP tables.</p> <p>There is occasion where maintenance needs to be carried out, for example, to correct problems that it is not possible to correct through the application front-end. These changes are not transportable, i.e. it is not possible to make the change in the development system and transport it through, so need to be carried out in the production system with the appropriate audit trail and is why the access is required.</p>

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Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

SAP ITGC Assessment Findings

4.



Assessment

Issue and risk

Recommendations

Password settings not in line with the organisation's password policy

We noted that the following password settings were not configured in line with the organisations password policy and/or the National Cyber Security Centre (NCSC):

- The password policy states that the password length should be 15 characters. The System User Defined value is only set at 8 characters.
- The password policy states that users no longer enforce password expiration, which is in compliance with the NCSC, however the system is set for password expiration of 180 days.

Risks

A lack of robust password settings may allow financial information to be compromised by unauthorised users.

Management should ensure that password settings configured on SAP are in line with the organisation's password policy.

Management response


Updating the password policy would potentially be very disruptive and a significant piece of work to test and implement. It is felt that with an on-premise implementation, a user would already need to have access to our internal network, so is potentially a very low risk, and as such, updating the policy has not been a priority to implement. Our preference is to move to single sign on, so efforts have been directed into progressing this.

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Assessment
 ● Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
 ● Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
 ● Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

SAP ITGC Assessment Findings


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Assessment	Issue and risk	Recommendations
5. 	<p>User access within SAP was kept valid after the user's termination date It was noted during the audit, that a user was terminated on the 21st of December 2023, however their SAP account was still valid to 30th of January 2024. Upon reviewing the last login dates, we noted that this account had not been accessed since date of departure.</p> <p>Refer to Appendix 4 for the name of the user.</p> <p>Risks Where system access for leavers is not disabled in a timely manner, there is a risk that former employees will continue to have access and can process erroneous or unauthorised access transactions.</p> <p>There is also a risk that these accounts may be misused by valid system users to circumvent internal controls.</p>	<p>Management should ensure that a comprehensive user administration procedures are in place to revoke application and AD access in a timely manner. For a user administration process to be effective, IT must be provided with timely notifications from HR and/ or line managers</p> <p>Management should consider performing user access reviews on all terminated accounts to ensure all accounts have been disabled in a timely manner.</p> <p>Where old or unused accounts have been identified, these should be immediately revoked.</p> <p>Management response Between November 2023 and January 2024, we had long-term absences in the team to mean business as usual activities were impacted. Our standard process for a leaver is that a user has access removed on the date of leaving to mean no functions can be carried out within the system. After two weeks, the account is then disabled. A backup process of all accounts with no activity for three months being disabled is also in place. We are now also looking at building resilience in the team to be able to manage a similar scenario of long-term absences occurring.</p>

Assessment




- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

General Applications ITGC Assessment Findings

Assessment	Issue and risk	Recommendations
1.	<p> Inadequate control over privileged accounts within Capita</p> <p>We observed that the Capita administrative accounts are shared by 6 members of the Technical Support and Development Service.</p> <p>Refer to Appendix 5 for the list of user accounts.</p> <p>We performed mitigating procedures to confirm that the usage of the accounts were restricted to the 6 members.</p> <p>Risk</p> <p>The use of generic or shared accounts with high-level privileges increases the risk of unauthorised or inappropriate changes to the application or database. Where unauthorised activities are performed, they will not be traceable to an individual.</p>	<p>The Council should implement suitable controls to limit access and monitor the usage of shared accounts (i.e. through increased use of password vault tools / logging and periodic monitoring of the activities performed). Where monitoring is undertaken this should be formally documented and recorded.</p> <p>Management response – Revs & Bens Capita System</p> <p>The principle of restricting the number of administrators to minimise the risk of unauthorised or inappropriate changes to the application or database is accepted and already implemented. We believe that the current number is appropriate to our method of operation and the working patterns of the Technical Support & Development Team. Only the six Technical Support and Development team members, which includes the Service Manager, use the “generic database admin account” as it has database administration system permissions which they all need and which other regular users in Revenues and Benefit service wouldn't have (approx. 90 users). We do not consider six users to be excessive and reducing the number of users in the team with access may add risk to the operation of the systems if adequate cover is not available due to sickness, staff leave etc. This access is limited to the necessary users in the service and only those that have database administration duties. The Service Manager accepts the risk. If circumstances change and it is possible to review this, then we will do so. The Head of Service is aware of this and in agreement.</p> <p>The Capita One Revenues and Benefits software does not provide facilities to enhance accountability for users of generic accounts as per the password vault tool suggestion however there is an Audit trail/ Event Log detailing the action of “generic database admin account” user (and all users). It is possible to select a combination of date ranges, screen identification numbers and/or usernames, to retrieve a set of events that have occurred, although is limited in detail of some events. The Domain User ID column in the Event Log frame populates with the windows login of the user. This removes the anonymity of a user logged in as “generic database admin account” – therefore, generic user account activities are traceable to an individual, and this was evidenced during the review.</p> <p>Until the Audit review, the Event Log had not regularly monitored for “generic database admin account” activities, although it is used for other monitoring. Since the review, initial monitoring of the activities performed by “generic database admin account” generic user via the event log have commenced and will be undertaken and reviewed to ensure no unauthorised users are accessing the system via the generic user account and additionally monitored to ensure no unauthorised activities are performed. This will be documented and recorded and available for subsequent reviews.</p>

