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Audit and Governance Committee

Date: Monday, 24 November 2025
Time: 6.30 pm
Venue: Council Chamber, County Hall, Dorchester, DT1 1XJ

Members (Quorum: 3)
Gary Suttle (Chair), Spencer Flower (Vice-Chair), Belinda Bawden, Neil Eysenck, Jill Haynes, Andrew Parry, Andy Todd, Beryl Ezzard, Ryan Holloway and Chris Kippax

Co-opted Members: S Roach and R Ong.

Chief Executive: Catherine Howe, County Hall, Dorchester, Dorset DT1 1XJ

For more information about this agenda please contact Democratic & Governance 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. If you would like to attend this meeting and have any specific requirements please contact the Democratic Services Officer named above.

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Agenda

Item		Pages
1.	**APOLOGIES**	
	To receive any apologies for absence.	
2.	**MINUTES**	5 - 12
	To confirm the minutes of the meeting held on 13th October 2025.	
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 19th November 2025.

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. PERIOD 6 FINANCIAL MANAGEMENT REPORT 2025/26. 13 - 58

To receive a report by Sean Cremer, Corporate Director Finance and Commercial.

7. TREASURY MANAGEMENT MID-YEAR UPDATE. 59 - 84

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

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AUDIT AND GOVERNANCE COMMITTEE

MINUTES OF MEETING HELD ON MONDAY 13 OCTOBER 2025

Present: Cllrs Gary Suttle (Chair), Spencer Flower (Vice-Chair), Neil Eysenck, Jill Haynes, Andrew Parry, Andy Todd, Beryl Ezzard, Ryan Holloway and Chris Kippax.

Co-opted Member: S Roach.

Present remotely: Cllrs Belinda Bawden and Ray Bryan

Officers present (for all or part of the meeting):
Sam Crowe (Director of Public Health), Jonathan Mair (Director of Legal and Democratic and Monitoring Officer), Sally White (Assistant Director SWAP), Steven Ford (Corporate Director for Strategy, Performance and Sustainability), Louise Ryan (Head of Service - Birth to Settled Adulthood), Lisa Cotton (Corporate Director for Customer and Cultural Services), Paula Golding (Corporate Director for Care and Protection), Sam Harding, Liz Crocker (Head of Strategy) and Chris Swain (Risk Management and Reporting Officer), John Miles (Democratic and Governance Officer) and Louis Wicks (Apprentice Democratic and Governance Officer).

Also present: Cllrs Simon Clifford and Richard Biggs.

Also present remotely: Julie Masci (The Engagement Leader, Grant Thornton).

145. **Apologies**

An apology for absence was received from Co-opted Member Roger Ong.

146. **Minutes**

The minutes of the meeting held on 4 August were confirmed and signed.

Co-opted Member Simon Roach referenced pg 12 of the minutes which highlighted an action for the relevant officer to take away the responses and update the committee around payroll access to sensitive IT capabilities.

The Head of People and Workforce Christopher Matthews responded that he would provide an update at a future meeting.

147. **Declarations of Interest**

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

148. **Public Participation**

No public participation.

149. **Minutes of the Audit & Governance Sub-committee**

No meetings held.

150. **Report of Internal Audit Activity Progress Report 2025/26 - September 2025**

The Assistant Director for SWAP Internal Services, Sally White introduced the second update report for 2025-26. There were a number of ongoing concerns that were leading SWAP to offer a limited rolling opinion. SWAP was working with the Council to support the actions for the contract and expenditure compliance review and the investigation findings. Additionally, there were on-going concerns around outstanding actions. There was only 1 significant on-going corporate risk for contract expenditure compliance and follow up work had shown good progress on implementing the actions. There was another significant risk around business continuity planning. However, the action that had been delayed until the end of the year has now been implemented and as a result, SWAP believed the risk had been adequately mitigated.

SWAP was also in the process of agreeing the detailed actions resulting from the investigation work. This work had followed a different route to the usual audit work, and there was a planned meeting with a member of the Organisational Learning Group to agree a detailed action plan which would be monitored and followed up. She covered the summary report on the follow up work on contract and expenditure compliance on pg 6 of the report, which was looking positive with only 5 of 16 actions left to implement. Work had already started following up those remaining actions that would be due at the end of September. During the last Audit and Governance Committee it was decided that the Committee would invite officers to attend to talk about long overdue actions within their service area. In consultation with the Chair, specific officers had been identified to the meeting this evening to talk to members directly. However, since publication of the report SWAP had managed to close some actions owned by officers who were invited to attend.

Cllr Flower raised concerns about outstanding actions that had been outstanding for a long period of time. He commented that actions needed to be completed in a timely manner, so that the matters could be dealt with and improve the outcomes of the Council.

Cllr Todd commented that he was in favour of reviewing action lists and officers coming back to the Committee on a regular basis to report on what actions had been taken as a result. He explained that he was looking at 2 entries that had been revised 3 or 4 times, with completion times 788 days and 650 days. He asked if there was a difference here between business-as-usual actions and initiative actions and if these should be dealt with in a different format.

The Head of Service Birth to Settled Adulthood Louise Ryan gave an update on the two outstanding actions for direct payments within the Birth to Settled Adulthood Team. The direct payment policy date was originally 30th April 2025, and she confirmed that the service had been working on that, and it was in progress. A draft policy was due to be presented at the internal quality assurance meeting for 10th November 2025. There was an associated action on training staff, a revised policy which would be completed by January 2026. There was also an associated action regarding the financial checks and reviews and reclaiming of money which was connected to some improvement work to implement an automated system rather than a manual process of recording. The Service had invested in a resource, a specific business analyst who was helping plan amendments at the moment and work was in progress. Work would be completed, with a new process to begin in February 2026.

Simon Roach commented that for these long outstanding actions it was important to understand the risk that was being carried because of delayed implementation. He asked SWAP that in the future it would be useful to remind members of the risk that was being carried.

Louise Ryan responded that for the meantime in terms of the recommendations and the actions that SWAP had given us, the Service had incorporated this into the practice of the day to day teams and was up to date with an annual review of all of our children short breaks direct payments and the team were able to review the bank accounts and complete the checks on a yearly basis and recover any money that was additional that the family would not be using. The automated process should make this process even quicker for the service and the team aimed to increase the frequency of these checks.

The Head of People and Work Force; Christopher Matthews gave an update on one of the overdue actions in regards to consultancy and agency spend. The action had been closed, and SWAP had provided assurance that they were satisfied with the work that had been undertaken. The delay was primarily linked to the outcome being in time with Connect2Dorset, our new joint venture for agency workers and the Service had to let Connect2Dorset embed in before the team was able to access the reporting capabilities that were needed to obtain the data. There was now a comprehensive dashboard that had been pulled together and had lots of information on consultancy agency spend with regard to cost, length of placement so it can actively be used to monitor agency spend.

The Cabinet Member for Finance and Capital Strategy, Cllr Clifford commented that the £500 spending action had been updated and completed. He added that sometimes it is not just risk, it is about the importance, he reference pg 29 – the housing service would ensure temporary accommodation rents set at levels recommended by the Housing Revenue Accounts Guidance had a long date on it but had been taken out and moved into budget due to there being a rent review that was going to take place. He noted that although the report is very useful it very quickly becomes out of date, with updates coming through all the time. There needs to be a way to update the Committee with the latest position.

Noted.

151. **Period 4 Financial Management Report 2025/26**

Cllr Clifford, Cabinet Member for Finance introduced the report. The report went through Cabinet on the 9th September 2025 and in summary there was a forecast of £7.7 million overspend at this time of year. The overspend was largely coming from social care and the biggest element was from children's social care. Adults were just under £1 million and children's just over £4 million. These were due to the number of extra people coming through and the costs of care were also changing. There had been a slight dip in the cost of care but in children drastically different. At a briefing last week, he was told that care was costing 20% more per week per child. He made the Committee aware that due to departures and holidays there were no senior representatives of finance able to attend the meeting which contributed to a higher than usual level of questions that could not be answered. Any unanswered questions would be answered after the meeting or during the next Committee meeting.

Cllr Steve Mercer informed that for this report he would like to see a greater analysis of our reserves so that he knows what head room to meet future deficits. In the transformation group, he knew of changes that had been made there that were not costed and when asked what the likely cost of those would be. The answer was that they did not know, and he would like to have an understanding of what the reserves looked like, what the committed reserves are and what the free reserves are. So that the Council knows what level of reserves that could be used to balance the books at the end of the year. He would like a deeper dive into the numbers, where directorates were not meeting their numbers.

Cllr Clifford responded that if the £7.7 million overspend was not mitigated it would have to come from reserves. There was mitigation in place and contingencies that are held specifically for overspend and the risk of overspend. He was comfortable that the level of contingencies and the overspend forecasted, mitigated each other.

The Executive Director for Place, Jan Britton responded that previously in senior leadership team management meetings budget was part of the overall agenda and there would be a slot for budget management which would range across a number of other issues. The Chief Executive has asked him to take up the Chair of a new regular monthly budget meeting with SLT and examines the budget and looking at the Councils whole budget rather than departmental blocks. So, there was a forum to discuss pressures in the budget to mitigate those pressures and a place to address the question raised.

Noted.

152. **Risk Management Update**

The Risk Reporting Officer, Chris Swain and Head of Service Strategy, Liz Crocker introduced the report. Dorset Council's risk appetite statement had been approved by delegated authority by the Leader of the Council and would be published in the forthcoming risk management framework. This marked the next phase of embedding the statement into the organisation's operations ensuring a consistent and an aligned approach to risk taking. Since the report's publication, the service had made significant progress on the enhanced risk dashboard and adopted a phased launch approach starting in Legal and Democratic Services. All

Directorates would be fully migrated by mid-November to the new risk dashboard. Followed by wider communications across the organisation. The dashboard would deliver clear benefits in terms of capturing, updating and consuming risk information. The review of Place strategic risks following the SWAP audit. The new risk management framework for Dorset Council consolidates separate elements for risk management procedures and protocols, many shaped by the Committee to one central standard.

The Committee accepted the invitation to receive a briefing and demonstration of the enhanced risk dashboard outside of the formal committee meeting, in order to support understanding and familiarisation with the new system.

Noted.

153. **Grant Thornton Audit Progress Report and Sector Updates**

The Engagement Leader from Grant Thornton, Julie Masci introduced the progress report providing an update on both financial statement audits for the Council and the pension fund. There had been good progress with both audits over the last couple of months and good cooperation from officers in response to the audit enquiries. She referenced pg 145 of the report and Grant Thornton was looking to present Audit findings reports for both audits back to this Committee in November which was subject to any further residual work required in response to the outcomes of the recent health and safety investigation findings. She corrected that the report references the building control team within the Council but should instead be the building health and safety team which was a different team. Any reference to building control was in reference to building health and safety. Grant Thornton's value for money report had now been concluded, and a draft had been issued to officers for their review, comments and management responses. The Value for Money Report would come back to Committee in November. For the financial statements, all the key testing for audit work was progressing well, and there would need to be specific work in response to the investigation. As when fraud or suspected fraud was identified across any audit, there are enhanced risk management procedures required to follow in response to that. Most importantly, Grant Thornton was attempting to identify the scope that given the issues identified in terms of controls and the weaknesses identified in those controls, whether there was any further risk of control override. There would be targeted completeness work to obtain additional assurance around the completeness of matters identified by SWAP's review. There would also be an update at the next Committee in the Audit Findings Report. The final audit opinion would not be issued till such time as the police investigatory work has been completed, as it was possible that further matters may arise on the back of the ongoing investigation and therefore, advised to keep the audit investigation open until police work has concluded.

Cllr Suttle asked if the police do not come back by the end of February, would you add a specific paragraph to the accounts?

Julie Masci responded that there were specific circumstances that Grant Thornton was able to go beyond the statutory backstop update, under the legislation where auditors sought to exercise any additional audit powers. Depending on where things went with the investigation, this would be discussed with officers and Grant Thornton would seek to make further enquiries around where the current situation was with the police to allow them to assess what impact that would have on Grant Thornton's opinion.

The Director Legal and Democratic, Jonathan Mair commented that the Police investigation was not a referral that Dorset Council made to the police and the police investigation was not an investigation of fraud within the Council. The police came to us because they were already investigating a supplier and a temporary member of our staff who were both involved in the Health and Safety Compliance work. It was a separate investigation by the police that could have relevance to the Council.

Noted.

154. **Update on Our Future Council Work**

The Corporate Director for Transformation, Customer and Cultural Services, Lisa Cotton gave a verbal update on the regular period progress of Our Future Council Transformation. The design and delivery of our future operating model was actively being improved, which includes our customer business hubs and the delivery of our transformation office and close to concluding and extensive consultation and engagement which had taken place with all of the Council's employees, impacted by our future operating model. Ensuring the design was shaped by those closest to the delivery and align to the Council's organisational priorities. It had been very important that the service had been learning and listening from the feedback from the Council's workforce throughout this process. The investment required would include our digital customer contact solution, our enterprise resource solution (extensive human resources and finance systems) and the skills and capacity required to deliver change, to all of those technologies across the organisation. Enabling the support required to work in a more accessible and efficient way, with modern and up to date technologies. The current forecast of savings at this period was at £6.7 million for this year and would be continuously updated.

Cllr Parry commented that there was a big reliance on new technologies and there have been some very high-profile cyber-attacks affecting organisations not just financially but in terms of operations. He asked for the Council's cyber security and business continuity plans are robust. So, that if there was a glitch in the new technologies or a cyber-attack occurs then there can be some form of business as usual.

Lisa Cotton responded that cyber was one of the high risks in the organisation and the Council had invested more in cyber work and when our future structures are reviewed, there was ongoing commitment to make sure that support was in place and the right skills in the organisation and always in continual review.

Noted.

155. **Work Programme**

No comments.

156. **Urgent items**

There were no urgent items.

157. **Exempt Business**

There was no exempt business.

Duration of meeting: 6.30 - 8.13 pm

Chairman

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Audit and Governance Committee

24 November 2025

Period 6 Financial Management Report 2025/26

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 11 November 2025, this report comes to the committee with information about the Council's forecast financial performance for the full 2025/26 financial year. The forecasts are based on data as at 30 September 2025 (Period 6).

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 September 2025 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.

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Cabinet

11 November 2025

September 2025 (Period 6) financial management report 2025/26

For Recommendation to Cabinet

Cabinet Member:
Cllr S Clifford, Finance & Capital Strategy

Local Councillor(s): All

Senior Leadership Team:
S Cremer, Corporate Director, Section 151 Officer

Report Author and job title: Sean Cremer, Corporate Director, S151 Officer
Email: sean.cremer@dorsetcouncil.gov.uk

Statutory Authority: Section 151 of the Local Government Act 1972

Report Status: Public

1. Executive Summary:

1.1 This Period 6 (P6) financial management report provides a comprehensive overview of Dorset Council's financial position as of 30 September 2025, highlighting key challenges, risks, and actions for the 2025/26 fiscal year.

Financial Position and Key Pressures

1.2 Forecast Outturn: The Council is projecting a £5.3 million overspend (1.3% of the £417.2 million budget), mainly due to rising costs in adults' and children's social care (£7.8m) and delayed savings from the Our Future Council (OFC) transformation programme (£3.3m). These pressures are partially offset by £3.5m in contingency releases.

1.3 National Context: The Council operates in a challenging environment of rising demand, inflation, and systemic underfunding. The Dedicated Schools Grant (DSG) deficit is forecast to reach £148 million, posing significant cashflow risks despite a statutory override extension to March 2028. The Safety Valve agreement with the Department for Education is under review, with contributions withheld pending a revised agreement.

Directorate Performance

1.4 Children's Services: Facing a £4.9m overspend, primarily from external placements and increasing complexity of care needs.

1.5 Birth to Settled Adulthood (B2SA): Reporting a £1.679m overspend due to increased demand and costs.

1.6 Adults & Housing: Forecasting a £1.063m overspend, mainly from increased demand in adult care packages.

1.7 Public Health & Prevention: £0.452m overspend, with several savings at risk due to staffing and income shortfalls.

1.8 Place Directorate: Projecting a £1.671m underspend, mainly through vacancy management, though risks remain due to market volatility and other external factors.

1.9 Corporate Development and Legal & Democratic Services: Minor variances, with ICT costs and restructuring delays contributing to pressures.

Transformation and Savings

1.10 The OFC programme is forecast to deliver £6.7m of its £10m savings target, with the remainder phased into future years. Governance measures are being strengthened to accelerate delivery and align service-level savings with corporate objectives.

Capital Programme and Debt

1.11 The capital programme totals £142.9m for 2025/26, with 31% committed by September. Slippage and re-profiling are being actively managed. Outstanding sundry debt stands at £39.6m, of which £26.5m is deemed currently collectable.

Risks and Outlook

1.12 The Council's financial risk is assessed as high, reflecting both local and national pressures. The budget gap for 2026/27 is expected to widen, requiring a reprioritisation of service delivery to ensure ongoing financial sustainability.

1.13 The Council's reserves are forecast to reduce from £114m to £82m by year-end, with the general fund balance remaining above the minimum operating level.

1.14 The growing DSG deficit remains a significant risk to financial viability.

Conclusion

1.15 Dorset Council faces significant financial pressures requiring decisive action. Strengthened controls and reprofiled transformation efforts are being implemented to mitigate risks and inform the 2026/27 budget strategy, ensuring the Council remains on a path toward financial sustainability

2. 2. Recommendation(s):

Cabinet is asked to:

2.1 Note SLT's forecast of the full year's outturn for the Council, made at the end of September 2025 including progress of the transformational and efficiency savings incorporated into the budget;

2.2 Note the capital programme for 2025/26;

2.3 Note the number and extent of contract exemptions.

2.4 Delegate approval to the Executive Director for Childrens Services in consultation with the Cabinet Member for Childrens to award phase 2 of the valuing care programme with IMPOWER which increases total spend to £0.94m. (Appendix D)

3. 3. Reason for Recommendation(s):

3.1 The Council 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 2025/26. This report summarises the Council's forecast financial performance for the year at the end of September 2025.

3.2 The operating environment for Local Authorities across the UK remains challenging with increasing numbers of Local Authorities issuing Section 114 notices and exceptional financial support (EFS) in recent years. External factors are bringing pressure to bear through increased demand, rising costs and complexity, in addition to reducing funding. These factors, together with the findings of the SWAP investigation and review of contract procedures and the officer scheme of delegation, mean that effective management and monitoring of activities and budgets has never been more important.

3.3 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 priorities, and so 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 is taken extremely seriously.

4. The report

4.1 Overall projection

4.1.1 At the end of September, the Council is forecasting an overspend of £5.3m, which represents 1.3% of the Council's budget requirement (£417.2m).

4.1.2 Whilst there is an improving forecast of £2.4m, this forecast remains of concern as it identifies unbudgeted service pressures of £7.8m, and a forecast shortfall in Our Future Council of £3.3m. These are partially mitigated by release of contingency funding of £3.5m.

4.1.3 Without mitigation the current forecast will require use of reserves. SLT have therefore implemented additional budget control measures in order to ensure that discretionary spend is more closely managed collectively in addition to the current budget control measures managed within directorate budgets.

4.1.4 Later this report also outlines a number of forecast uses of reserves. In the event that the £5.280m forecast improves, there remains an underlying reliance on reserves during 2025/26, which will need to be replenished during the life of the current MTFP.

4.1.5 The directorate variances are summarised in the table below.

Directorate	Net Budget £'000	Forecast Outturn £'000	Forecast (Overspend)/ Underspend £'000		Movement from July (P4) £'000
People - Children's	83,290	88,195	(4,905)	(5.9%)	(889)
Birth 2 Settled Adulthood	9,046	10,725	(1,679)	(18.6%)	(311)
People - Adults & Housing	166,960	168,022	(1,063)	(0.6%)	(210)
Public Health & Prevention	4,478	4,931	(452)	(10.1%)	(8)
Place	110,419	108,749	1,671	1.5%	1,236
Corporate Development	41,649	40,949	699	1.7%	878
Legal & Democratic Services	8,640	8,588	52	0.6%	17
Total Service Budgets	**424,482**	**430,158**	**(5,677)**	**(1.3%)**	**715**
General Funding - including Our Future Council	(41,225)	(38,294)	(2,931)	(7.1%)	1,710
Capital Financing	22,658	22,658	0	0.0%	0
Contingency	1,425	(2,075)	3,500	245.6%	0
Precepts/Levy	21,560	21,591	(31)	(0.1%)	(0)
Central Finance	(438,671)	(438,529)	(142)	(0.0%)	(0)
Retirement costs	1,702	1,702	0	0.0%	0
Whole Authority	**(8,069)**	**(2,789)**	**(5,280)**	**(65.4%)**	**2,425**
Dedicated Schools Grant budgets	8,069	62,348	(54,279)		(1,745)

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

4.2 Children's Services

The Children's Services forecast is £88.195m compared with a net budget of £83.290m an overspend of £4.905m (5.9%).