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Assessment

-  Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
-  Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
-  Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

General Applications ITGC Assessment Findings

2.



Assessment

Issue and risk

User access within Capita and UPM are not appropriately revoked for terminated employees

Application access is not revoked for terminated employees in a timely manner.

For a sample terminated user in Capita, we observed that the request to terminate a leaver was submitted 2 business days after the user had left the Council.

For a sample terminated user in UPM, we observed that the sample user was deleted from the system 4 business days after they transferred out of the Pensions department.

Risk

Where system access for leavers is not disabled in a timely manner, there is a risk that former employees will continue to have access and can process erroneous or unauthorised access transactions.

There is also a risk that these accounts may be misused by valid system users to circumvent internal controls.

Recommendations

The Council should ensure that a comprehensive user administration procedures are in place to revoke application and AD access in a timely manner. For a user administration process to be effective, System Support must be provided with timely notifications from HR and/ or line managers

The Council should consider performing user access reviews on all terminated accounts to ensure all accounts have been disabled in a timely manner.

Where old or unused accounts have been identified, these should be immediately revoked.

Management response

UPM

- Pension Managers have been advised to notify the Systems Administrators in a more timely manner.

Capita



- Changes to user system access, including revoking all access to the Capita system are generated by the relevant Service Managers and/or Team Leaders. It is the responsibility of those officers to ensure that the information is passed to the Technical Support and Development Team for the user access to be revoked in a timely manner. We recognise that we are relying on information from busy officers who may forget to advise of long-term absence or termination etc, and so we have recently attempted to obtain more timely information direct from HR with regard to starters and leavers, but unfortunately, this has not been possible due to system limitations.
- Officers/ Management teams have been reminded to notify the Technical Support and Development Team of new starters and leavers in a timely manner to reduce risk of unauthorised access.
- We believe that the Capita system access for terminated employees is usually disabled in a timely manner (from the point of notification) by the Technical Support and Development Team, with our current levels of resourcing, this includes all old or unused identified accounts.
- The case we shared with you was notified to the Technical Support and Development Team, 2 business days after the user had left the council.

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Assessment




- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

General Applications ITGC Assessment Findings


Assessment	Issue and risk	Recommendations
3. 	<p>Lack of formal cybersecurity policies or procedures</p> <p>Upon review of the cybersecurity control environment, we have identified the entity does not perform active backup testing.</p> <p>Risk</p> <p>The absence of a specific process to conduct active backup testing pose a control risk to the entity's cybersecurity posture. This deficiency could lead to vulnerabilities and increased likelihood of successful cyber-attacks.</p>	<p>We recommend implementing the following controls:</p> <ul style="list-style-type: none"> Establish a structured program for active backup testing to maintain the integrity and recoverability of critical data. Regular testing should be performed to validate the effectiveness of backup procedures and identify any weaknesses in the backup and recovery processes. <p>Management response</p> <p>Backups are verified on creation and integrity checked. Backups are tested in part as deleted information is regularly restored for users and ICT support teams as part of BAU operations. It is acknowledged that the council would benefit from a more formal backup verification policy. The development of this policy and subsequent process will be discussed internally.</p>
4. 	<p>Lack of formal review of the Service Auditor Report</p> <p>We noted that the Council does not review the Service Auditor Report (SOC1 Type 2 or a ISAR3402) provided for Capita.</p> <p>Risk</p> <p>Without adequate oversight and monitoring over the service auditor report on business controls procedures, there is an increased risk that controls over financial reporting operated by the service providers might not be designed, implemented and operating effectively</p>	<p>The Council should consider formally reviewing the Service Auditor Report for control weaknesses in order to assess the relevance impact on the business functions</p> <p>Consideration should also be given to identifying complimentary user entity controls specified within the report and ensuring that they are implemented and operating effectively within the Council's IT environment</p> <p>Management response</p> <p>We have not received a copy of the required report from Capita, and after reaching out to Capita One operations and technical managers, they have indicated that they are unaware of such a report being available. We have shared a copy of Capita One latest Network Penetration Test report and ISO27001 and Cyber Essentials certification.</p>

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Assessment




-  Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
-  Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
-  Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

General Applications ITGC Assessment Findings

Assessment	Issue and risk	Recommendations
5. 	<p>Lack of review of audit logs for Capita</p> <p>Information security event logs, which capture the monitoring of activities performed by users with privileged access within Capita were not reviewed.</p> <p>Risks</p> <p>Without formal and routine reviews of security event logs, inappropriate and anomalous activity may not be detected and resolved in a timely manner.</p> <p>Additionally, unauthorised system configuration and data changes made using privileged accounts will not be detected by the Council.</p>	<p>Considering the criticality of Capita and UPM for financial reporting, information security events such as</p> <ul style="list-style-type: none"> repeated invalid/ unauthorised login attempts to access systems, data or applications. privileged user activities. privileged generic accounts. changes to system configurations, tables and standing data should be logged and formally reviewed. <p>It is recommended that security event logs are reviewed on a regular basis for example daily or weekly, ideally by an IT security personnel / team who are independent of those administrating Capita and UPM and its underlying database.</p> <p>Any issues identified within these logs should be investigated and mitigating controls implemented to reduce the risk of reoccurrence</p> <p>Management response</p> <p>Changes to parameters, tables and data by database administrators is already logged. We will discuss a process with SWAP that further reviews the system event logs and actions by administrators, under our continuous audit arrangement.</p>

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Assessment

-  Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
-  Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
-  Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach



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Audit and Governance Committee Work Programme 2024-25

9 December 2024		
ISA 260 for the 2022/23 Audit	Report	Officer Contact- Heather Lappin
Treasury Management Mid-Year Review 2024/25	Report	Officer Contact- David Wilkes

13 January 2025		
Quarterly Risk Management Update	Update Report	Officer Contact- David Bonner/ Chris Swain
SWAP Update Report	Update Report	Officer Contact- Sally White/ Angie Hooper
Q2 2024/25 Budget Monitoring Report	Report	Officer Contact- Sean Cremer
Progress Update on the Information Governance Paper	Update	Officer Contact- Marc Eyre/ James Fisher
ISA 260 Accounts 2023/24	Report	Officer Contact- Heather Lappin.

24 February 2025		
Q3 2024/25 Budget Monitoring Report	Report	Officer Contact- Sean Cremer

14 April 2025		
Annual Governance Statement	Statement	Officer Contact- Marc Eyre
Quarterly Risk Management Update	Update Report	Officer Contact- David Bonner/Chris Swain
Planning Paper for 2025-26	Planning Paper	Officer Contact- Sally White/ Angie Hooper
Annual Internal Audit Opinion 2024-25	Opinion Report	Officer Contact- Sally White/Angie Hooper

SWAP Update Report	Update Report	Officer Contact- Sally White/Angie Hooper
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Other items raised by Audit and Governance Committee requiring further consideration.

Issue	Notes	Date raised
Creation of Task and Finish Group for Councillor Code of Conduct.		08/07/24