People Services - Children's	Net Budget £'000	Forecast Outturn £'000	Forecast (Overspend)/ Underspend £'000		Movement from July (P4) £'000
Quality Assurance	4,091	4,091	0	0.0%	0
Care & Protection	58,997	64,102	(5,105)	(8.7%)	(935)
Commissioning and Partnerships	6,536	6,536	0	0.0%	0
Director's Services	(1,385)	(1,585)	200	14.4%	100
Education and Learning	15,254	15,254	(0)	(0.0%)	(53)
DSG Recharges	(204)	(204)	0	0.0%	0
Total Directorate Budget	**83,290**	**88,195**	**(4,905)**	**(5.9%)**	**(889)**
Dedicated Schools Grant budgets	8,069	62,348	(54,279)		(1,745)

Care & Protection

4.2.1 The overspend sits within Care and Protection, the social services side of the directorate. Children in Care continues to be the significant pressure within the Service.

4.2.2 Other areas, including Special Guardianship Orders, The Harbour Services and use of psychologists are forecast to underspend.

Children in care

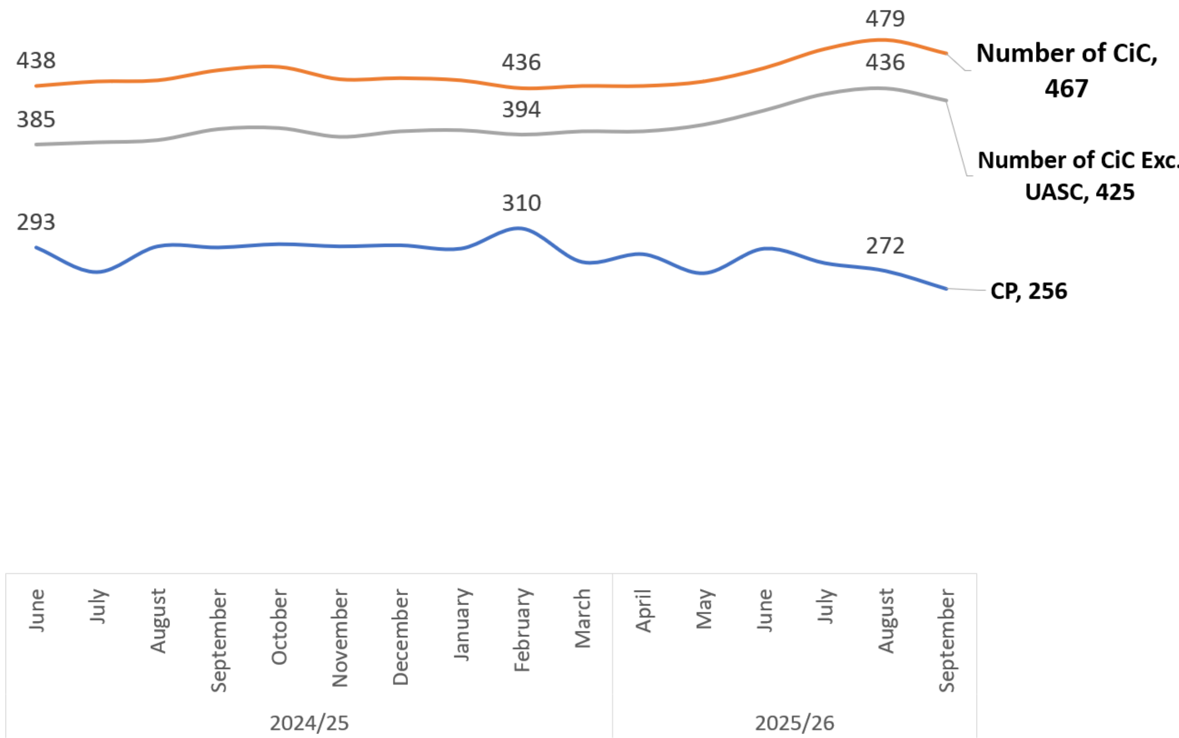
4.2.3 As mirrored nationally, pressure on external placements for our children in care population continues. Increasing numbers of Children in Care not only impact placement budgets, but non-placement budgets are also affected including assessment costs, legal, interpreter fees and travel costs.

4.2.4 The Children in Care placements budget is currently forecast to overspend by £5.712m, this includes fostering and Dorset Council residential provision.

4.2.5 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.

4.2.6 Dorset's Children in Care has reduced compared to September 2020 (486), despite monthly increases for most of 2025, peaking at 479 in August. Positively, the number of Children in Care reduced in September to 473. This includes our unaccompanied asylum-seeking children.

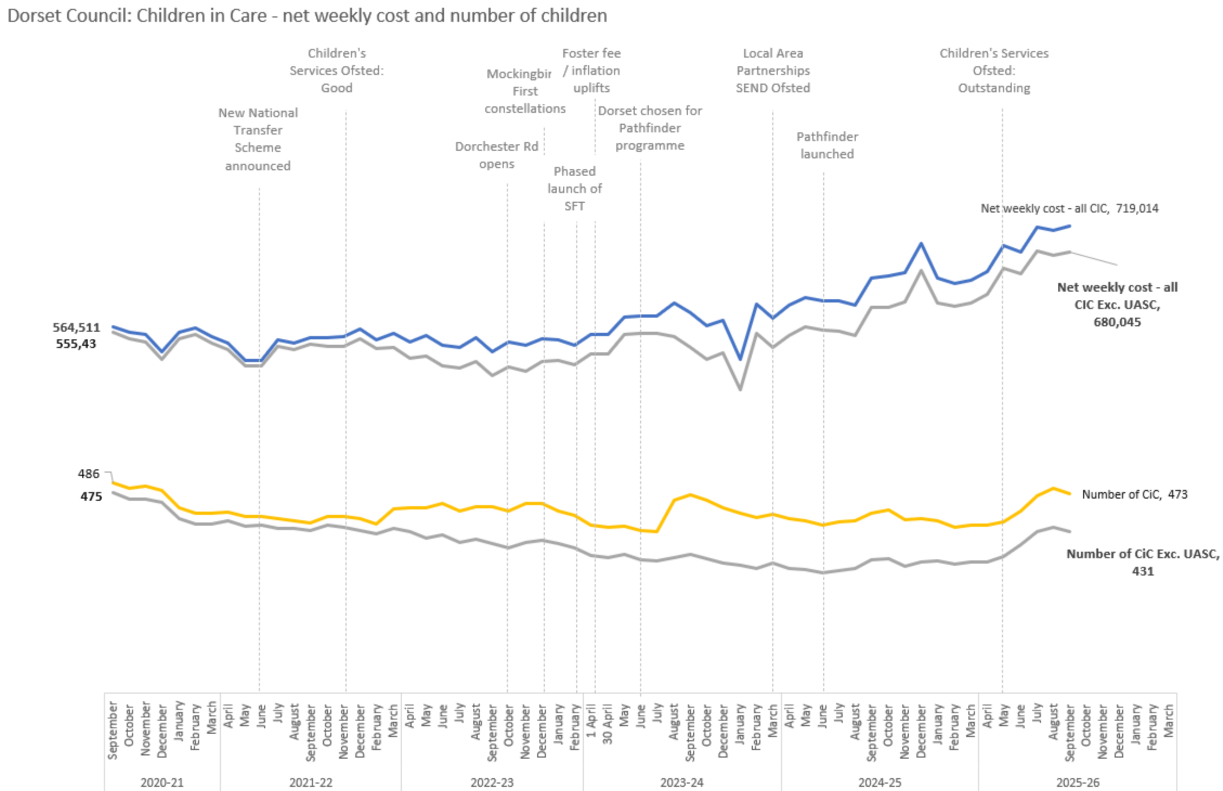
4.2.7 The reduction in our number of children in care (CiC) mirrors the reduction of child protection (CP) plans:



4.2.8 Generally, most children who enter care have been those with a Child Protection plan (CP on the graph above). If this number reduces, therefore the future number of children in care should also reduce.

4.2.9 Dorset Council fostering placements have increased to the 2020 levels (212) although there has been an increase of 9 external residential placements since June 2024, taking this cohort to 52.

4.2.10 Weekly average costs for external residential placements have risen from an average of £5.3k in June 2024 to the current average of £6.6k, an increase of 22%. This is an extra £63k per annum per placement



4.2.11 If the number of children in care (exc. our unaccompanied children) had remained at 475, at September 2025 averages, it is estimated an additional £3.6m of annual cost would be incurred.

4.2.12 Dorset Council are seeking to return the Children in Care trajectory downwards and influence the placement mix of the cohort, through:

i. Through our work in the Families First For Children Pathfinder, we are continuing to rebalance the system. Strong partnership work (including education) in communities, our conversation-based Family Support and Advice Line, integrated 'Thrive' locality model, and expanded innovative edge of care Harbour offer, is delivering the right services and support to families and their children, and at an earlier and therefore lower level of intervention.

ii. Participating in the Southwest regional pilot trialing a regional fostering recruitment and retention hub

iii. Year five of the transformation programme, for example Mockingbird for foster carer placement stability.

iv. Starting to implement Vcare as a tool and way of working

v. Our own in-house provision. Two children's homes have recently been inspected with Good and Outstanding outcomes, delivering better value for money and experiences for children. Further capital investment in this area continues.

vi. The number of permanent social workers in our workforce has remained steady, with consistently manageable caseloads allowing our workers to build strong relationships with the families they serve. High case loads can lead to placement instability.

vii. Exceptions to higher caseloads have been rare and typically due to specific reasons. Our recruitment efforts, 'grow our own' initiatives, and retention plans are yielding positive results. As of March 2025, each Child Protection social worker supports an average 14 children, Family Help teams 15 children and Permanence teams 12 children, enabling them to foster meaningful relationships with the children under their care.

viii. Maintaining constructive conversations with providers to understand their cost base and reasons for price uplifts before any agreements are finalised.

Savings

4.2.13 Children's Services are currently forecast to achieve the full value of budgeted savings, £7.182m (excluding B2SA).

Families First for Children Pathfinder

4.2.14 Dorset Council are a Pathfinder authority for Families First for Children reforms. Pathfinder finished in March 2025 and Dorset are supporting the nation rollout of the reforms.

4.2.15 There are three grants to support Families First for Children reforms: A Pathfinder Grant, the Prevention Grant and Families and Children's Grant. All are currently forecast to be spent.

Risks and mitigations

4.2.16 This is the forecast outturn position at the end of September. 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 new government policy that may not be funded.

4.2.17 Children's Services will continually review grants and other funding sources, plus regularly review the vacancies to help reduce the overspend.

4.3 Birth to Settled Adulthood

4.3.1 The Birth to Settled Adulthood forecast is £10.725m compared with a net budget of £9.046m an overspend of £1.679m (18.56%).

4.3.2 The Birth to Settled Adulthood service is now a separate area containing budgets from Adults and Children's Services. The table below reflects this change.

People Services - Birth to Settled Adulthood	Net Budget £'000	Forecast Outturn £'000	Forecast (Overspend)/ Underspend £'000		Movement from July (P4) £'000
Team	2,766	2,667	99	3.6%	99
Children's	4,272	4,932	(660)	(15.4%)	709
Adults	2,636	3,126	(489)	(18.6%)	(489)
B2SA Transformation	(629)	0	(629)	(100.0%)	(629)
Total Directorate Budget	**9,046**	**10,725**	**(1,679)**	**(18.6%)**	**(311)**

4.3.3 B2SA aims to improve support for children and young people with complex needs or disabilities as they transition into adulthood. By integrating multiple internal and external services into a single, coordinated team, the programme seeks to enable smoother—and potentially more cost-effective—transitions to independence. There are further phases with this programme.

4.3.4 The Birth to Settled Adulthood (B2SA) service has a savings target of £1 million. To date £0.371m has achieved, leaving a remaining gap of £0.629m. A recovery plan has been developed to address this; however, rising demand and increased market costs since the target was set in 2022 present significant risks to its delivery.

4.3.5 There are 409 children who are receiving (or have received) one or more services during 2025/26.

4.3.6 The Adult's element of this service supports young adults (18-25) transitioning into independent living arrangements and long-term care solutions. The service is currently funding 52 individuals an increase of 14 since Q1, with supported living representing the most significant area of expenditure. At this stage, there is a forecast overspend of £0.489m reflecting increased demand within this age cohort.

4.3.7 Demand for the services is predominantly 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.

4.3.8 This is an evolving area and will change and practices, processes and budgets continue to match to meet the B2SA requirements.

4.4 Adults Services & Housing

4.4.1 The Adults Services & Housing Directorate is currently forecasting a net expenditure of £168.022m against a budget of £166.960m, resulting in a projected overspend of £1.063m (0.64%). The position has worsened by £0.210m since P4.

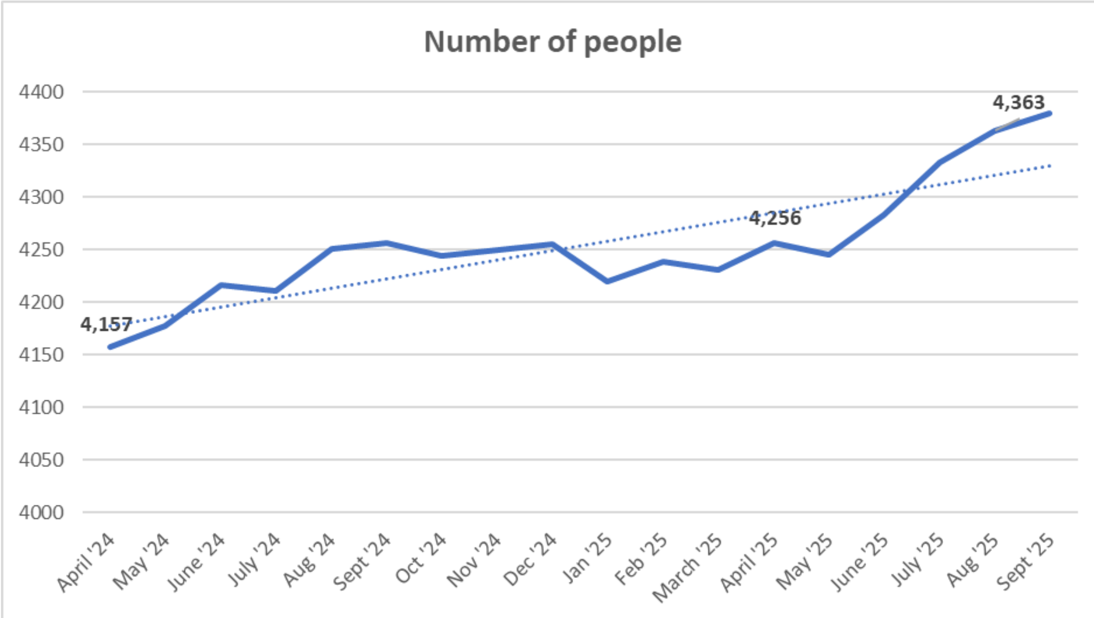
4.4.2 The movement of £0.210m since P4 is predominantly due to £0.300m of savings targets that have now been identified as unachievable within the current financial year. The team is actively working through potential mitigations to offset this pressure.

People Services - Adults	Net Budget £'000	Forecast Outturn £'000	Forecast (Overspend)/ Underspend £'000		Movement from July (P4) £'000
Adult Care Packages	128,245	129,156	(911)	(0.7%)	(272)
Adult Care	20,724	20,737	(13)	(0.1%)	(13)
Commissioning & Improvements	7,672	7,870	(198)	(2.6%)	22
Directorate Wide	2,237	2,237	0	0.0%	(7)
Housing & Community Safety	8,082	8,022	59	0.7%	59
Total Directorate Budget	**166,960**	**168,022**	**(1,063)**	**(0.6%)**	**(210)**

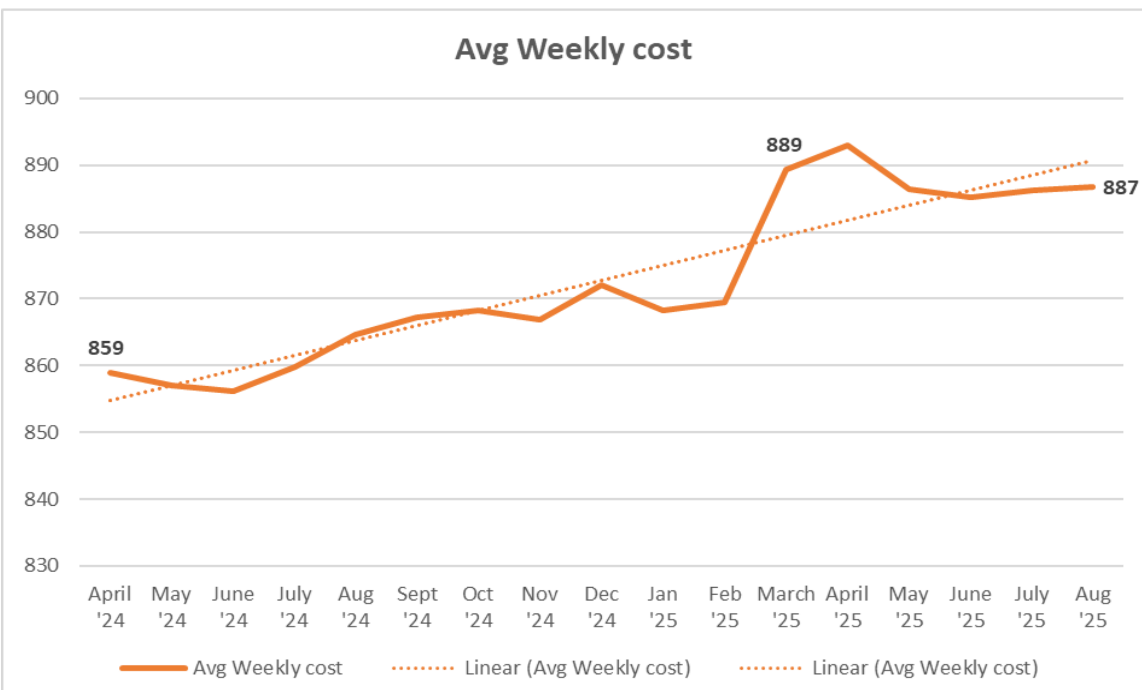
Adult care packages

4.4.3 The primary contributor to this overspend is adult care packages, which are forecast to exceed budget by £0.911m. This estimate reflects the current cohort of individuals receiving support. As a needs-led service, predicting future demand remains complex and uncertain.

4.4.4 Between April and September 2025, the number of individuals supported increased from 4,256 to 4,379, representing a net growth of 123 people, including an additional 46 people since P4. This rise in demand is a key contributor to the current budget pressure.



4.4.5 During the same period, the average weekly cost of care packages decreased slightly from £889 in April to £887 in September. It is important to note that April costs include annual uplifts, which temporarily elevate the baseline. While the cost trend appears stable, the combination of increased demand and elevated baseline costs continues to drive financial pressure.



4.4.6 Since reporting in Period 4, the forecast for Section 117 (S117) aftercare – support provided to individuals detained under specific sections of the Mental Health Act – has reduced. However, it continues to contribute to the overall forecast overspend pressure.

4.4.7 Care packages continue to be reviewed under the oversight of Corporate Directors, in line with the scheme of delegation. Existing system-wide activity is focused on reviewing packages for appropriateness, exploring joint funding opportunities, and assessing eligibility for continuing healthcare. These efforts are being factored into the forecasting process to improve accuracy and financial control.

4.4.8 The directorate remains focused on managing both cost and demand pressures. Prevention programmes and targeted interventions are central to efforts to contain the forecast overspend, with many savings initiatives centred around demand management. This approach is reflected in the establishment of the new Prevention and Early Intervention Team, which aims to proactively support individuals before their needs escalate, thereby reducing reliance on more intensive services.

Housing

4.4.9 Housing is currently forecasting an underspend of £0.059m (0.74%).

4.4.10 Homelessness approaches numbers remain consistently lower than the same period last year, which is a positive trend. However, we recognise that the upcoming winter season may place additional pressure on household budgets due to rising fuel and food costs.

4.4.11 The numbers of individuals in temporary accommodation have increased slightly since P4, rising from 183 to 201. Despite this, year on year comparisons show a reduction in the number of acceptances, which is contributing to significant savings and improved performance.

4.4.12 The number of households in B&B accommodation continues to decline, which is a positive trend. In particular, the number of single households in B&Bs has improved in line with the B&B reduction plan. Successful placements often depend on the availability of self-contained accommodation to meet individual needs. The team continues to work proactively to support move-on arrangements and ensure the best use of available stock for single individuals currently placed in B&B.

4.4.13 Family placements in B&Bs have increased slightly since P4, rising from 7 to 15. Despite this, year on year comparisons show a reduction in the number of families placed in B&B accommodation. The area continues to be closely monitored, and families are being supported with moves into alternative temporary accommodation.

4.5 Public Health and Prevention

4.5.1 Public Health and Prevention is currently forecasting a net expenditure of £4.901m against a budget of £4.49m, resulting in a projected overspend of £0.452m (10.16%).

People Services - Public Health and Prevention	Net Budget £'000	Forecast Outturn £'000	Forecast (Overspend)/ Underspend £'000		Movement from July (P4) £'000
Community and Public Protection	3,916	4,368	(452)	(11.5%)	(8)
PH Joint Partnership	0	0	0	0.0%	0
People - Children's	0	0	0	0.0%	0
Public Health	562	562	0	0.0%	0
Total Directorate Budget	**4,478**	**4,931**	**(452)**	**(10.1%)**	**(8)**

4.5.2 Current performance indicates that several of the savings put forward are at risk. Continued monitoring and mitigation planning will be essential to manage the financial position going forward.

4.5.3 The Public Health Grant for 2025/26 for Dorset Council is £16.258m.

4.5.4 Public Health is currently forecasting a breakeven position. Following the disaggregation of the previously shared service, work is underway to review and stabilise operations as a newly formed directorate. This transitional phase includes reassessing service delivery models and financial planning to ensure long term sustainability.

4.6 Place directorate

4.6.1 The overall forecast for Place Directorate for September 2025 is a projected favourable position (an underspend) of £1.671m (1.5%), with a projection of £108.7m net spend against a net budget of £110.4m.

Place	Net Budget £'000	Forecast Outturn £'000	Forecast (Overspend)/ Underspend £'000		Movement from July (P4) £'000
Highways	5,805	5,421	384	6.6%	(47)
Dorset Travel	42,975	42,912	63	0.1%	(0)
Flood & Coastal Erosion Risk Management (FCERM)	1,085	1,087	(2)	(0.2%)	9
Greenspace	3,370	3,410	(40)	(1.2%)	(0)
Health & Activity	152	123	29	19.1%	29
Commercial Waste & Strategy	17,424	17,154	270	1.6%	170
Waste - Operations	17,936	17,624	312	1.7%	312
Fleet	197	138	59	30.0%	59
Weymouth 2040 Ancilliaries	410	434	(24)	(5.9%)	(24)
LUF	0	0	0	0.0%	0
Economic Development	1,486	1,774	(288)	(19.4%)	(231)

Harbours	16	22	(6)	(38.5%)		41
Leisure, Arts & Cultural Services	3,330	3,257	72	2.2%		(51)
Directors Office	1,899	1,181	718	37.8%		718
Assets & Property	8,234	8,234	0	0.0%		(0)
Planning	6,100	5,978	122	2.0%		251
Total Directorate Budget	**110,419**	**108,749**	**1,671**	**1.5%**		**1,236**

4.6.2 The Place Directorate budget includes a built-in saving target in relation to vacancy factor and other post related savings of over £1.4m. Control over this target has been carefully managed, and at this stage there is circa £0.163m of saving not yet achieved.

4.6.3 Other caveats for this report are:

4.6.4 The start of the new academic year sees a significant number of contracts renewed in Dorset Travel for SEND transport and to a lesser extent for mainstream school transport. The budget allows for potential uptick in costs as a result. However, given the size of the budgets (£13m for mainstream school transport and £24m for SEND transport) even a small percentage change in costs can mean a big change in expenditure. For this reason, the forecast for Dorset Travel will be much clearer after the effect of the new school year contracts are known.

4.6.5 Commercial Waste and Strategy is incurring expenditure at several waste sites to make improvements following advice from the Health and Safety Executive. The work is not expected to exceed £0.5m although that figure is not certain at this stage. There is no funding for this work as part of the revenue base budget, however the expected costs can be met from money received from central government specifically for waste services (Extended Producer Responsibility funding grant).

4.6.6 Commentary on the specific Place Directorate services is as follows. Minor budgets and/or minor variances are excluded, for the sake of brevity.

Highways

4.6.7 The Highways budget is forecast to be underspent by £384k. This is made up as follows:

4.6.8 Parking Services are £150k favourable against the budget, based on income to date. The forecast assumes that income for the remainder of the year will come in on profile, but the reality is that parking income can be unpredictable due to factors affecting demand such as the weather and local events.

4.6.9 The Infrastructure services have a projected underspend of circa £500k, of which £425k is an assumption around the cost of utilities (energy) in street lighting. The remainder of the underspend is primarily vacancy related.

4.6.10 Network Operations has a projected overspend of £274k: the majority of this in relation to the Sign Shop is projecting an adverse trading position (exacerbated by vacancies), plus £55k of unbudgeted costs with WSP in relation to the term service contract, and various unresolved savings / income aspirations.

Dorset Travel

4.6.11 Overall, Dorset Travel is projecting a £63k underspend on a net budget of £43.3m. The underspend is in relation to slightly lower Passenger Assistant costs in the year to date.

4.6.12 Contract renewals at the start of the new academic year are currently being analysed and are key to understanding the likely levels of spend for the remainder of the year.

Commercial Waste and Strategy

4.6.13 An underspend of £270k is predicted. This is the net effect of a worsening recyclate price creating a budget pressure but offset by lower tonnages seen in the year so far and supported by positive results from the trade waste and garden waste services. This budget line is volatile and needs to be kept under constant review.

Waste Operations and Fleet

4.6.14 There are projected favourable variances of £312k in Waste Operations and £59k in Fleet. These variances are around staffing/agency, vehicle fuel and vehicle maintenance costs.

Economic Development

4.6.15 The Economic Development service is forecasting a £288k adverse variance. The expected overspend is a combination of vacancy factor, in-built savings, and staffing budget pressure.

Leisure, Arts and Cultural

4.6.16 The projection of £72k underspend is the net effect of unbudgeted Leisure review costs and vacancy factor, offset by predicted utility costs and some staff vacancies.

Directors Office

4.6.17 During March and April 2025, the Place leadership team undertook an exercise to manage and reduce post numbers across the Directorate. This resulted in a saving of £864k, which is shown here, and offset by other minor overspends. (Total forecast on Directors Office £718k underspend).

Assets and Property

4.6.18 Assets and Property are incurring additional costs in relation to staffing, particularly for additional staff who have been employed to work on asset disposals. However, additional funding has been provided from within the Place Directorate as mentioned above, in the sum of £0.450m from Dorset Travel and £0.150m from contingency.

4.6.19 Assets and Property have several savings in-built into the budget which are dependent on a restructure to take place. The restructure is in progress.

4.6.20 The current year saw additional funds added to the repairs & maintenance base budget in the sum of £2m for compliance, plus an additional £1m added as a one-off for fire related compliance work

4.6.21 Overall, the Assets and Property service is currently forecast to be on budget i.e. nil variance.

Planning

4.6.22 Overall, an £122k favourable variance is projected, largely due to income and several vacancies. Income for planning applications and building control always fluctuates significantly from one month to the next. Pre-application advice is performing positively and is a useful barometer of future planning applications, while the national uplift in statutory housing targets is likely to see an increase in planning applications later in the autumn when the fixed 5-year supply period comes to an end. Building control has seen similar fluctuations but market share remains robust and there may be further increases in activity in advance of the 2026 introduction of the Building Safety Levy as developers seek to get in before the deadline.

Mitigations are as follows:

- Active vacancy management
- Active promotion of discretionary chargeable services and expanding the offer
- An anticipated uplift in housing applications during the later part of this financial year
- Minimisation of spend on other budget lines which will mitigate any budget pressures elsewhere.

4.7 Corporate Development

4.7.1 The Corporate Development forecast is £40.949m compare with a net budget of £41.649m, showing a underspend of £0.7m (1.7%).

Corporate Development	Net Budget £'000	Forecast Outturn £'000	Forecast (Overspend)/ Underspend £'000		Movement from July (P4) £'000
Financial & Commercial	10,331	10,304	27	0.3%	73
Human Resources	1,953	1,692	261	13.4%	261
ICT Operations	8,974	8,834	140	1.6%	222
Chief Executive's Office	1,157	1,165	(8)	(0.7%)	(8)
Directors Office	235	235	0	0.0%	0
Strategy, Performance and Sustainability	13,498	13,185	313	2.3%	313
Digital Change	2,349	2,333	17	0.7%	17
Transformation	3,151	3,201	(50)	(1.6%)	0
Total Directorate Budget	**41,649**	**40,949**	**699**	**1.7%**	**878**

4.7.2 **Finance & Commercial** is experiencing a minor underspend with service pressures currently offset by underspends.

4.7.3 **Human Resources** is forecasting an underspend of £261k, primarily due to pay-related savings. These savings have resulted from a combination of factors, including staff vacancies, appointments made at lower scale points than budgeted, adjustments to contracted hours, uptake of the holiday purchase scheme, and maternity leave without backfill.

4.7.4 **ICT Operations** is currently reporting an underspend of £140k, reflecting a positive movement of £222k since Quarter 1. This improvement is the result of a combination of factors, including staffing efficiencies, infrastructure savings, and increased income.

4.7.5 A £68k pay underspend was achieved through vacant posts contributing to service savings, partially offset by costs associated with roles that were expected to be removed but remain filled, alongside other staffing pressures. Additional savings from vacant cyber posts have been used for corporate purposes and are not included in this figure.

4.7.6 Infrastructure costs have reduced by £136k, driven by savings across several service contracts, although this was partially offset by increased costs for Cloudflare and Microsoft licensing.

4.7.7 **Strategy, Performance & Sustainability** The overall budget position across the services shows a positive forecast, with notable underspends in Customer Services £212k, Organisational Development £59k and Libraries £42k. These are largely attributed to pay savings and additional income.

4.7.8 **Transformation, Customer and Cultural Services** are currently reporting an overspend of £50k.

Legal & Democratic Services

4.7.9 The Legal & Democratic forecast is £8.588m compared with a net budget of £8.640m, an underspend of £52k (0.6%). There are no material variances within services.

Legal & Democratic	Net Budget £'000	Forecast Outturn £'000	Forecast (Overspend)/ Underspend £'000		Movement from July (P4) £'000
Assurance	1,752	1,749	3	0.2%	8
Democratic & Elections Services	3,167	3,167	0	0.0%	0
Land Charges	(312)	(340)	28	9.0%	0
Legal Services	3,053	3,032	21	0.7%	9
Archives	981	981	0	0.0%	0
Total Directorate Budget	**8,640**	**8,588**	**52**	**0.6%**	**17**

Central Finance and Contingency

4.7.10 The forecast for central finance budgets is £432,947m compared with a net income budget of £432,551m, is a forecast underspend of £0.4m (0.1%).

Central Finance	Net Budget £'000	Forecast Outturn £'000	Forecast (Overspend)/ Underspend £'000		Movement from July (P4) £'000
Our Future Council programme	(10,000)	(6,710)	(3,290)	(32.9%)	1,710
General Funding	(31,225)	(31,584)	359	1.1%	0
Capital Financing	22,658	22,658	0	0.0%	0
Contingency	1,425	(2,075)	3,500	245.6%	0
Precepts/Levy	21,560	21,591	(31)	(0.1%)	(0)
Central Finance	(436,970)	(436,827)	(142)	(0.0%)	(0)
Total Central Budgets	**(432,551)**	**(432,947)**	**396**	**0.1%**	**1,710**

4.7.11 **Our Future Council (OFC) programme** – see later section on OFC.

4.7.12 **Capital Financing** - At the end of the 2024/25 financial year, the Council revised its approach to calculating the Minimum Revenue Provision (MRP). This change was primarily introduced to better align the charge with the actual usage of assets over time, while continuing to ensure a prudent level of provision is maintained to support the repayment of debt.

4.7.13 The change in the calculation also results in a reduced budget requirement, with an anticipated underspend of circa £6m. However, this has not yet been reflected in the forecast, as is expected that the underspend will be transferred to reserves, and then released to support the funding of Our Future Council.

4.7.14 **Contingency** - The Council's base budget included a contingency of £13m. The Contingency budget includes £4.5m allocated for inflation, originally set aside due to the complex impacts of inflation driven by demand and changes to national insurance policy. To help mitigate the overall overspend and the reduced savings from the Our Future Council programme, £1.0m has now been released. A further £2.5m has been released following confirmation of the Nationally agreed pay award at 3.2%.

4.7.15 **Central Finance** - These budgets include income from council tax and business rates. A business rates surplus of £2.5 million has been identified; however, this has not yet been reflected in the forecast, as it is anticipated that the surplus will also be required to fund OFC.

4.8 Transformation and savings plans

4.8.1 **Our Future Council – Whole Council Transformation** The 2025/26 Dorset Council budget includes a portfolio of savings plans across each directorate, alongside the Our Future Council (OFC) whole council transformation programme. OFC is designed to modernise shared functions across the organisation and underpin them with appropriate, enabling technology.

4.8.2 The approved business case for OFC included a savings requirement of £10.0m for 2025/26.

Progress to Date – September 2025

4.8.3 The programme is currently forecasting delivery of £6.7m in savings for 2025/26. This reflects progress with the implementation of new operating models, a voluntary redundancy programme, third party spend review and initial service redesign efficiencies.

4.8.4 Workstreams such as commissioning and procurement are progressing and expected to contribute more significantly over the three-year programme.

4.8.5 As of September 2025, the programme is forecasting delivery of £6.7m with further details presented to Cabinet in October 2025 Transformation Report.

4.9 Savings - Adults & Housing

4.9.1 The Adults and Housing directorate has a savings programme in place to deliver £10.597m. At this stage, £6.421m (61%) has been achieved. Below details the progress on each of the programmes.

4.9.2 Since P4 reporting, further savings have been achieved within the Working Age Adults and Housing workstreams.

4.9.3 A full review of outstanding savings has identified £0.300m as unachievable within the current financial year. The remaining savings are being closely monitored, and continued oversight and mitigation planning will be essential to manage the financial position going forward.

4.10 Savings – Children's

4.10.1 The Children's Services directorate has a savings programme to deliver £7.182m. To date, £6.862m has been achieved.

4.10.2 Around £3.9m of this includes work on projects such as **Family Hubs** which offer a network of Family Hubs, embedded in communities in Dorset where families can get the support they need, **Mockingbird** the current constellations support 57 children and 41 fostering households, an Advanced Practitioner (AP) who will join the fostering service in November, this will enable us to expand the programme over the coming months. We aim to launch a further 2 constellations by 31 March 2026. **Safeguarding Families Together** 309 children from 167 families are currently receiving help under SFT. **The Early Support and Digital Family Offer** is centred on making Children's Services digital by design—prioritising family needs and promoting digital access as the default.

4.10.3 **Service savings** – In addition to the above savings, Children's identified an additional £3.28m of savings as part of the 2025/26 budget set. Savings range from additional Social Care Grant allocations being retained centrally, through to increased vacancy factors. All the savings in this category are forecast to be achieved, although not without risk. For example, service delivery being impinged through vacancies being held for longer and the reporting requirements of grants.

4.11 Savings – Birth to Settled Adulthood

4.11.1 To date, £0.371m of the £1m savings target have been realised, and work continues to deliver the remaining savings. As mentioned earlier in the report, demand for services within this cohort is increasing.

4.12 Savings – Place

4.12.1 The Place Directorate budget for 2025/26 includes £4.740m of in-built specific savings targets. This is in addition to in-built vacancy factor targets.

4.12.2 The savings fall across 47 budget lines, and so they are not reported individually here, but are as referenced in the budget setting report.

4.12.3 At this stage, three savings proposals are marked as Red or partially Red. These are:

- The proposals to charge for car parking in the evening was not pursued (£235k)
- An alternative model for Tourism is not on track (£84k).
- A proposed reduction in Community Highways Officers is not being pursued.

4.12.4 At this stage, the majority of savings are marked as "Amber" meaning that, whilst the savings cannot be considered "banked" as yet, they are broadly on track.

4.12.5 In summary, of the £4.740m savings, £1.350m can be considered as achieved with a further £2.731m subject to further ongoing monitoring ("Amber").

4.13 Savings – Corporate

4.13.1 The Corporate savings target for 2025/26 is £2.7m, which is in addition to in-built vacancy factor targets of £0.7m. To date £1.8m (67%) have been achieved. Of the remainder £0.4m (14%) are on target to be achieved and £0.5m (19%) are deemed high risk and are unlikely to be achieved this year.

4.13.2 The Financial & Commercial savings targets initially included:

- An additional vacancy factor of £350k
- Centralisation of finance-related roles (£128k)
- Centralisation of invoice processing and debt control (£80k)
- Introduction of a supplier incentive payment scheme (£50k)
- Commercial income and sponsorship opportunities (£50k)

4.13.3 Progress has been made towards the vacancy factor target, with £210k achieved and £140k remaining. However, the centralisation of finance roles, invoicing, and debt control has not been progressed, due to delays with OFC programme for Group 2.

4.13.4 The supplier incentive payment scheme has been deferred until the new ERP system is implemented. While initial work was undertaken earlier in the year to explore commercial income and sponsorship opportunities, this has not been progressed due to competing priorities.

4.13.5 Within ICT the position has improved and only £20k of the original savings targets have been deemed high risk. That said the service is forecast to underspend overall due to a number of other factors.

4.13.6 A £50k saving was originally anticipated within Transformation, Customer and Cultural, based on a proposed restructure. However, this restructure is no longer considered viable, and the saving will not be realised.

4.14 Dedicated Schools Grant (DSG)

4.14.1 2024/25 ended with a £37.3m overspend. At the 30 September 2025, the forecast outturn is a £54.3m overspend for 2025/26. Adding the historic cumulative deficit position, a revised cumulative deficit would be £148.6m. This figure reflects the withholding of DfE contributions whilst the safety valve agreement is being reviewed. If the agreement is reinstated and previously committed contributions are received this would reduce to a cumulative deficit of £115.8m after DfE and Council contributions.

4.14.2 Any deficit associated with the DSG is kept off councils' balance sheets because of the statutory override set out in The Local Authorities Capital Finance and Accounting (England) Regulations. This was extended from March 2026 to March 2028 in June 2025.

4.14.3 Until March 2028 the deficit is therefore held separately from the general fund, however, there remains an underlying cashflow pressure from carrying a £148m deficit meaning that the Council has access to £148m less cash than it would otherwise. As a result, interest foregone during 2025/26 on the deficit equates to £4.9m of pressure met by the General Fund. This is £4.9m which could otherwise be spent on local service delivery. This will rise to around £7.4m if the deficit is £148m.

4.14.4 As the deficit grows, there will come a point at which it exceeds Council reserves, and the Council would be technically insolvent. However, the government announced a two-year extension to the statutory instrument in June 2025. The promised approach to SEND reform was expected in a white paper this Autumn but has now been deferred to early 2026. These commitments from the government should mean the future risk is lowered.

4.14.5 Further analysis and detail is available in the Dorset Schools Forum monitoring reports: Browse meetings - Schools' Forum - Dorset Council

4.15 Safety Valve

4.15.1 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.

4.15.2 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.

4.15.3 To date, the DfE funding received totals £23.75m and Dorset Council contributions equal £15m. As at the 31 July 2025, no DfE contributions for 2023-24 and 2024-25 have been received.

4.15.4 The financial advisors have reviewed the March plan, and the practice advisor visited Dorset in July 2025. An updated plan was submitted to the DfE by the 12 September deadline.

4.16 Local Context

4.16.1 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.

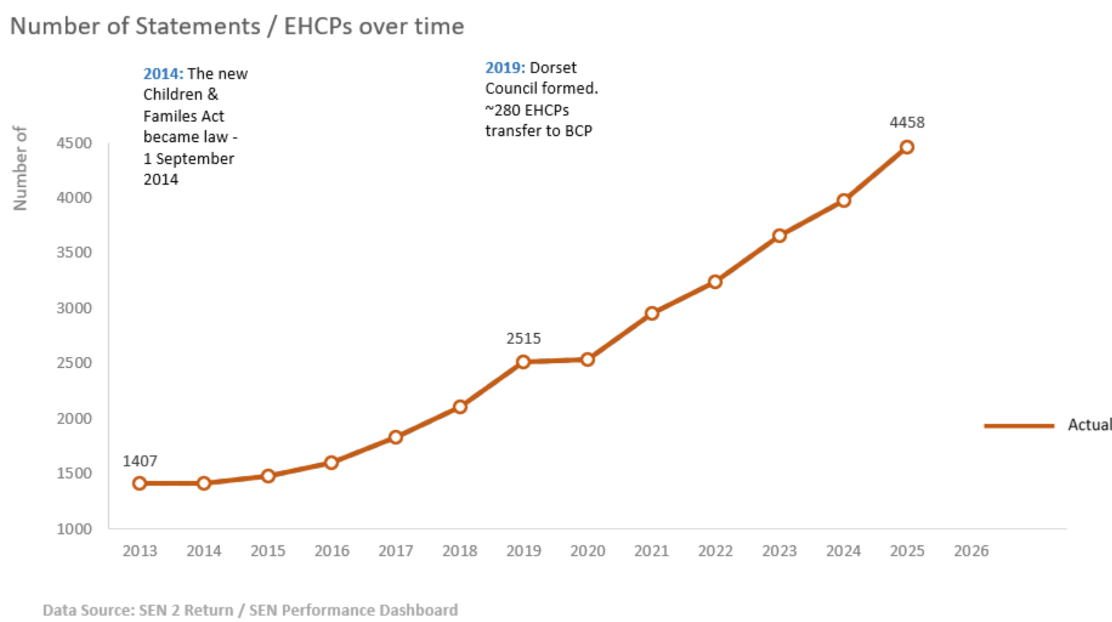


CHART 1: Number of pupils with an EHCP since 2013

4.16.2 There has been a notable increase in Independent Special School Placements, with current forecasts indicating 293 FTE at an average cost of £67,000. This compares to the budgeted 261 FTE at £74,000. Although the average unit cost is lower than anticipated, the higher volume of placements is contributing to a projected overspend on Independent Special School Placements of £1.9m.

4.16.3 The DSG budget for financial year 25/26 was set with a starting in-year deficit of £51.11m. The majority of the movement from this starting deficit to the current overspend position of £54.3m is the forecast position on Independent Special School Placements mentioned above.

4.16.4 Personal budgets and Alternative Provision pressures contribute to a further £1.0m of the overspend position as indicated by the AP tracker kept by the brokerage team.

4.16.5 There is also an increase in overspend due within the Early Years Block, due to an assumption, based on data from the previous financial year, that Dorset Council would receive more funding than transpired. The Early Years Block has seen a 75% increase in 25/26 due to government initiatives to offer 30-hour free childcare for under 2-year-olds. Exact numbers regarding take up are not stable and were based on best assumptions at the time.

4.16.6 A new EHCP database, Synergy Case Management, was implemented on 7th May 2025. Due to delays with reporting and data cleansing, EHCP data as at the end of September is currently unavailable. This has now been added to Dorset Council's central risk register

4.17 Local Authority Trading Companies (LATC)

4.17.1 The council has involvement with four 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.

New company at the Dorset Innovation Park

4.17.2 Cabinet recently approved setting up a new company in relation to the Dorset Innovation Park. Set up is in progress and more details around financial performance will follow in quarterly reports.

Care Dorset

4.17.3 As of 30 September 2024, Care Dorset Holding Ltd reported a cash balance of £5m alongside debtors of £2.2 million and creditors of £7.8 million.

4.17.4 Care Dorset has aligned its financial reporting year end with Dorset Council, with the next set of accounts due to be published after 31st March 2026. Care Dorset continues to work closely with Dorset Council to identify efficiencies across the contract and to support the ongoing improvement of services.

Dorset Centre of Excellence Ltd

4.17.5 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.

4.17.6 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.

4.17.7 The accounting year end for the Dorset Centre of Excellence Ltd is 31 March and accounts for the year ended 31 March 2025 have been finalised and have received an unqualified report from the auditor.

4.17.8 Turnover for the Company was £6.2m in 2025/26 (£3.3m for 2023/24). The Company received fees from Dorset Council of £6.0m for 2025/26 (£2.9m for 2023/24).

4.17.9 The Company reports a surplus before tax of £736k for 2024/25 (£493k pre-tax loss 2023/24). This is significantly ahead of the performance forecast in the 5-year Business Plan (revised and approved March 2024) which anticipated a surplus of £233k.

4.17.10 The Company continues to meet growth targets in pupil numbers and staff in line with the 5-year Business Plan (revised March 2024). The surplus for year ending 31 March 2025 was achieved with minimal development of other commercial activities on the site, pupil numbers not yet at capacity and cost pressures from inflation and Teachers' Pension Scheme employer contribution increases.

4.17.11 The Company still has losses carried forward at 31 March 2025 of £1.4m.

4.17.12 The Company purpose is to provide special school places for Dorset children at a fee significantly below the market rate. An agreement was made to increase the annual fee to £52k as of April 2025 after the fee had remained at £42k per pupil since opening in May 2022. This increased fee is still far below the current average cost of an Independent Special School setting. Any future surplus will support maintaining a low fee for Dorset placements.

Connect2Dorset

4.17.13 Connect2Dorset is a joint venture with Commercial Services Group (a company wholly owned by Kent County Council). The new service came into effect at the beginning of April 2024 and provides the Council with contingent agency, contract and interim employees.

4.17.14 The long-term aim of Connect2Dorset is to improve the quality of our agency workers, and where suitable convert agency workers to permanent employees.

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

4.18.1 Any overspend at the end of the year will mean a drawn down from reserves will be required. Based on the revenue forecast as at the end of 2025/26 there will be a requirement for the following use of reserves:

i) £5.3m overspend from the general fund and earmarked reserves, £3.3m of which is required to cover Our Future Council shortfalls
ii) £12m for Transformation investment
iii) £5.1m contribution to the Dedicated Schools Grant.

4.18.2 This forecast use of reserves could see the Council's earmarked reserves during this financial year reducing the balance from £114m to £82m. Much of this is planned use of earmarked reserves for the purpose they were initially earmarked for. E.g. a grant carried forwards, or for a specific project.

4.18.3 The General Fund Balance at the end of 2024/25 was £31.6m and is forecast to increase to £36.4m which equates to 8.7% of General Fund. The minimum operating level for the council to hold in its general fund would be 5%.

4.18.4 Therefore, the total available reserves is forecast to be in the region of £118m by 31 March 2026.

Reserve	**Opening balance (£m)**	**Forecast closing balance (£m)**	**Movement (£m)**
Earmarked Reserves	114.0	82.0	(32.0)
General Fund Reserve	31.6	36.4	4.8
Total	**145.6**	**118.4**	**(27.2)**

4.18.5 Further concern comes from the rising cumulative DSG deficit which based on the Q2 report is an unmitigated £148m before safety valve partner contributions. Without a national solution to this, the cumulative deficit is on track to exceed all available reserves and so poses a significant risk to the financial viability of the Council. Further detail on

DSG was contained earlier in this report.

4.19 Capital programme and financing

4.19.1 The capital strategy and capital programme for the MTFP period, which totalled almost £550m, was agreed by Council in February 2025.

4.19.2 The 2024/25 capital outturn was reported to Cabinet in June 2025 and the result of that was that there was programme slippage of £22.770m into 2025/26.

4.19.3 This, along with the agreed budget and updates since that date, mean a programme of £491.4m for the next five years, as summarised in the table below.

Capital Programme	Total Budget					
	2025/26	2026/27	2027/28	2028/29	2029/30	Total Budget 24/25-29/30
Full external funding	36,754	2,938	2,768	0	0	42,460
Partial external funding	49,584	35,688	0	0	0	85,272
Partial external funding	0	18,575	31,562	23,084	17,687	90,908
Council funded	29,564	66,882	48,794	19,278	6,395	170,913
Funded from other Reserves	0	0	0	0	0	0
Capital Receipts Applied	9,900	1,000	1,000	1,000		12,900
Minimum Revenue Provision	11,241	12,972	14,602	16,499	16,749	72,063
Self Funded	5,879	4,432	2,850	2,750	1,000	16,911
Total funding	**142,922**	**142,487**	**101,576**	**62,611**	**41,831**	**491,427**

4.19.4 The spend and commitments against the programme of £142.9m at 30 September 2025 was £44.6m (31%). 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 reprofiled within the overall programme.

4.19.5 The project budgets for the current year are outlined below.

Directorate	No. of projects	Project Budget £,000	Spend / Commitments £,000	Variance £,000	% Spent
Adults & Housing	21	9,248	3,504	5,744	38%
Children's	13	10,549	3,323	7,226	31%
Place	114	112,222	36,304	75,918	32%
Public Health & Prevention	1	26	0	26	0%
Corporate	12	10,877	1,445	9,432	13%
Total	**161**	**142,922**	**44,576**	**98,346**	**31%**

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

Directorate	Q1 Budget £,000	Adjustments £,000	Re-profiling £,000	New funding £,000	Q2 Budget £,000
Adults & Housing	8,940	0	0	308	9,248
Children's	17,798	(89)	(12,183)	5,023	10,549
Place	125,502	(6,882)	(9,431)	3,033	112,222
Public Health & Prevention	26	0	0	0	26
Corporate	17,431	0	(6,554)	0	10,877
Total	**169,697**	**(6,971)**	**(28,168)**	**8,364**	**142,922**

4.19.7 Changes to the Capital scheme since the beginning of the financial year include the following items.

4.19.8 There has been an adjustment of £6.6m relating to Vehicle Replacement Funding (2025 to 2029) based on the latest replacement profiles.

4.19.9 There has been re-profiling of £28.2m into future years to more accurately reflect the timing of works and therefore spend incurred. The most significant movements include SEND capital strategy £8.7m; ERP Replacement £5.0m; Dorset Waste Infrastructure - Blandford site £3.9m; Dorset Council Fleet Replacement Programme £2.9m; SOCA Board programme £2.7m and ICT Minor Capital Works & Projects £1.5m.

4.19.10 There has also been new external funding of £8.4m confirmed, most notably SEND capital strategy £5.0m; Local Transport Plan programme of works £2.0m and Local Nutrient Mitigation Fund £1.0m.

4.19.11 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.

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

4.20 Sundry debt management

New invoices for 2025/26

4.20.1 The total value of debts (invoices) raised between 1 April and 30 September 2025 is £127.1m, a breakdown by directorate is shown below:

Total debt raised	2025/26 £'000

Adults & Housing	£37,813
Children's Services	£4,057
Place	£17,321
Corporate	£67,954
Total	**£127,145**

Overall amounts owed

4.20.2 Looking at debt across all years, the balance of sundry debt outstanding at 30 September 2025 was £39.6m, the breakdown is as follows:

Total Debt					
Directorate	**Total due £'000**	**Less than 30 days £'000**	**30-90 days £'000**	**90-365 days £'000**	**Over 365 days £'000**
Adults & Housing	30,234	2,838	1,657	9,038	16,702
Children's Services	904	450	147	99	208
Place	6,123	1,303	675	1,830	2,315
Corporate	2,346	2,006	135	112	93
Grand Total	**39,608**	**6,597**	**2,614**	**11,080**	**19,317**

4.20.3 Of the £39.6m outstanding debt, £30.2m relates to Adults & Housing. This includes amounts associated with deferred payment arrangements and care services provided under gross without prejudice terms.

4.20.4 After adjusting for these the debt which is currently collectable is as follows:

Collectable Debt					
Directorate	**Total due £'000**	**Less than 30 days £'000**	**30-90 days £'000**	**90-365 days £'000**	**Over 365 days £'000**
Adults & Housing	17,129	2,644	600	4,380	9,505
Children's Services	904	450	147	99	208
Place	6,123	1,303	675	1,830	2,315
Corporate	2,345	2,006	134	112	93
Total	**26,501**	**6,403**	**1,556**	**6,421**	**12,121**

Prior year performance

4.20.5 At the end of 2024/25 the Collectable Debt arrears were £43.36m and to date £25.8m (60%) has been collected.

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

Prior year arrears	Amount owed 31/03/2025 £,000	Collected in year £,000	Amount outstanding 30/09/2025 £,000	% collected
Pre 1 April 2019	641	46	595	7%
2019/20	777	1	776	0%
2020/21	1,203	3	1,200	0%
2021/22	1,163	(10)	1,173	-1%
2022/23	1,942	23	1,964	-1%
2023/24	3,247	138	3,109	4%
2024/25	34,383	26,997	7,386	79%
Total	**43,356**	**27,154**	**16,203**	**63%**

Deferred payments

4.20.7 Deferred payments are a form of adult social care debt incurred when Dorset Council provides care services to individuals who own property but may not have sufficient liquid assets to pay for their care immediately. Under the Deferred Payment Scheme, the Council agrees to defer payment for care costs, securing the debt against the individual's property through a legal agreement.

4.20.8 This arrangement allows the individual to delay payment until a later date—typically when the property is sold—at which point the Council recovers the full amount owed. Because the repayment is expected in the future and is secured, deferred payments are not treated as collectable debt in the same way as invoices that are due and payable now. Instead, they are classified separately as future recoverable debt.

Deferred Payments					
Directorate	Total due £'000	Less than 30 days £'000	30-90 days £'000	90-365 days £'000	Over 365 days £'000
Adults & Housing	4,176	(201)	401	1,537	2,440

Gross without prejudice

4.20.9 Gross without prejudice debts arise when Dorset Council provides adult social care services before a full Care Act assessment and financial assessment have been completed. These debts are recorded to reflect the potential liability but are not actively pursued until it is determined whether the individual receiving care is financially responsible for contributing to the cost of their support.

4.20.10 This approach ensures that individuals are not prematurely chased for payment before their eligibility and financial capacity have been properly assessed. As such, these debts are held on record but sit outside the category of collectable debt, which refers to amounts that are confirmed as due and actively recoverable.

Gross Without Prejudice					
Directorate	**Total due £'000**	**Less than 30 days £'000**	**30-90 days £'000**	**90-365 days £'000**	**Over 365 days £'000**
Adults & Housing	8,929	396	656	3,121	4,757

4.21 Write-offs

4.21.1 The value total write-offs processed so far this year is £24k against a collectable debt total of £26.5m, see the table below. Sufficient provision has been made to cover these debts, which represent a relatively minor portion of the total outstanding balance (0.09%).

Debts written off	**2025/26 £'000**
Adults & Housing	25
Children's Services	0
Place	(2)
Corporate	0
Total	**24**

4.22 Council tax and business rates debt management

Council tax

4.22.1 The value of council tax debt raised in 2025/26 is £431.2m and £240.9m has been collected to date. The collection rate at 30 September 2025 is 55.87%, which is slightly less than the corresponding position from the previous year, which was 56.24%.

4.22.2 It is important to highlight that, while the percentage collected is slightly lower than the previous year, the total debit raised in 2025/26 is £38m higher than in 2024/25.

Business rates (non-domestic rates – NDR)

4.22.3 The value of business rates debt raised in 2025/26 is £119.2m and £70.0m has been collected to date. The collection rate at 30 September 2025 is 58.72%, which is slightly less than the corresponding position from the previous year, which was 60.96%.

4.22.4 The initial dip on NDR was anticipated as a reliable taxpayer, with a significant number of liabilities, who has historically paid as a one-off payment at the start of the year, has opted to pay over an instalment plan throughout the year from this year. We are confident full payment will be received, just now throughout the year rather than as a one-off payment

Write offs

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

Debts written off	**2025/26 £'000**
Council tax	60
Business rates	9
Housing Benefit overpayments	22
Total	**91**

4.23 Financial planning, strategy and the MTFP

4.23.1 The Council has already started the process of refreshing the MTFP and developing the budget strategy for 2026/27 which, as well as meeting new pressures, will also need to deal with any ongoing pressures from 2025/26.

4.23.2 More details on the MTFP are contained within another report on this evenings Cabinet agenda.

4.24 Number and extent of contract exemptions

4.24.1 Appendix C includes the number and extent of contract exemptions, and the narrative is included in the appendix.

4.24.2 Contract breaches may occur when suppliers or the council fail to meet agreed terms, such as deadlines or service standards, posing financial, reputational, and legal risks. These breaches are typically operational contract management matters and remain confidential and excluded from standard reporting until they published in accordance with legislation.

4.24.3 Contract exemptions, meanwhile, are permitted in accordance with the council's Contract Procedure Rules ("CPR" which apply to the procurement award and management of contracts for goods, services and works). The council's CPR provide for advance approval to depart from the standard rules, where certain criteria are met; for example, to allow a contract to be awarded directly to one supplier, after investigating the market and identifying the only that supplier could perform the contract. Each exemption request and approval or rejection is documented.

4.24.4 A Section 5 (Local Government and Housing Act 1989) report is a formal legal report issued by the council's Monitoring Officer where it appears that any proposal, decision or omission of the council (by committee or officer) has or is likely to be unlawful or amount to maladministration or injustice. Section 5 reports, follow a separate public process and are not included in the paper. The Monitoring Officer has not issued any such reports in 2025/26.

4.25 Summary, conclusions and next steps

4.25.1 To conclude, Dorset Council's outlook for 2025/26 has improved Period 4 to Quarter 2 yet remains challenging, with significant pressures from rising demand, inflation, and systemic underfunding. The Council's leadership is taking decisive steps to strengthen budgetary controls, accelerate transformation initiatives, and closely monitor savings delivery across all directorates.

4.25.2 Despite these efforts, the projected overspend and the growing Dedicated Schools Grant deficit underscore the need for continued vigilance and adaptability. The Council's reserves are forecast to reduce by year-end, highlighting the importance of prudent financial management and strategic prioritisation of resources.

4.25.3 Looking ahead, the Council must remain agile in responding to both local and national financial risks. The budget gap for 2026/27 will require a fundamental reprioritisation of service delivery to ensure long-term sustainability. Continued engagement with government partners, robust risk management, and transparent reporting will be essential as we navigate this period. By maintaining a clear focus on strategic objectives and embracing innovation in service delivery, the Council aims to safeguard its financial health and continue delivering high-quality services to the community.

5. Alternative options considered

5.1 As part on the in year monitoring and budget setting for next year the council will give consideration to varying degrees of introduced enhanced cost containment measures, reprofiling or deferral of capital projects, additional use of reserves, service redesign or reduction, income generation, lobbying and external funding, alternative savings approaches, contract management.

6. Legal considerations

6.1 Requirement to Set a Balanced Budget

The council is legally required to set a balanced budget each year and must deliver services within the resources available through the revenue and capital budgets for 2025/26.

6.2 Contract Procedure Rules (CPR)

The council's CPRs apply to the procurement, award, and management of contracts for goods, services, and works.

6.3 Section 5 Reports

Under the Local Government and Housing Act 1989, a Section 5 report is a formal legal report issued by the council's Monitoring Officer if any proposal, decision, or omission appears to be unlawful or amount to maladministration or injustice.

6.4 Statutory Override for DSG Deficit

The Dedicated Schools Grant (DSG) deficit is kept off the council's balance sheet due to a statutory override, which has been extended to March 2028.

7. Financial Implications

7.1 Financial implications are covered within the body of this report.

8. Natural environment, climate and ecology implications

8.1 The Council's budget continues to fund action set out in the climate and ecological emergency action plan, including a £25m capital expenditure commitment over the term of the current MTFP.

9. Well-being and Health Implications

9.1 The Council has continued its focus on keeping people safe and well, it works closely with health partners in order to ensure that public services as a whole work closely to help people stay well.

9.2 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.

10. Other implications

10.1 None specific.

11. Risk implications

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

Current Risk: High
Residual Risk: High

11.2 The residual risk reflects the operating environment for council finances across the UK as these are under extreme pressure.

11.3 The current risk reflects pressures faced by this Council and are outlined within the commentary on the revenue budgets and Dedicated Schools Grant (DSG) position.

11.4 Revenue budget - mitigation will be required to prevent further draws on reserves which have reduced from 2023/24 to 2025/26 and will reduce further if required to meet the forecast revenue overspend.

11.5 DSG - looking ahead, further pressure on the Council's reserves comes from the cumulative deficit on the DSG, which is forecast to exceed available reserves by the end of 2025/26. Whilst an extension has been agreed to the statutory override to March 2028, the cashflow pressure remains.

11.6 The Fair Funding Review 2.0 consultation on the revised funding from Central Government and delays to SEND reform 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. With further details expected in late November as part of the Autumn Budget and late December as part of the Provisional Local Government Finance Settlement (LGFS)

11.7 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 (2026/27) should be expected to widen
ii. delivering a balanced budget to require a reprioritisation of service delivery to ensure ongoing financial sustainability.

5. 12. Equalities

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

6. 13. Appendices

13.1 Appendix A - Savings Plans

Appendix B – Climate Wheel

Appendix C – Contract Exemptions

Appendix D – Cabinet approval

7. 14. Background Papers

14.1 2024/25 draft outturn report
2025/26 budget strategy report

15. Report sign-off

15.1 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).

Appendix A - Savings

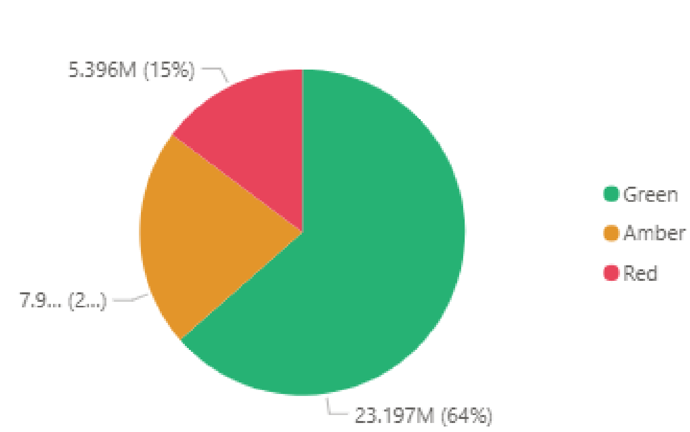
Total Savings 25/26

36.51M

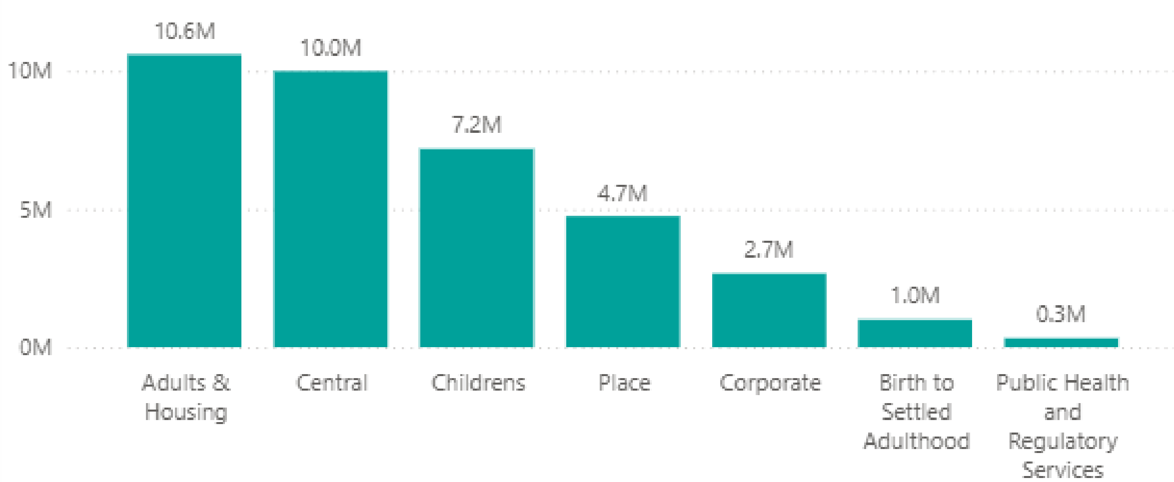
Savings Delivered to Date

16.576M

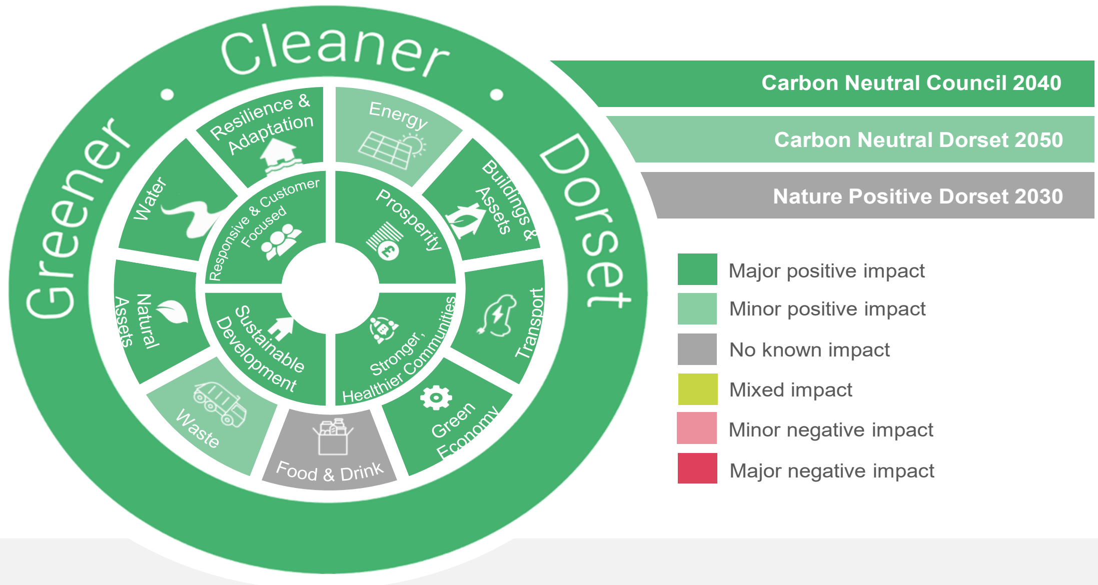
RAG Status



Total Savings 25/26 by Directorate



Appendix B – Climate wheel



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	

Appendix C

Commercial Exemptions April to September 2025.

The table below gives the data for the exemptions that have taken place between April and September 2025, the data includes the number of exemptions per directorate and the extent (value) of these exemptions.

Exemptions	Number of exemptions *	Total value of exemptions (£ to nearest £100,000)*
Adults	1	£100,000
Children's	1	£20,000
Corporate	0	£0.00
Place	7	£900,000
Public Health	0	£0.00
Total	**9**	**£1,020,000**

*Data is correct as submitted by internal stakeholders.

Many of the extensions relate to Place, approximately 80% of the value of the Place exemptions (£731,458) relate to two exemptions, one was for urgent work that was required for repairs and the second for additional sites requiring Micro Asphalting.

Commercial Exemptions August to September 2025.

The table below gives the data for the exemptions that have taken place between August and September 2025, the data includes the number of exemptions per directorate and the extent (value) of these exemptions.

Exemptions	Number of exemptions *	Total value of exemptions (£ to nearest £100,000)*
Adults		
Children's		
Corporate		
Place	1	£300,000
Public Health		
Total	1	£300,000

*Data is correct as submitted by internal stakeholders.

There is only 1 exemption for Place during this period, and this is for additional sites requiring Micro Asphalt.

Appendix D – Cabinet approval

November 2025 Cabinet Procurement Plan Report – briefing note

Procurement Title: IMPOWER – Valuing Care Phase 2

Procurement Title
IMPOWER Valuing Care Phase 2
Purpose of the Procurement To seek Cabinet approval to award IMPOWER to deliver Phase 2 of the Valuing Care programme. This builds on Phase 1 (May – Nov 2025), which successfully introduced a needs-led approach to care commissioning, delivering early savings and improved outcomes. **Strategic Context** As with all local authorities Dorset Council continues to face significant financial pressures in children's social care, driven by rising demand and placement sufficiency challenges. The Valuing Care programme directly addresses these issues by linking children's needs to care and cost, enabling smarter commissioning and better outcomes. Phase 1 focused on establishing the Valuing Care methodology and building internal capability. During this time, 106 children had Valuing Care profiles completed. Social Workers identified that 55 of these children had opportunities to do something different in terms of care and support. Of these, 53 children have already been discussed at the Valuing Care Panel, with two further discussions scheduled. As a result of these panels, 36 opportunities to do something different have been validated. Valuing Care has already played a part in a child moving from an external residential home to an internal foster carer, resulting in an annualised cost reduction of £488k to date in year. Further planned moves and changes in care arrangements that are expected to deliver a £316,000 cost reduction in the current financial year (2025/26), with a further £3.4 million expected in 2026/27. The remaining savings will be realised in 2027/28, as the cost reduction profile is spread out over time due to the pace at which children can safely move, as agreed at Panel. Phase 1 also delivered a forecasting model, trained over 60 professionals, and embedded a new way of linking children's needs to cost and provision, laying the groundwork for smarter commissioning and improved outcomes. Phase 2 aligns with: • **Our Future Council** transformation priorities • **Council Plan** objectives for financial sustainability and improved outcomes for children • **Children, Young People and Families Plan**, delivering Good Care Provision to children in our care • **Dorsets Sufficiency Strategy**, ensuring we have sufficient range of care settings (fostering/residential care) in Dorset • **Better Homes Panels** delivery oversight **Scope and Flexibility** Phase 2 will:

• Support the ongoing realisation of opportunities identified from phase 1 • Embed and scale the Valuing Care approach • Strengthen commissioning intelligence • Improve foster carer utilisation • Deliver validated savings Phase 2 will embed and scale the Valuing Care approach, strengthen placement sufficiency, improve foster carer utilisation, and integrate the methodology into Mosaic and quality assurance frameworks and deepen provider engagement. The investment represents strong value for money, with a validated £4.2 million cost reduction already forecast and further savings anticipated through additional cohort work. IMPOWER's proprietary tools, sector expertise, and proven track record make them uniquely positioned to deliver the required outcomes at pace, supporting Dorset's long-term vision for sustainable improvement in children's services. **Built-in flexibility includes:** • Additional cohort profiling • Integration with Mosaic and QA frameworks • Alignment with transformation programmes • Potential scope extension if further savings are identified
Estimated Value: What is the total value (include potential change)?
This work increases the total contract value from £480,000 (Phase 1) to £940,000, as the charge for Phase 2 is £460,000. This exceeds the £500,000 Cabinet approval threshold. The programme is expected to deliver validated annualised savings of £4.2 million, with a minimum return on investment of 4:1 and potential to reach 8:1.
Contract Duration: 6 months (November 2025 – April 2026)
Procurement Procedure: Direct award via framework

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Audit and Governance Committee
24 November 2025
Treasury Management Mid-Year Update
For Decision

Cabinet Member:
Cllr S Clifford, Finance & Capital Strategy

Local Councillor(s):

Senior Leadership Team:
S Cremer, Corporate Director, Section 151 Officer

Report author: David Wilkes
Job title: Service Manager (Treasury and Investments)
Email: investments@dorsetcouncil.gov.uk

Statutory Authority: Dorset Council

Report status: Public (the exemption paragraph is N/A)

Executive summary (maximum of 500 words)

This report summarises the treasury management performance and position information for Dorset Council for the six months to 30 September 2025.

Treasury management at the Council is conducted within the framework of CIPFA's Treasury Management Code of Practice. In adopting the code, recommended best practice is for members to approve an annual treasury management strategy report, and to then receive a mid-year update on progress against the strategy (this report) and a year-end review of actual performance against the strategy.

All treasury management activity in the year to 30 September 2025 complied with the limits and parameters included in the Treasury Management Strategy for 2025/26 approved by full Council February 2025.

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).

The CFR at 31 March 2026 is forecast to be £465mm, up £31m from £434m at the start of the year but £5m below the budget of £470m when the capital strategy was approved by full Council in February 2025.

The Council’s total external borrowing at 30 September 2025 was £276m, compared to £292m at 31 March 2025, and is forecast to increase to £325m by 31 March 2026, compared to the budget of £360m. The total interest paid servicing external debt for the year is forecast to be £13.0m compared to the budget of £13.9m.

The difference between the CFR and external debt is financed by ‘internal borrowing’ which is the use of reserves, working capital and other balance sheet resources that would otherwise have been invested had they not been uses to ‘offset’ the Council’s borrowing requirement.

At 30 September 2025 the Council held cash and treasury investments of £93m compared to £63m at 31 March 2025 and is forecast to fall to £35m by 31 March 2026, compared to the budget of £65m. The total interest and investment income for the year is forecast to be £4.0m compared to a budget of £4.0m.

Recommendation(s)

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

Reason for the recommendation(s)

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 2025/26 was approved by a meeting of Dorset Council on 11 February 2025.

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 Over the course of the financial year to date the Bank of England's Monetary Policy Committee (MPC) reduced Bank Rate from 4.5% to 4.25% in May and to 4.0% in August. One more cut is widely expected before 31 March 2026, taking Bank Rate to 3.75%. The Bank Rate is important for the Council's treasury activities because the returns on cash balances tend to follow this quite closely as do short term borrowing rates. Interest rates on long term borrowing are more closely aligned to interest rates on government borrowing ('gilts') which held up higher than expected due to upward pressure on the level of expected government borrowing.

2.3 A detailed commentary on the external context provided by Arlingclose is included in Appendix 1 together with their most recent economic and interest rate forecast in Appendix 2.

3. Local Context

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

Table 1: Balance Sheet Summary

	31-Mar 2025 Actual £m	30-Sep 2025 Actual £m	31-Mar 2026 Budget £m	31-Mar 2026 Forecast £m
Capital Financing Requirement (CFR)	**434**	**440**	**470**	**465**
Less: PFI and other debt liabilities	34	34	35	35
Loans CFR (underlying borrowing requirement)	**400**	**406**	**435**	**430**
External borrowing	**292**	**276**	**360**	**325**
Internal Borrowing	**108**	**130**	**75**	**105**
Cash and Investments	**63**	**93**	**65**	**35**

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

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

3.4 The CFR is forecast to rise by about £30m over the year to roughly £465m, less than budgeted due to slippage in delivering the capital programme. External borrowing is forecast to increase by about £33m over the year, higher than the increase in CFR as the Council is expected to have less reserves available to support 'internal borrowing' than it did at the beginning of the year.

3.5 CIPFA's 2021 Prudential Code makes 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 authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Council has no plans to borrow to invest primarily for financial return

3.6 The treasury management position at 30 September 2025 and the forecast position for 31 March 2026 are shown in Table 2 below.

Table 2: Treasury Management Summary

	31.03.25 Actual £m	30.09.25 Actual £m	31.03.26 Forecast £m
Long-term borrowing			
PWLB*	145.6	144.3	178
LOBO loans**	11.0	11.0	11
Other	85.6	85.6	86
Short-term borrowing	50.0	35.0	50
Total Borrowing	**292.2**	**275.9**	**325**
Long-term investments	19.3	19.0	5
Short-term investments	8.4	8.5	0
Cash and cash equivalents	35.5	65.9	30
Total Investments	**63.2**	**93.4**	**35**
Net Borrowing	**229.0**	**182.5**	**290**

*Public Works Loan Board loans from the UK Debt Management Office.
**Lender Option Borrower Option loans.

4. Borrowing

4.1 At 30 September 2025 the Council held £276m of loans, a net decrease of £16m from 31 March 2025, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans as at 30 September 2025 are summarised in Table 3 below.

Table 3: External Borrowing

	31.03.25 Balance £m	Net Movement £m	30.09.25 Balance £m	30.09.25 Average Rate %	30.09.25 Average Maturity (years)
Public Works Loan Board	145.6	-1.3	144.3	4.6%	11.5
Banks (fixed-term)	11.0	14.6	25.6	4.7%	52.1
Banks (LOBO*)	25.6	-14.6	11.0	4.6%	51.6
Local authorities (long-term)	15.0	0.0	15.0	4.4%	34.7
Local authorities (short-term)	50.0	-15.0	35.0	4.6%	1.0
Other lenders (fixed-term)	45.0	0.0	45.0	3.3%	41.5
Total Borrowing	**292.2**	**-16.3**	**275.9**	**4.4%**	**21.7**

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. 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.

4.3 The Council held £11m of Lender's Option Borrower's Option (LOBO) loans at 30 September 2025. 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).

4.4 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 30 September 2025 was estimated at £34m.

5. Cash and Treasury Investments

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

5.2 Cash, cash equivalents and treasury investments held on 30 September 2025 are summarised in Table 4 below.

Table 4: Cash and Investments Summary

	31.03.25 Balance £m	Net Movement £m	30.09.25 Balance £m
Cash and Cash Equivalents	**35.5**	**30.4**	**65.9**
Investments:			
Short-dated bond funds	2.9	0.0	2.9
Strategic bond funds	5.6	0.1	5.6
Property funds	19.3	-0.3	19.0
Total Investments	**27.7**	**-0.2**	**27.5**
Total Cash and Investments	**63.2**	**30.2**	**93.4**

5.3 Both the CIPFA Code and government guidance require local authorities to invest funds prudently, and to have regard to the security and liquidity of treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.4 The Council holds investments in bond 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 £27.5m in total as at 30 September 2025.

6. Treasury Performance

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

Table 5: Treasury Performance

	Budget £m	Forecast £m	Variance £m	
Interest Payable	13.9	13.0	0.9	F
Interest and Investment Income	-4.0	-4.0	0.0	F
Net Payable / (Receivable)	**9.9**	**9.0**	**0.9**	**F**

7. Compliance

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

7.2 The Council is legally obliged to set an affordable borrowing limit (the 'authorised limit') for external debt each year and a lower 'operational boundary' is also set as a warning level should debt approach the authorised limit. Compliance with the both the authorised limit and operational boundary for external debt is shown in Table 6 below.

Table 6: Debt Limits

	Maximum 2025-26 £m	30.09.25 Actual £m	Operational Boundary £m	Authorised Limit £m
Total Capital Financing	**326**	**310**	**495**	**520**

7.3 Compliance with the limits on cash and treasury investments is demonstrated in Appendix 3.

8. Treasury Management Prudential Indicators

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

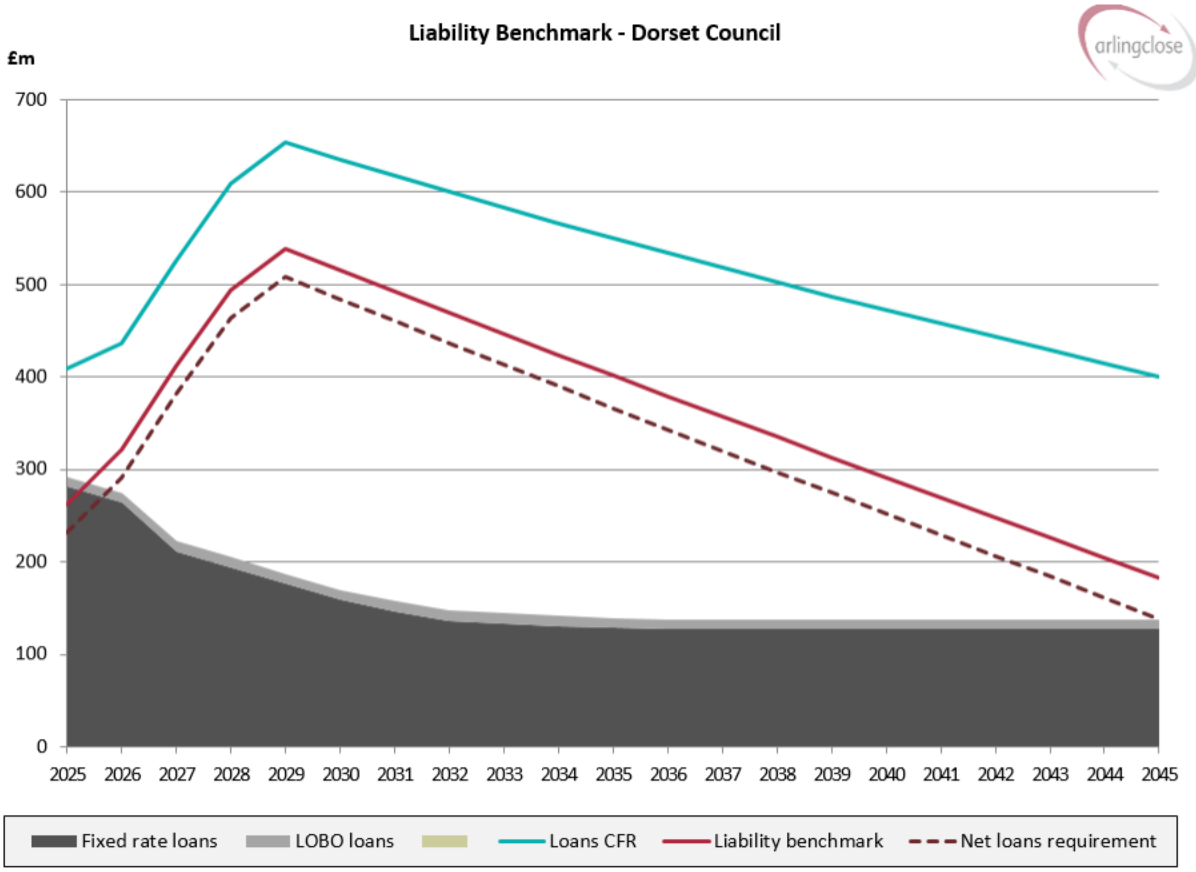
8.2 **Liability Benchmark:** This indicator compares the Council's actual existing borrowing against a 'liability benchmark' calculated to show the lowest possible level of external borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor 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 treasury investments at a minimum 'liquidity allowance' to manage day-to-day cash flows.

Table 7: Liability Benchmark (medium term forecast)

	31.03.25 Actual £m	31.03.26 Forecast £m	31.03.27 Forecast £m	31.03.28 Forecast £m
Loans CFR (underlying borrowing requirement)	**400**	**430**	**520**	**600**
Less: Balance sheet resources	171	145	145	145
Net loans/borrowing requirement	**229**	**285**	**375**	**455**
Plus: Liquidity allowance	30	30	30	30
Liability Benchmark	**259**	**315**	**405**	**485**
External Borrowing	**292**	**325**	**415**	**495**

8.3 The long-term liability benchmark based on the most recent capital programme is shown in the chart below together with the maturity profile of the Council's borrowing as at 30 September 2025.

Chart 1: Liability Benchmark (long term forecast)



8.4 The ‘gap’ between the solid red line (liability benchmark) and the grey shaded areas (existing borrowing) indicates the minimum amount and duration of additional external borrowing the Council is expected to need to fund the capital programme over the next twenty years.

8.5 **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. The credit score of money market funds is calculated from the fund’s underlying investments and unrated investments are assigned a score based on their perceived risk.

Table 8: Security

	2025/26 Target	30.09.25 Actual	Complied Yes/No
Portfolio average credit score	< 6	4.9	Yes

8.6 **Liquidity**: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period without additional borrowing. In addition, the Council aims to hold a minimum of £10m readily available in same day access bank accounts and Money Market Funds.

Table 9: Liquidity

	2025/26 Target £m	2025/26 Min £m	30.09.25 Actual £m	Complied Yes/No
Total cash available within 1 day	> 10	30	66	Yes
Total cash available within 3 months	> 30	39	74	Yes

8.7 **Interest Rate Exposure**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests were:

Table 10 Interest Rate Exposure

	2025/26 Target £000s	30.09.25 Actual £000s	Complied Yes/No
Upper limit on one-year revenue impact of a 1% rise in interest rates	< 1,000	471	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	< 1,000	-471	Yes

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

8.9 **Sums invested for periods longer than a year**: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested at the period end were:

Table 11: Investments longer than one year

	2025/26 £m	2026/27 £m	2027/28 £m	No fixed date £m
Limit on principal invested beyond one year	30.0	20.0	10.0	100.0
Actual principal invested beyond one year	0.0	0.0	0.0	27.5
Complied (Yes/No)	Yes	Yes	Yes	Yes

8.10 Long-term investments with no fixed maturity date include strategic pooled funds but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term cash and cash equivalents.

8.11 **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 12: Maturity Structure of Borrowing

	30.09.25 Actual £m	% of Total Borrowing	Upper Limit	Lower Limit	Complied Yes/No
Under 12 months	35.0	12.7%	30%	0%	Yes
1 to 2 years	15.0	5.4%	30%	0%	Yes
2 to 5 years	45.0	16.3%	30%	0%	Yes
5 to 10 years	17.5	6.3%	35%	0%	Yes
10 to 20 years	25.0	9.1%	35%	0%	Yes
20 to 30 years	41.8	15.2%	45%	0%	Yes
30 to 40 years	15.0	5.4%	45%	0%	Yes
40 to 50 years	45.0	16.3%	45%	0%	Yes
50 years and above	36.6	13.3%	50%	0%	Yes
Total	**275.9**	**100.0%**			

9. Alternative options considered

9.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium

Alternative	Impact on income and expenditure	Impact on risk management
		term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

10. Legal considerations

10.1 None identified.

11. Financial implications

11.1 This report summarises the performance of the Council's treasury management activity in the six months to 30 September 2025. There are no other financial implications arising from this report.

12. Natural environment, climate & ecology implications

12.1 None identified.

13. Well-being and health implications

13.1 None identified.

14. Other implications

14.1 None identified.

15. Risk implications

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

Current Risk: HIGH
Residual Risk: Medium

16. Equalities

16.1 There are no equalities implications arising from this report.

17. Appendices

Appendix 1: External Context (Arlingclose 6 October 2025)
Appendix 2: Economic and Interest Rate Forecast (Arlingclose 24 September 2025)

Appendix 3: Compliance with Investment Limits
Appendix 4: Glossary of Treasury Management Terms

18. Background papers

Budget Report Appendix 3 - Capital Strategy 2025-28 v1 plus cap programme.pdf
Budget Report - Appendix 4 - TM Strategy 2025-26 v2.pdf

19. Report sign-off

19.1 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 Corporate Director for Corporate Development (Section 151 Officer) and the appropriate Portfolio Holder(s)

Appendix 1: External Context (Arlingclose 6 October 2025)

Economic background: The first quarter was dominated by the fallout from the US trade tariffs and their impact on equity and bond markets. The second quarter, still rife with uncertainty, saw equity markets making gains and a divergence in US and UK government bond yields, which had been moving relatively closely together.

From late June, amid a UK backdrop of economic uncertainty, concerns around the government's fiscal position and speculation around the autumn Budget, yields on medium and longer term gilts pushed higher, including the 30-year which hit its highest level for almost 30 years.

UK headline annual consumer price inflation (CPI) increased over the period, rising from 2.6% in March to 3.8% in August, still well above the Bank of England's 2% target. Core inflation also rose, from 3.4% to 3.6% over the same period, albeit the August reading was down % from 3.8% the previous month. Services inflation also fell from July to August, to 4.7% from 5.0%.

The UK economy expanded by 0.7% in the first quarter of the calendar year and by 0.3% in the second quarter. In the final version of the Q2 2025 GDP report, annual growth was revised upwards to 1.4% y/y. However, monthly figures showed zero growth in July, in line with expectations, indicating a sluggish start to Q3.

Labour market data continued to soften throughout the period, with the unemployment rate rising and earnings growth easing, but probably not to an extent that would make the more hawkish MPC members comfortable with further rate cuts. In addition, the employment rate rose while the economic inactivity rate and number of vacancies fell.

The BoE's Monetary Policy Committee (MPC) cut Bank Rate from 4.5% to 4.25% in May and to 4.0% in August after an unprecedented second round of voting. The final 5-4 vote was for a 25bps cut, with the minority wanting no change. In September, seven MPC members voted to hold rates while two preferred a 25bps cut. The Committee's views still differ on whether the upside risks from inflation expectations and wage setting outweigh downside risks from weaker demand and growth.

The August BoE Monetary Policy Report highlighted that after peaking in Q3 2025, inflation is projected to fall back to target by mid-2027, helped by increasing spare capacity in the economy and the ongoing effects from past tighter policy rates. GDP is expected to remain weak in the near-term while over the medium term outlook will be influenced by domestic and global developments.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would be cut further as the BoE focused on weak GDP growth more than higher inflation. One more cut is currently expected during 2025/26, taking Bank Rate to 3.75%. The risks to the forecast are balanced in the near-term but weighted to the downside further out as weak consumer sentiment and business confidence and investment continue to constrain growth. There is also considerable uncertainty around the autumn Budget and the impact this will have on the outlook.

Against a backdrop of uncertain US trade policy and pressure from President Trump, the US Federal Reserve held interest rates steady for most of the period, before cutting the Fed Funds Rate to 4.00%-4.25% in September. Fed policymakers also published their new economic projections at the same time. These pointed to a 0.50% lower Fed Funds Rate by the end of 2025 and 0.25% lower in 2026, alongside GDP growth of 1.6% in 2025, inflation of 3%, and an unemployment rate of 4.5%.

The European Central Bank cut rates in June, reducing its main refinancing rate from 2.25% to 2.0%, before keeping it on hold through to the end of the period. New ECB projections predicted inflation averaging 2.1% in 2025, before falling below target in 2026, alongside improving GDP growth, for which the risks are deemed more balanced and the disinflationary process over.

Financial markets: After the sharp declines seen early in the period, sentiment in financial markets improved, but risky assets have generally remained volatile. Early in the period bond yields fell, but ongoing uncertainty, particularly in the UK, has seen medium and longer yields rise with bond investors requiring an increasingly higher return against the perceived elevated risk of UK plc. Since the sell-off in April, equity markets have gained back the previous declines, with investors continuing to remain bullish in the face of ongoing uncertainty.

Over the period, the 10-year UK benchmark gilt yield started at 4.65% and ended at 4.70%. However, these six months saw significant volatility with the 10-year yield hitting a low of 4.45% and a high of 4.82%. It was a broadly similar picture for the 20-year gilt which started at 5.18% and ended at 5.39% with a low and high of 5.10% and 5.55% respectively. The Sterling Overnight Rate (SONIA) averaged 4.19% over the six months to 30th September.

Credit review: Arlingclose maintained its recommended maximum unsecured duration limit on the majority of the banks on its counterparty list at 6 months. The other banks remain on 100 days.

Early in the period, Fitch upgraded NatWest Group and related entities to AA- from A+ and placed Clydesdale Bank's long-term A- rating on Rating Watch Positive. While Moody's downgraded the long term rating on the United States sovereign to Aa1 in May and also affirmed OP Corporate's rating at Aa3.

Then in the second quarter, Fitch upgraded Clydesdale Bank and also HSBC, downgraded Lancashire CC and Close Brothers while Moody's upgraded Transport for London, Allied Irish Banks, Bank of Ireland and Toronto-Dominion Bank.

After spiking in early April following the US trade tariff announcements, UK credit default swap prices have since generally trended downwards and ended the period at levels broadly in line with those in the first quarter of the calendar year and throughout most of 2024.

European banks' CDS prices has followed a fairly similar pattern to the UK, as have Singaporean and Australian lenders while Canadian bank CDS prices remain modestly elevated compared to earlier in 2025 and in 2024.

Overall, at the end of the period CDS prices for all banks on Arlingclose's counterparty list remained within limits deemed satisfactory for maintaining credit advice at current durations.

Financial 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.

Appendix 2: Economic and Interest Rate Forecast (Arlingclose 24 September 2025)

The MPC voted 7-2 to maintain Bank Rate at 4.0% in September, in line with both our and wider market expectations. While continuing to signal the expectation of "gradual and careful" policy easing, the MPC minutes also emphasised some committee members' concerns about second round inflation effects. The shift in MPC focus over the past few months has increased uncertainty over the timing of the next rate cut.

Inflation remained at 3.8% in August, but the expectation is for the CPI rate to peak around 4% this month and remain elevated into next year. The rise is largely the result of higher food and regulated prices, and labour costs. Services inflation remains elevated but has eased recently. Inflation expectations have picked up, but this is likely largely the result of the noticeable rise in food prices.

Spare capacity has opened up in the labour market and wage growth is slowly moderating, which should place further downward pressure on services inflation.

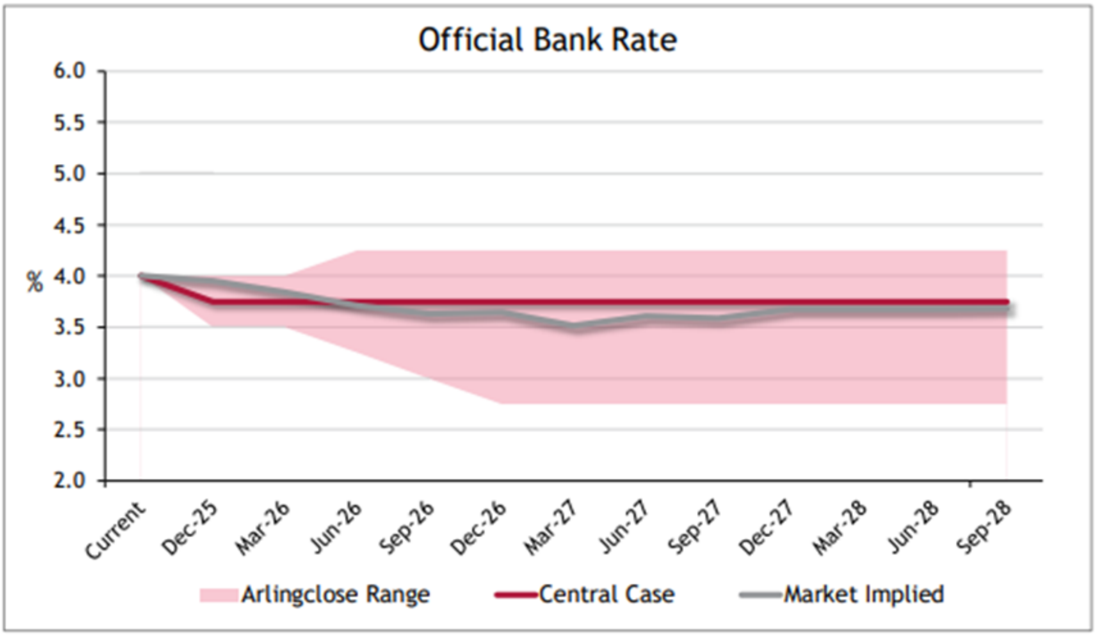
Underlying GDP growth remains subdued. While H1 2025 has been relatively strong, this was partly due to one-off factors. Q3 GDP growth is likely to slow, with July's GDP figures suggesting a lack of momentum. Downside risks persist, most notably the rising probability of fiscal tightening in the Budget.

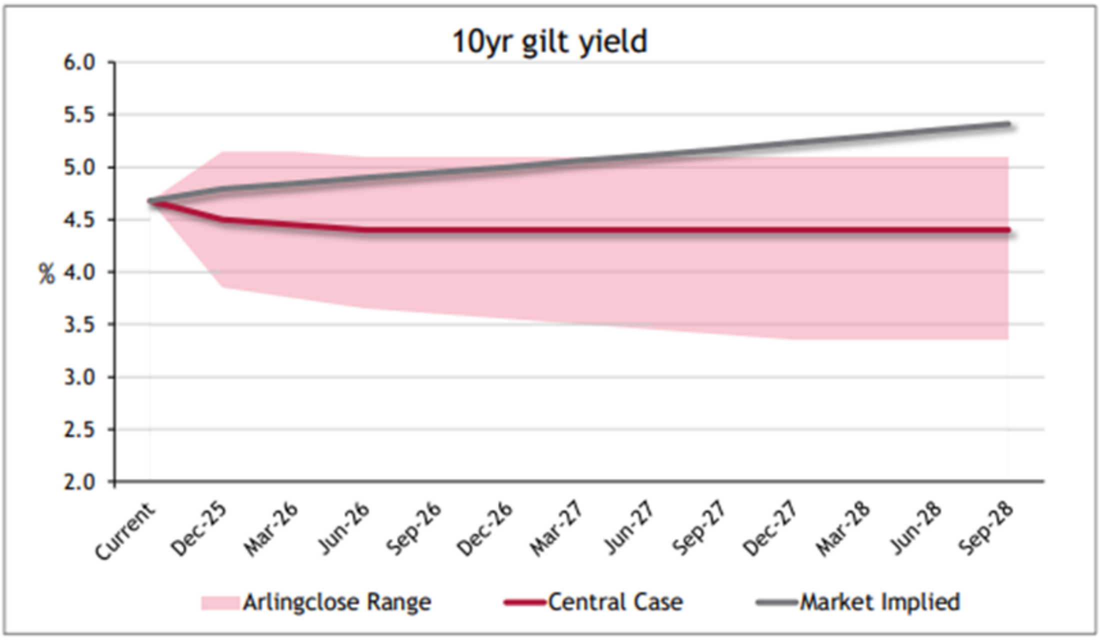
Business investment is lacklustre and private sector output is constrained by weaker domestic demand and spending. Ongoing uncertainty over the global outlook is still discouraging capital investment, particularly in the manufacturing sector.

As the government struggles to meet fiscal rules amid a seeming lack of market confidence, fiscal consolidation is likely in the next Budget. This may place downward pressure on consumption and therefore economic growth.

Our view remains that the risks to growth are weighted to the downside. While upside risks to inflation remain over the short-term, these wane into the second half of 2026. The MPC's stance, however, suggests the chance of a Q4 reduction in Bank Rate has declined.

Gilt yields remain elevated, driven by concerns around UK and US fiscal credibility, general anxiety about bond issuance levels, and uncertainty over the impact of US monetary and trade policy. While the MPC reduced QT, due to these factors, longer term yields continue to include high term premia, the persistence of which is difficult to estimate.


Official Bank Rate
6.0
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
%
Current
Dec-25
Mar-26
Jun-26
Sep-26
Dec-26
Mar-27
Jun-27
Sep-27
Dec-27
Mar-28
Jun-28
Sep-28
Arlingclose Range
Central Case
Market Implied


10yr gilt yield
6.0
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
%
Current
Dec-25
Mar-26
Jun-26
Sep-26
Dec-26
Mar-27
Jun-27
Sep-27
Dec-27
Mar-28
Jun-28
Sep-28
Arlingclose Range
Central Case
Market Implied

Appendix 3: Compliance with Investment Limits

Compliance with Counterparty Limits

	2025/26 Maximum £m	30.09.25 Actual £m	2025/26 Limit £m	Complied Yes/No
UK Government	0	0	Unlimited	Yes
Local authorities & other government entities	0	0	30	Yes
Secured investments*	0	0	30	Yes
Banks (unsecured)*	4.3	1.1	15	Yes
Building societies (unsecured)*	0	0.0	15	Yes
Registered providers (unsecured)*	0	0.0	15	Yes
Money Market Funds*	23.8	13.2	30	Yes
Strategic pooled funds	16.8	16.8	20	Yes
Real Estate Investment Trusts	0	0	20	Yes
Other investments*	0	0	15	Yes

Compliance with Sector Limits

	2025/26 Maximum £m	30.09.25 Actual £m	2025/26 Limit £m	Complied Yes/No
Local authorities & other government entities	0	0	Unlimited	Yes
Secured investments*	0	0	Unlimited	Yes
Banks (unsecured)*	4.3	1.1	Unlimited	Yes
Building societies (unsecured)*	0	0.0	30	Yes
Registered providers (unsecured)*	0	0.0	30	Yes
Money Market Funds*	129.0	64.8	Unlimited	Yes
Strategic pooled funds	27.7	27.5	150	Yes
Real Estate Investment Trusts	0	0	100	Yes
Other investments*	0	0	30	Yes

***Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, secured deposits and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds, including exchange traded funds, that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but can be either withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and unsecured loans to companies and universities. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

Appendix 4: Glossary of Treasury Management Terms

Annuity	A method of repaying a loan where the cash payment remains constant over the life of the loan, but the proportion of interest reduces and the proportion of principal repayment increases over time. Repayment mortgages and personal loans tend to be repaid by the annuity method.
Balance sheet resources	Arlingclose term for the sum of *usable reserves* and *working capital*. Equal to the difference between the *loans CFR* and the *net loans requirement*.
Bank Rate	The official interest rate set by the *Monetary Policy Committee*, and the rate of interest paid by the *Bank of England* on commercial bank deposits. Colloquially termed the "base rate".
Bond	A certificate of *long-term* debt issued by a company, government, or other institution, which is tradable on financial markets.
Bond fund	A *collective investment scheme* that invests mainly in *bonds*.
Call account	A *deposit* account that can be called back, normally on instant access.
Capital	**(1)** Long-term, as in *capital expenditure* and *capital receipt.* **(2)** Principal, as in *capital gain* and capital value. **(3)** Investments in *financial institutions* that will absorb losses before *senior unsecured creditors.*
Capital expenditure	Expenditure on the acquisition, creation or enhancement of fixed assets that are expected to provide value for longer than one year, such as property and equipment, plus expenditure defined as capital in legislation such as the purchase of certain investments and expenditure directed by the government to be treated as capital.
Capital finance	Arranging and managing the cash required to finance *capital expenditure*, and the associated accounting.
Capital financing requirement (CFR)	A local authority's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with *capital expenditure* and decreases with *capital finance* and *MRP*.
Capital receipt	Cash obtained from the sale of an item whose purchase would be *capital expenditure*. The law only allows local authorities to spend capital receipts on certain items, such as new capital expenditure. They are therefore held in a capital receipts reserve until spent.
Capital strategy	An annual report required by the *Prudential Code* that sets out a local authorities' high-level plans for capital expenditure, debt and investments and its *Prudential Indicators* for the forthcoming financial year.
Cash equivalent	Accounting term for short-term investments readily convertible to cash with an insignificant risk of change in value.
Collective investment scheme	Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').

Commercial investment	An investment whose main purpose is generating income, such as *investment property*.
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty limit	The maximum amount an investor is willing to lend to a *counterparty*, in order to manage *credit risk*.
Country limit	The maximum amount an investor is willing to lend to all *counterparties* based in a foreign country, in order to manage *credit risk*.
Coupon	The contractual interest rate payable on a *bond*, as a percentage of the *nominal* amount. This normally reflects market conditions when the bond was originally issued.
Credit default swap (CDS)	*Derivative* for swapping *credit risk* on a particular issuer, similar to an insurance policy where the buyer pays a *premium* against the risk of default. Also used as an indicator of credit risk: the higher the premium, the higher the perceived risk.
Credit rating	Formal opinion by a *credit rating agency* of a *counterparty*'s future ability to meet its financial obligations. As it is only an opinion, there is no guarantee that a highly rated organisation will not default.
Credit rating agency	An organisation that publishes *credit ratings*. The three largest agencies are Fitch, Moody's and Standard & Poor's but there are many smaller ones.
Credit risk	The risk that a *counterparty* will *default* on its financial obligations.
DMADF	Debt Management Account Deposit Facility – a facility offered by the *DMO* enabling local authorities to deposit cash at very low *credit risk*. Not available in Northern Ireland.
DMO	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.
EIP	Equal instalments of principal. A method of repaying a loan where the principal is repaid over the life of the loan, in equal instalments. Interest payments reduce over time as the principal is repaid.
Equity fund	A *collective investment scheme* that mainly invests in company *shares.*
FCA	Financial Conduct Authority – UK agency responsible for regulating financial markets and the conduct of *financial institutions*, *brokers*, *custodians*, *fund managers* and *treasury management advisors*.
Gilt	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
Gilt yield	*Yield* on *gilts*. Commonly used as a measure of risk-free long-term interest rates in the UK.
Interest rate risk	The risk that unexpected changes in interest rates cause an unplanned loss, for example by increased payments on borrowing or lower income on investments.

Internal borrowing	A local government term for when actual "external" *debt* is below the *capital financing requirement*, indicating that difference has been borrowed from internal resources instead; in reality this is not a form of borrowing.
Liability benchmark	Term in CIPFA's *Treasury Management Code* which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level. Used to compare the actual and forecast levels of borrowing.
Liquidity risk	The risk that cash will not be available to meet financial obligations, for example when investments cannot be recalled and new loans cannot be borrowed.
Loans CFR	The *capital financing requirement* less the sum met by *other long-term liabilities*; i.e. the underlying need to borrow for capital purposes.
LOBO	Lender's option borrower's option – a long-term loan where the lender has the option to propose an increase in the interest rate on pre-determined dates. The borrower then has the option to either accept the new rate or repay the loan without penalty. LOBOs increase the borrower's interest rate risk and the loan should therefore attract a lower rate of interest initially.
Market risk	The risk that movements in market variables will have an unexpected impact. Usually split into *interest rate risk*, *price risk* and *foreign exchange risk*.
Maturity	**(1)** The date when an investment or borrowing is scheduled to be repaid. **(2)** A type of loan where the principal is only repaid on the maturity date.
Maturity profile	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period.
Monetary Policy Committee (MPC)	Committee of the *Bank of England* responsible for implementing *monetary policy* in the UK by changing *Bank Rate* and *quantitative easing* with the aim of keeping *CPI* inflation at around 2%.
Money market fund (MMF)	A *collective investment scheme* which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to *CNAV* and *LVNAV* funds with a *WAM* under 60 days which offer instant access, but the European Union definition extends to include *cash plus funds*.
MRP	Minimum revenue provision **- a**n annual amount that local authorities are required to set aside and charge to revenue for the repayment of debt associated with capital expenditure. Local authorities are required by law to have regard to government guidance on MRP. Not applicable in Scotland, but see *Loans Fund*.
Municipal bonds agency	Company that issues *bonds* in the *capital market* and lends the proceeds back to local authorities. The bonds are guaranteed by the local authorities.
Net borrowing	*Borrowing* minus *treasury investments*.
Net loans requirement	CIPFA term for the forecast amount of borrowing required to generate zero *treasury investments*.
Other long-term liabilities	*Prudential Code* term for *credit arrangements*.
Operational boundary	A *prudential indicator* showing the most likely, prudent, estimated level of external *debt*, but not the worst-case scenario. Regular breaches of the operational boundary should prompt management action.

Pension Fund	Ringfenced account for the income, expenditure and investments of the local government pension scheme. Pension fund investments are not considered to be part of *treasury management*.
Pooled fund	See *collective investment scheme.*
PRA	Prudential Regulation Authority – the part of the *Bank of England* that regulates UK banks.
Principal	The amount of money originally lent on a *debt* instrument.
Private Finance Initiative (PFI)	A government scheme where a private company designs, builds, finances and operates assets on behalf of the public sector, in exchange for a series of payments, typically over 30 years. Counts as a *credit arrangement* and *debt.*
Property fund	A *collective investment scheme* that mainly invests in property. Due to the costs of buying and selling property, including *stamp duty land tax*, there is usually a significant fee charged on initial investment, or a significant difference between the *bid* and *offer* price.
Prudential borrowing	Another term for *unsupported borrowing*.
Prudential Code	Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice. Local authorities are required by law to have regard to the Prudential Code.
Prudential indicators	Indicators required by the *Prudential Code* and determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable.
PWLB	Public Works Loans Board – formerly a statutory body operating within the *DMO* that lent money from the National Loans Fund to local authorities and other prescribed bodies and collected the repayments. The term now refers to the replacement facility operated by the DMO. Not available in Northern Ireland.
Realised gain or loss	Gain or loss that will not be reversed later, e.g. because the instrument has been sold. See also *unrealised gain or loss*.
Redemption	The process of withdrawing cash from a *collective investment scheme* and cancelling the units of shares. Redemptions can be suspended in certain circumstances detailed in the *prospectus*.
Refinancing risk	The risk that maturing loans cannot, be refinanced, or only at higher than expected interest rates leading to an unplanned loss. Managed by maintaining a smooth *maturity profile*.
Revenue expenditure	Expenditure to meet the ongoing cost of delivering public services including salaries and the purchase of goods and services, as opposed to *capital expenditure*.
Service investments	Investments made to promote a local authority's public service objectives, for example a *loan* to a local charity or *shares* in a local company.

Strategic funds	*Collective investment schemes* that are designed to be held for the long-term, comprising *strategic bond funds*, *diversified income funds*, *equity funds* and *property funds*.
Temporary borrowing	Borrowing with a term of less than one year.
Term deposit	A *deposit* that is repayable after a fixed period of time.
Treasury investments	Investments made for *treasury management* purposes, as opposed to *commercial investments* and *service investments*.
Treasury management	The management of an organisation's cash flows, investment and borrowing, with a particular focus on the identification, control and management of risk. Specifically excludes the management of pension fund investments.
Treasury management advisor	Regulated firm providing advice on *treasury management*, *capital finance* and related issues.
Treasury Management Code (TM Code)	CIPFA's Code of Practice for Treasury Management in the Public Services and Cross-Sectoral Guidance Notes, to which local authorities are required by law to have regard.
Treasury management indicators	Indicators required by the *Treasury Management Code* to assist in the management of *credit risk*, *interest rate risk*, *refinancing risk* and *price risk*.
Treasury management strategy	Annual report required by the *Treasury Management Code* covering the local authority's *treasury management* plans for the forthcoming year.
Unrealised gain or loss	Gain or loss that may be reversed later, e.g. from *marking to market*. Also called a paper gain or loss. See also *realised gain or loss*.
Unsupported borrowing	Borrowing where the cost is self-financed by the local authority. Sometimes called prudential borrowing since it was not permitted until the introduction of the *Prudential Code* in 2004. See also s*upported borrowing*.
Usable reserves	Resources available to finance future *revenue* and/or *capital expenditure.* Some usable reserves are ringfenced by law for certain expenditure such as on schools or council housing.
Vanilla	A simple instrument without any additional features such as *embedded derivatives*.
Working capital	The cash surplus or deficit arising from the timing differences between income/expenditure in accounting terms and receipts/payments in cash terms.
Yield	A measure of the return on an investment, especially a *bond*. The yield on a fixed rate bond moves inversely with its price.

Audit & Governance Committee

24 November 2025

Interim ISA 260 2024/25 (Audit Findings Report) and Letter of representation - Dorset Council

For Review and Consultation

Cabinet Member:
Cllr S Clifford, Finance & Capital Strategy

Local Councillor(s): All

Senior Leadership Team:
S Cremer, Corporate Director, Section 151 Officer

Report author and job title: Sean Cremer, Corporate Director, Section 151 Officer
Email: Sean.Cremer@dorsetcouncil.gov.uk

Statutory Authority: Dorset Council

Report status: Public

Executive summary (maximum of 500 words)

1. This report and attachments come to the Audit and Governance Committee to note reports of the external auditor for 2024/25.

1.1 The associated papers contain a summary of the findings from the audit as well as the management response to findings and/or recommendations as appropriate.

2. **Recommendation(s)**

2.1 The committee is asked to:

2.1.1 note the content of the Interim ISA 260 2024/25 (Audit Findings Report) and Letter of representation - Dorset Council:

2.1.1.1 Audit Findings Report 2024-25 – Dorset Council

2.1.1.2 Draft letter of representation for Dorset Council

3. **Reason for the recommendation(s)**

3.1 As part of the national backstop stop deadline of the 27th February 2026 for the completion of the 2024/25 audit, the committee are asked to approve the recommendations in relation to observations to date from audit of the financial statements for 2024/25.

4. **The report**

4.1 Background

4.1.1 The attached reports, provided by Grant Thornton set out the findings (to date) arising from the audit of the Dorset Council 2024/25 financial statements. The report details the work that has been carried out in line with what was agreed in the Audit Plan which was presented to committee on 30th June 2025.

4.1.2 The draft statements of accounts were submitted to Grant Thornton for their review on 20th June 2025.

5. **Alternative options considered**

5.1 n/a

6. **Legal considerations**

6.1 n/a

7. **Financial implications**

7.1 All covered within this report.

8. **Natural environment, climate & ecology implications**

8.1 None

9. **Well-being and health implications**

9.1 None

10. **Other implications**

10.1 None

11. **Risk implications**

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

Current Risk: High

Residual Risk: High

12. **Equalities**

12.1 None

13. **Appendices**

13.1 Audit Findings Report 2024-25 – Dorset Council

13.2 Draft letter of representation for Dorset Council

14. Background papers

14.1 (Public Pack)Agenda Document for Audit and Governance Committee, 30/06/2025 18:30

15 Report sign-off

15.1 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).

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Interim Audit Findings (ISA 260) Report for Dorset Council

Year ended 31 March 2025

Date of issue 12 November 2025

Dorset Council
County Hall
Colliton Park
Dorchester
DT1 1XJ

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 2OL

www.grantthornton.co.uk

Dear Members of the Audit and Governance Committee

Audit Findings for Dorset Council for the 31 March 2025

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Grant Thornton

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to manage risk, quality and internal control particularly through our Quality Management Approach. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at transparency-report-2024-.pdf (grantthornton.co.uk).

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Julie Masci

Director
For Grant Thornton UK LLP

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Contents

Headlines and status of the audit

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Headlines

This page and the following summarises the key findings and other matters arising from the statutory audit of Dorset Council (the 'Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2025 for the attention of those charged with governance.

Financial statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice (the 'Code'), we are required to report whether, in our opinion:

- the Authority's financial statements give a true and fair view of the financial position of the Authority and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially consistent with the financial statements and with our knowledge obtained during the audit, or otherwise whether this information appears to be materially misstated.

Our audit work was carried out between July to November 2025. We have made good progress towards concluding the audit, however a number of areas remain under review, including assessing the impact of the issues identified from the building health and safety review.

Currently we have not identified any material changes to the financial statements. The following areas remain to be concluded:

- completing our review of other land and buildings valuations;
- finalising our sample testing and testing of employee benefits expenses;
- finalising our work on the Authority's defined benefit pension liability and receipt of assurances from the auditor of Dorset Pension Fund;
- completion of our work on capital financing;
- detailed review of the adoption of IFRS 16;
- senior review of the audit work;
- receipt of management representation letter; and
- review of the final set of financial statements

We have concluded that the other information to be published with the financial statements, including the Annual Governance Statement, is consistent with our knowledge of your organisation and with the financial statements we have audited.

Our anticipated financial statements audit report opinion will be modified with a disclaimer of opinion, given the Authority's disclaimed opinions in previous years. We anticipate signing your accounts in February 2026 subject to further information resulting from the investigation into procurement failings.

Headlines

Value for money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice (the 'Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance.

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified significant weaknesses in the Authority's arrangements and so are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Dedicated Schools Grant (DSG) cumulative deficit rose to £95.63m, following an in year overspend of £37.3m. This was raised as a significant weakness in 2023/24 and given the continued deterioration in 2024/25 has remained a significant weakness this year.

Weaknesses were also identified in governance and securing economy, efficiency and effectiveness in the use of resources due to the significant findings identified through the Building Health and Safety investigations.

Our findings are set out in the value for money arrangements section of this report (page 55) and in our Auditors Annual Report.

Acknowledgments

We would like to acknowledge the improvements to the format of the accounts and thank officers for their constructive and thorough response to our findings from our first-year audit in 2023/24.

Headlines

Statutory duties

The Local Audit and Accountability Act 2014 (the 'Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until:

- we have issued our opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report of Dorset Pension Fund with the pension fund financial statements included in the Statement of Accounts;
- we have completed the work necessary in relation to consolidation returns, including Whole of Government Accounts (WGA), and the National Audit Office (NAO) had concluded their work in respect of WGA for the year ended 31 March 2025

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2025.

Significant matters

An investigation is currently underway into the activities relating to works to ensure that the Council complied with building health and safety regulations. A review by the Council's internal auditors identified failures in procurement regulations, budget monitoring and contract management arrangements that are currently under investigation.

We have considered the impact on our audit process and are currently awaiting management response to understand the full extent of the areas of activity affected. We will also await the outcome of the police investigation before reaching our final conclusions. We are scheduled to meet Dorset Police on 28 November 2025 to obtain the latest update on progress and scope of their ongoing inquiries.

We did not encounter any other significant difficulties or identify any significant matters arising during our audit.

Headlines

National context – audit backlog

Government proposals around the backstop

On 30 September 2024, the Accounts and Audit (Amendment) Regulations 2024 came into force. This legislation introduced a series of backstop dates for local authority audits. These Regulations required audited financial statements to be published by the following dates:

- For years ended 31 March 2025 by 27 February 2026
- For years ended 31 March 2026 by 31 January 2027
- For years ended 31 March 2027 by 30 November 2027

The statutory instrument is supported by the National Audit Office's (NAO) new Code of Audit Practice 2024. The backstop dates were introduced with the purpose of clearing the backlog of historic financial statements and enable to the reset of local audit. Where audit work is not complete, this will give rise to a disclaimer of opinion. This means the auditor has not been able to form an opinion on the financial statements.

Headlines

National context – local audit recovery

In the audit report for the year ended 31 March 2024, a disclaimer of opinion was issued due to the backstop legislation .

As a result, for 2024/25:

- we have limited assurance over the opening balances for 2024/25
- no assurance over the closing reserves balance also due to the uncertainty over their opening amount.

Our aim for the 2024/25 audit has been to continue with rebuilding assurance, therefore our focus has been on in-year transactions including income and expenditure, journals, capital accounting, payroll and remuneration and disclosures; and closing balances.

The areas on which we will be unable to conclude are the closing balance of property, plant and equipment, the net defined benefit liability and reserve balances.

On 5 June 2025 the National Audit Office (NAO) published its "Local Audit Reset and Recovery Implementation Guidance (LARRIG) 06" for auditors which sets out special considerations for rebuilding assurance for specified balances following backstop-related disclaimed audit opinions. The key messages outlined within this guidance include rebuilding assurance through:

- tailored risk assessment procedures for individual audit entities, including assessments over risk of material misstatements of opening balance figures and reserves;
- designing and performing specific substantive procedures, such as proof-in-total approach;
- special considerations for fraudulent reporting, property, plant & equipment, and pension related balances.

We will discuss with you our strategy for rebuilding assurance, in the light of this year's audit, as part of our planning for 2025/26.

Headlines

Implementation of IFRS 16

Implementation of IFRS 16 Leases became effective for local government bodies from 1 April 2024. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Local government accounts webinars were provided for our local government audit entities during March, covering the accounting requirements of IFRS 16. Additionally, CIPFA has published specific guidance for local authority practitioners to support the transition and implementation on IFRS 16.

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Introduction

IFRS 16 updates the definition of a lease to:

- "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration."

In the public sector the definition of a lease is expanded to include arrangements with nil consideration. This means that arrangements for the use of assets for little or no consideration (sometimes referred to as peppercorn rentals) are now included within the definition of a lease.

IFRS 16 requires the right of use asset and lease liability to be recognised on the balance sheet by the lessee, except where:

- leases of low value assets
- short-term leases (less than 12 months).

This is a change from the previous requirements under IAS 17 where operating leases were charged to expenditure.

The principles of IFRS 16 also apply to the accounting for PFI liabilities.

The changes for lessor accounting are less significant, with leases still categorised as operating or finance leases, but some changes when an authority is an intermediate lessor, or where assets are leased out for little or no consideration.

Impact on the Authority

On transition, the key focus is ensuring the completeness of leasing arrangements subject to IFRS 16.

The Authority has also recognised a number of assets on its balance sheet where only peppercorn leases payments were made, this has resulted in an increase in the value of assets recognised of £14.2m. The Authority's valuer has provided appropriate valuations for these. Other commercial leased assets totalled £8.6m. The adoption of IFRS 16 applies to the Authority's two PFI schemes, the impact has been an increase in the liability from the prior year of £7.7m.

- appropriate accounting policies and disclosures have been included in the financial statements
- the financial statements include a judgment in respect of the adoption of IFRS 16;
- management maintains a separate schedule of its right of use assets, which are then recognised in the financial statements; and
- management has adapted its systems and process to reflect the changes required by IFRS 16.

Our detailed testing in this area remains ongoing.

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Materiality

Our approach to materiality

As communicated in our Audit Plan dated June 2025, we determined materiality at the planning stage as £19.2 million based on 2% of prior year gross expenditure. At year-end, we have reconsidered planning materiality based on the draft financial statements. Materiality was updated to £21 million reflecting draft expenditure in the current year.

A recap of our approach to determining materiality is set out below.

Basis for our determination of materiality

- We have determined materiality at £21m based on professional judgement in the context of our knowledge of the Authority, including consideration of factors such as the Authority's operating environment and our increased understanding of the entity, this being our second year of appointment.
- We have used 2% of gross expenditure as the basis for determining materiality.
- The benchmark and materiality percentage applied reflect industry standard.
- Materiality has increased from the prior year reflecting an increase in the Council's expenditure and an increase in the percentage used to calculate materiality as a result of our growing familiarity with the Council and an increase in the benchmarks used across the sector.
- We will keep our materiality levels under review and will reconsider this further once management responses to the ongoing investigation has been provided.

Performance materiality

- We have determined performance materiality at £13.65m, this is based on 65% of headline materiality.
- We have revised the performance materiality due to the actual gross expenditure changing significantly from that anticipated at the planning stage resulting in a review of the appropriateness of the materiality figure.

Specific materiality

- We have determined a lower materiality of £20k, for senior officer's remuneration reflecting the public interest in these disclosures.

Reporting threshold

- We will report to you all misstatements identified in excess of £1.05m, in addition to any matters considered to be qualitatively material.

Our approach to materiality

A summary of our approach to determining materiality is set out below.

	Authority (£)	Qualitative factors considered
Materiality for the financial statements	21m	This was set at 2% of the Council's gross expenditure.
Performance materiality	13.65m	This is set at 65% of materiality and based on the level of deficiencies in control environment in prior years.
Specific materiality for senior officers' remuneration disclosures	20,000	Due to enhanced public interest.
Reporting threshold	1.05m	Based on 5% of materiality.

Overview of significant risks identified

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Overview of audit risks

The below table summarises the significant and other risks discussed in more detail on the subsequent pages.

Significant risks are defined by ISAs (UK) as an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the degree to which risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement if that misstatement occurs.

Other risks are, in the auditor's judgement, those where the risk of material misstatement is lower than that for a significant risk, but they are nonetheless an area of focus for our audit.

Risk title	Risk level	Change in risk since Audit Plan	Fraud risk	Level of judgement or estimation uncertainty	Status of work
Risk 1 Management override of controls	Significant	↔	✓	Low	●
Risk 2 Valuation of land and buildings	Significant	↔	✗	Medium	●
Risk 3 Valuation of the defined benefit pension liability	Significant	↔	✗	Medium	●
Implementation of IFRS 16	Other	↓	✗	Medium	●

↑ Assessed risk increase since Audit Plan
↔ Assessed risk consistent with Audit Plan
↓ Assessed risk decrease since Audit Plan

● Not likely to result in material adjustment or change to disclosures within the financial statements
● Potential to result in material adjustment or significant change to disclosures within the financial statements
● Likely to result in material adjustment or significant change to disclosures within the financial statements

Significant risks

Risk identified	Audit procedures performed	Key observations
Management override of controls Under ISA (UK) 240, there is a non-rebuttable presumption that the risk of management override of controls is present in all entities. We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	We have: • evaluated the design and implementation of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; and • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness.	Our review of the Council's IT system in the prior year and followed up in the current year, identified three deficiencies which impacted on our testing of journal entries. The risk rating in relation to journal testing was increased resulting in a larger number of journals being tested in addition to targeted tests covering the significant deficiency identified, as set out below: – Users with inappropriate access to ABAP debugger in production; – Segregation of duties conflict as developers have access to production - We investigated all developers with access to production and noted that none posted or processed journals in the SAP system during the year; and – Users with inappropriate access to maintain all SAP Standard or Customised tables in production. Our audit work on journals identified that there is automatic self-approval on journal entries below £50k. The lack of second user authorisation creates a risk that journals could be posted erroneously or fraudulently. This deficiency was identified in our previous audit, and the Council has implemented a further control requiring a review of these journals to be undertaken. The timeliness and manual nature of this control does not fully mitigate the risk identified. We tested a total of 88 journals, and no issues were identified from this work. We also reviewed reports relating to the issues identified in the building health and safety department to consider whether former officers identified in that report had posted journals during the year. None were identified subject to review. Our work on significant estimates is reported on pages 28 to 34.

Significant risks

Risk identified	Key observations
Presumed risk of fraud in revenue recognition Under ISA (UK) 240, there is a rebuttable presumed risk of material misstatement due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud related to revenue recognition.	We have considered the risk factors set out in ISA 240 and the nature of the revenue streams at Dorset Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted. We have considered the findings of the Authority's investigations into the significant control issues identified. Given the nature of the matters highlighted which relate to lack of oversight of expenditure controls and the nature of Authority's income streams, we conclude that: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Dorset Council, mean that all forms of fraud are seen as unacceptable. We therefore do not consider this to be a significant risk for Dorset Council and no findings from our audit meant that we were required to reconsider this risk. We will keep this risk assessment under review and will formally revisit this upon receipt management's assessment of the impact on the financial statements as a whole.

Significant risks

Risk identified	Audit procedures performed	Key observations
Presumed risk of fraud in expenditure recognition Practice note 10: Audit of financial statements of Public Sector Bodies in the United Kingdom (PN10) states that the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition for public sector bodies. We have identified and completed a risk assessment of all expenditure streams for the Council. We have considered the risk that expenditure may be misstated due to the improper recognition of expenditure for all expenditure streams and concluded that there is not a significant risk. As a result of the investigations in the building health and safety team, we have reassessed the risk of fraud in expenditure relating to this area and sought assurances from the Authority to determine whether issue is confined to this department or a wider issue.	As a result of the investigations in the building health and safety team, we have reassessed the risk of fraud in expenditure relating to this area and sought assurances from the Authority to determine whether issue is confined to this department or a wider issue. At the time of writing, although significant failings in the control environment have been identified as a result of Authority's investigations, we do not consider that these would result in a material misstatement to the financial statements. This is due to the total spend in the area of review being immaterial and the failures resulted in inadequate procurement and monitoring arrangements rather than a manipulation to the reported results of the Authority.	We do not consider this to be a significant risk for the audit of the Authority, given materiality and the nature of the issues identified and standard audit procedures will be carried out. We will keep this consideration under review throughout the audit to ensure this judgement remains appropriate.

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Significant risks

Risk identified

Valuation of land and buildings

The Authority re-values its land and buildings on a rolling basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value of assets not revalued, as at 31 March 2025, in the Authority's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.

We identified the valuation of land and buildings, particularly the assumptions used by the valuer in calculating the revaluations, as a significant risk.

Audit procedures performed

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work;
- challenged managements classification of assets as land and buildings rather than investment property.
- evaluated the competence, capabilities and objectivity of the valuation experts;
- written to the valuers to confirm the basis on which the valuation was carried out;
- evaluated the reasonableness of the assumptions made by the valuers in determining the valuations;
- challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding;
- tested revaluations made during the year to see if they have been input correctly to the Authority's asset register; and
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Key observations

Our audit work in this area remains ongoing.

We have however identified a number of valuations where the movements, although not significant in terms of our materiality are larger than we would expect. Management does require valuers to provide an explanation for changes in valuations since the asset was last valued, however due to the change in valuer, movements have not been appropriately explained or followed up.

The audit opinion for 2022/23 is disclaimed, this means that as no audit work was carried out on the opening balances of the valuation of other land and buildings, we are unable to gain assurance that they are not materially misstated.

Other land and buildings are revalued in full over a four year cycle therefore full assurance will likely be obtained in 2027/28. At this date we will be able to gain assurance over the opening and closing balances in addition to in-year movements.

Significant risks

Risk identified

Valuation of the net pension liability

The Authority’s share of the pension fund net liability, as reflected in its Balance Sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£73.4m in the Authority’s Balance Sheet at 31 March 2025) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code. We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary.
A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 1.4% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in the calculation. With regard to these assumptions, we have therefore identified valuation of the Authority’s net pension liability as a significant risk.

Audit procedures performed

- documented our understanding of the processes and controls put in place by management to ensure that the Authority’s pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (actuary) for this estimate and the scope of the actuary’s work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority’s pension fund valuation;
- considered the confirmation from the actuary that the asset ceiling does not apply to the Authority;

Significant risks

- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (using our assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- auditor's expert) and performing any additional procedures suggested by our expert; and
- requested assurances from the auditor of Dorset Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Key observations

Our work in this area remains ongoing. We have not identified any issues from our work to date.

The audit opinion for 2022/23 is disclaimed, this means that as no audit work was carried out on the opening balances of the net defined benefit liability, we are unable to gain assurance that they are not materially misstated.

The nature of the pension fund balances are such that full assurance will likely be obtained in 2025/26. At this date we will be able to gain assurance over the opening and closing balances in addition to in-year movements.

Other findings

Other areas impacting the audit

Issue	Commentary
IFRS 16 implementation The adoption of IFRS 16 is required for local government authorities at 1 April 2024. We would expect audited bodies to disclose the implementation of the new accounting standard requirements, the nature of the changes in accounting policy for leases, along with the impact of IFRS 16 on transition.	We have: • evaluated the policies and controls implemented by management to ensure complete and accurate accounting for and reporting of IFRS 16-related balances; • assessed the appropriateness of management's judgments in identifying low-value leases in accordance with the Authority's capitalisation policy; • reviewed existing lease terms to determine their support for the calculation of associated lease liabilities; • reviewed and tested the recognition of right of use assets and lease liabilities; • evaluated the Authority's accounting treatment of existing leases as a lessee; • assessed the competence, capabilities, and objectivity of the valuation experts engaged by management, to value peppercorn leases; and • evaluated management's processes, instructions issued to valuation experts, and the scope of work agreed with the experts. We received a schedule of the Authority's peppercorn leases and the valuations provided by the Authority's valuer and have a small number of queries outstanding. The Authority has also made a transitional adjustment to the valuation of its PFI assets, resulting from the implementation of IFRS 16. These are school buildings and streetlighting. Our work to review the treatment remains ongoing.

Other areas impacting the audit

Issue	Commentary	
IT Control deficiencies	A separate report detailing the deficiencies identified through our review of the Council's IT systems was discussed at the Audit and Governance Committee on 24 September 2025. Two significant deficiencies were identified: One relates to users with inappropriate access to ABAP debugger in production. This deficiency related to the SAP system. 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. Secondly, we identified a lack of oversight over third-party users assigned privileged systems access in UPM.	**Auditor view** We have presented a full report on the Audit and Governance Committee in September.

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Other findings – significant matters

Issue	Commentary
Significant events or transactions that occurred during the year	Issues identified by the Authority in relation to building health and safety works have resulted in additional work being required to determine the impact on audit procedures. See page 8
Business conditions affecting the Authority, and business plans and strategies that may affect the risks of material misstatement	No matters identified
Concerns about management's consultations with other accountants on accounting or auditing matters	No matters identified
Discussions or correspondence with management in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services	No matters identified
Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	No matters identified
Other matters that are significant to the oversight of the financial reporting process	No matters identified

Other findings – accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The revenue recognition policies included within the financial statements are appropriate and in accordance with the Code.	No matters to report.	● GREEN
Expenditure recognition	The expenditure recognition policies included within the financial statements are appropriate and in accordance with the Code.	No matters to report.	● GREEN
Valuation methods	Valuation methods are appropriate and in accordance with the Code.	No matters to report.	● GREEN
Other critical policies	We note that the Authority has reviewed its accounting policies and removed a number of immaterial policies.	No matters to report.	● GREEN

Assessment:
- ● Red = Marginal accounting policy which could potentially be open to challenge by regulators
- ● Amber = Accounting policy appropriate but scope for improved disclosure
- ● Green = Accounting policy appropriate and disclosures sufficient

Other findings – key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Assessment:

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Amber] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
Valuation of land and buildings £496m at 31 March 2025	The Authority re-values its land and buildings on a rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. The Authority has consolidated its valuation process and has reduced the number of valuers engaged from five to two. Additionally, management will need to ensure the carrying value of assets not revalued, as at 31 March 2025, in the financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. **(continued)**	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation experts; • written to the valuers to confirm the basis on which the valuation was carried out; • evaluated the reasonableness of the assumptions made by the valuers in determining the valuations; • challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding and published indices; • tested revaluations made during the year to see if they have been input correctly to the Authority's asset register; and **(continued)**	Our work in this area remains ongoing

Other findings – key judgements and estimates

Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
Valuation of land and buildings £496m at 31 March 2025	Additionally, management will need to ensure the carrying value of assets not revalued, as at 31 March 2025, in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We identified the valuation of land and buildings, particularly the assumptions used by the valuer in calculating the revaluations, as a significant risk. The total year end valuation of land and buildings was £496m, a net increase of £11m from 2023/24 (£485m).	• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. The change in the Authority's main valuer has resulted in a number of unexpected movements in valuations, which are being queried. We have also identified the values of land and buildings were incorrectly recorded between the valuer's summary sheet and detailed calculations. Although this will not impact on the current year, it will result in distortions to the calculation of depreciation and revaluation adjustments in future years if not corrected. Management has requested that the valuer review and reissue the report to correct this issue and ensure that the instance is isolated. Although management has undertaken an assessment of assets not revalued at the year end, the indices used are not, in our view appropriate. We have undertaken our own review and are satisfied that there is no material issue. The work done in part addresses the prior year recommendation on page 52. The audit opinion for 2022/23 was disclaimed, this means that as no audit work was carried out on the prior year opening balances of land and buildings and surplus assets, we are unable to gain assurance that they are not materially misstated. The Authority undertakes valuations of all its land and buildings and surplus assets in a four-year cycle. This means that assurance can be regained and this will likely be possible at the end of the revaluation cycle, currently planned for 2027/28, accelerating this programme would enable assurance to be gained sooner. For the 2024/25 financial statements we cannot provide assurance over the closing property, plant and equipment balance.	Our work in this area remains ongoing

Other findings – key judgements and estimates

Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
Valuation of net pension liability £73m at 31 March 2025	The Authority's net pension liability at 31 March 2025 is £73m (PY £159m) comprising the Dorset Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Authority uses Barnett Waddingham to provide actuarial valuations of the Authority's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2023. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £77m net actuarial gain during 2024/25. (continued)	We have: • documented our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • considered the confirmation from the actuary that the asset ceiling does not apply to the Authority; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; (continued)	Our work in this area remains ongoing.

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Other findings – key judgements and estimates

Key judgement or estimate	Auditor commentary	Assessment
	• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (using our auditor's expert) and performing any additional procedures suggested by our expert; and • requested assurances from the auditor of Dorset Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. The audit opinion for 2022/23 was disclaimed, this means that as no audit work was carried out on the prior year opening balances of the net defined benefit liability, we are unable to gain assurance that they are not materially misstated. The nature of the pension fund balances are such that full assurance will likely be obtained in 2025/26,At this date we will be able to gain assurance over the opening and closing balances in addition to in-year movements. (continued)	Our work in this area remains ongoing.

Other findings – key judgements and estimates

Key judgement or estimate	Assessment
	Our work in this area remains ongoing

Assumption	Actuary value	PwC range	Assessment
Discount rate	5.8%	5.6% to 5.95%	Reasonable
Pension increase rate	2.9%	2.85% to 2.95%	Reasonable
Salary growth	3.9%	0.5% to 2.5% p.a. above CPI inflation	Reasonable
Life expectancy – Males currently aged 45/65	23.1 21.8	20.6-23.1 19.2-21.8	Reasonable
Life expectancy – Females currently aged 45/65	25.4 24.0	21.1-25.7 22.7-24.3	Reasonable

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Other findings – key judgements and estimates

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Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
Minimum revenue provision £12.7m in 2024/25	The Authority is responsible on an annual basis for determining the amount charged for the repayment of debt known as its minimum revenue provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The Authority commissioned its treasury advisors to prepare a review of MRP to ensure it aligns with the current guidance. This has resulted change in the method for charging MRP in the financial statements. The Council's previous approach was to charge a flat rate of 4% on its pre 2008 capital financing requirement and continued this approach post 2008 spend. The Authority has changed its approach for post-2008 capital financing requirement moving to a 40 year period on an annuity basis The approach adopted by the Authority is in accordance with the MHLCG guidance. The year end MRP charge was £12.7m, a net decrease of £3.7m from 2023/24. This represents a 2.93% charge against the general fund capital financing requirement (CFR).	The revised policy is less prudent than the Authority's previous approach and results in a lower charge • MRP has been calculated in line with the statutory guidance • the Authority's policy on MRP complies with statutory guidance; • the change to the MRP policy was agreed by full Council on 25 March 2025. We risk rate the level of MRP charged by Council's and consider that a charge of 2% of the capital financing requirement (CFR) to be the most prudent approach. The Council's MRP is comfortably in excess of this. New statutory guidance takes full effect from April 2025, introducing new provisions for capital loans. This guidance also clarifies the practices that authorities should already be following. This guidance clarifies that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted from the calculation unless exempted by statute.	Our work to finalise this estimate remains ongoing

Other findings – key judgements and estimates

Summary of management's approach	Auditor commentary	Assessment
The Authority considers the following to be key judgements and estimates: • Accounting for the better care fund • Assessment of the requirement for group accounts • Accounting for leases under IFRS 16 • Estimation uncertainty relates to the valuation of the net defined benefit pension liability and land and building valuations	The items described are reasonable in the context of the Authority's activities.	Reasonable

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2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas. We discussed our detailed findings at the Audit and Governance Committee in August 2025.

			ITGC control area rating				
IT application	**Level of assessment performed**	**Overall ITGC rating**	**Security management**	**Technology acquisition, development and maintenance**	**Technology infrastructure**	**Related significant risks/other risks**	**Additional procedures carried out to address risks arising from our findings**
SAP	Detailed ITGC assessment (design effectiveness only)	🔴	🔴	🟡	⚫	Yes	Additional testing undertaken in our work on journals
Capita	Detailed ITGC assessment (design effectiveness only)	🔴	🟢	🔴	⚫	No	N/A
UPM	Detailed ITGC assessment (design effectiveness only)	🔴	🔴	🔴	⚫	N/A	N/A
Active Directory	Detailed ITGC assessment (design effectiveness only)	🔴	🔴	⚫	⚫	N/A	N/A

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

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Communication requirements and other responsibilities

Other communication requirements

Issue	Commentary
Matters in relation to fraud	• We are aware of the investigations currently underway in respect of breaches identified in relation to the scheme of delegation and collusion with third parties to defraud the Council. We are currently considering the impact on our audit overall and awaiting the outcome of the ongoing police investigation.
Matters in relation to related parties	• We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	• We are not aware of any significant incidences of non-compliance
Written representations	• Representations will be requested from management in respect of the significant assumptions used in making accounting estimates for the defined benefit pension liability and land and buildings valuations. • This will be provided with our final Audit Findings Report.

Other communication requirements

Issue	Commentary
Confirmation requests from third parties	• We requested from management permission to send confirmation requests to the Authority's banking and treasury partners. This permission was granted and the requests were sent. All were returned with positive confirmation.
Disclosures	• Our review found no material omissions in the financial statements.
Audit evidence and explanations	• All information and explanations requested from management was provided.
Significant difficulties	• We did not encounter any significant difficulties.
Other matters	• No other matters to disclose.

Other responsibilities

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2024). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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 entity'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, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • For many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. (continued)

Other responsibilities

Issue	Commentary
Going concern	Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Authority meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Authority and the environment in which it operates • the Authority's financial reporting framework • the Authority's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. However, as this year's audit will be disclaimed, we have not been able to obtain sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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Other responsibilities

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and the Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have been unable to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. We have nothing to report on these matters except we identified significant weaknesses in respect of arrangements to deliver value for money see page 55.

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Other responsibilities

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Authority does not exceed the threshold.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2024/25 audit of Dorset Council in the audit report, due to: • completion of the whole of government accounts work and receiving confirmation from the National Audit Office: and • Issuing our opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report of Dorset Pension Fund with the pension fund financial statements included in the Statement of Accounts

Audit adjustments

Audit adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

No adjusted misstatements have been identified at the date of issuing our report. We will provide an update to management and the Audit and Governance Committee should any issues be identified from the remaining testing.

Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified to date during the audit which have been made in the final set of financial statements.

Disclosure	Misclassification or change identified	Adjusted?
Financial instruments – Note 3	Two presentational changes were made to correct disclose the fair value hierarchy for leases and PFI liabilities and to disclose that there has been no movement between categories during the year.	✓
Note 11 and note 25	Inconsistencies were noted in presentation of IFRS 16 adjustments between the property, plant and equipment and capital financing notes. These were presentational only.	✓
Throughout	A small number of typographical errors and minor changes have been made to the financial statements.	✓

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Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

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Detail
Our testing has identified a potential understatement of debtors and rental income in relation to properties managed by CBRE on behalf of the Authority. Management is currently assessing the impact of this error on both the current and prior year financial statements. We do not anticipate that this omission will result in a material misstatement when the impact is quantified.

Action plan

We set out here our recommendations for the Authority which we have identified as a result of issues identified during our audit work to date. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards. We presented our IT Audit findings report to the Committee in August 2025. This report highlighted a significant deficiency, which resulted in additional journal testing being required.

Assessment	Issue and risk	Recommendations
● Medium	**Income and debtor recognition** The Authority engages a property management agent to handle the management and rent collection for a number of its commercial properties. It was identified that remittances and reconciliations were monitored on a cash basis which does not recognise accrued rental income or debtors in the financial statements. There is a risk that income and debtors are both understated in the financial statements.	We recommend that management implements processes to ensure the completeness of the reporting of income from its rental portfolio. **Management response** Service Accountancy will work with the property management agent to improve reporting in support of debt management. In future outstanding debt will be accrued at year end.
● Low	**Negative asset values** Testing identified a trivial value of assets in the fixed asset register with negative useful economic lives and relate to incorrect postings being made to transfer assets under construction to operational assets.	We recommend that management reviews the fixed asset register to correct anomalous entries. **Management response** A review of the fixed asset register will be undertaken to correct anomalous entries identified for useful economic lives.

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Key

- ● High – Significant effect on control system and/or financial statements
- ● Medium – Limited impact on control system and/or financial statements
- ● Low – Best practice for control systems and financial statements

Follow up of prior year recommendations

Issue and risk	Commentary
Fixed asset register The Council uses its accounting system SAP, for the maintenance of its fixed asset register (FAR). Our review identified that it is not being used optimally to produce correct figures within the financial statements. Assets subject to a downward revaluation where such movements cannot be charged to the revaluation reserve due to an insufficient balance are charged to the income statement. It is appropriate for a note to be retained of these movements to enable future upward movements to be credited to the income statement. The FAR is being maintained in such a way that results in an overstatement of the cost/valuation line of note 22 and an overstatement of accumulated depreciation (referred to as unplanned depreciation). This has resulted in note 22 being materially misstated in both the current and prior year, although the net book value of PPE assets in the balance sheet is correct. The Council should review its use of the FAR module in SAP to ensure that correct figures are produced for the financial statements.	The figures included in the fixed asset register are correctly disclosed. Adjustments are made manually to the property, plant and equipment note.
Derecognition of the Sir John Colfox School and other disposals Our audit testing identified that a number of assets had not been derecognised at the time of disposal. The most significant being the Sir John Colfox Academy School conversion which resulted in a material misstatement in the current and prior years. This omission was due the funding arrangements, however our testing has identified a further number of assets which were not derecognised in the correct year. There is a risk of the value of property, plant and equipment being overstated in the balance sheet and depreciation continuing to be charged on assets that the Council no longer owns. The Council should improve its procedures to ensure that disposals are recognised in the correct period.	No similar instances were identified in the current year.

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Follow up of prior year recommendations

Issue and risk	Commentary
Lease disclosures Testing of operating lease payables identified two errors; one where the lease was surrendered in 2020, the other where the lease agreement was not available to corroborate the figure. We also identified a number of leases assigned as in perpetuity which were actually tenancies at will. These have no end date but can be terminated without notice. These do not confer any right to receive rentals resulting in the overstatement of the leases note. Currently this represents a disclosure error in the notes to the financial statements, however errors in the documentation of leases could have a potentially significant impact when determining right of use assets under IFRS 16 in 2024/25. The Council should revisit its leasing records to ensure that the are complete and accurate.	Our work on IFRS 16 and leases remains in progress.
Cut Off In several areas of testing including bank payments, invoices raised, creditors and accruals, operating expenses, property, plant and equipment additions and disposals and REFCUS, testing has identified errors resulting from transactions not being recognised in the correct year. There is a risk of misstatement of the accounts from transactions recorded in the wrong period. Management should improve controls to ensure that transactions are recorded in the correct period.	Although our testing of PPE additions did identify one instance of a transaction being recognised in the wrong year, this had improved significantly from the prior year.
Financial statements review The financial statements submitted for audit contained a number of errors and omissions. Management should ensure that the accounts are subject to a thorough review and assessed against the requirements of the Code using a disclosure checklist, to ensure that all .disclosures are complete and to capture any changes required.	Management has undertaken a detailed review of the financial statements, and their content is much improved and required Code updates effected.

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Follow up of prior year recommendations

Issue and risk	Commentary
Bank reconciliation review On reviewing the year end bank reconciliations, we noted that four had not been evidenced as reviewed. There is a risk that errors could occur that are not identified. Management should ensure that all bank reconciliations are reviewed and evidenced as such.	No similar issue identified in the current year.
Schools Bank Accounts The Council's cash and bank balances includes balances relating to local authority schools. Although the balance held is below materiality, we reviewed a sample of these balances against bank account confirmations, focussing on those with differences. Testing identified a number of deficiencies within the bank reconciliation processes undertaken by the Council, relating to reconciliations and investigation of any differences. We also identified two schools banks accounts omitted from the Council's school ledger. Management should review its reconciliation processes for maintained schools and ensure all differences are investigated and resolved.	The overall reconciliation process has improved, although differences still remain in relation to reconciling VAT transaction. Some work remains underway in this area.
Omitted bank codes Through the bank confirmation that we obtained directly, we identified 9 bank accounts with a total aggregate balance of £4.8k, which were not linked to any general ledger code associated with bank accounts. They may not be accounts relevant to the Council and arise from legacy issues. Management should review all bank accounts to ensure that they are appropriately recorded in the ledger or closed if no longer relevant.	All previously identified issues have now been resolved and appropriate controls are in place.

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Follow up of prior year recommendations

Issue and risk	Commentary
Bank accounts The Council has 20 bank accounts in its trial balance originally migrated from the legacy authorities. Further enquiries identified that these accounts were closed at the bank in 2022 but continue to have balances of between £54k and -£25k in the Council's ledger. Enquiries identified that these were likely due to mispostings. We also reviewed 2022/23 bank balances at 31 March 2023 and identified a similar issue. This issue identifies a deficiency in the financial statement closedown process as the bank accounts listed in the trial balance do not tally with the actual bank accounts in use by the Council. Management should review the bank accounts in the trial balance, investigate any remaining balances and remove closed accounts from its listing.	Legacy bank accounts have been removed.
Imprest accounts The Council maintains a number of imprest accounts, effectively petty cash accounts. We identified that these had not been reconciled at the year end and not all transactions relating to accounts were recognised within the financial statements. Management should ensure that all bank reconciliations including imprest accounts are reviewed and evidenced as such.	The differences between the imprest bank accounts and the ledger have reduced this year. We do appreciate that a complete reconciliation is difficult to implement given the nature of petty cash and obtaining all receipts for disparate operations in a timely manner.
Valuation errors We identified that the revalued balances in the FAR had not been reconciled to the valuers reports. This was due to management not allocating the valuation across the various components of the asset, resulting in an overstatement of the value of assets at the year end. We also identified that one of Council's valuers had made errors in compiling the summary valuation report used by management to update the FAR. Although management has engaged a valuation expert, management retains responsibility for the accuracy of the financial statements. There is a risk that the value of assets is misstated. Management should implement further checks to assess the reliability of the figures provided by appointed experts and ensure that they are accurately reflected within the fixed asset register.	Our work in respect of valuations has not yet concluded. Our work to date has identified an instance of an error in the valuation report, which is currently being investigated. The values of land and buildings in the summary report for one asset have been transposed. Although the error identified does not impact on the financial statements, there would be implications for the correct treatment of assets in the fixed asset register in future years. The valuer has been asked to review the report to ensure no further instances arise.

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Follow up of prior year recommendations

Issue and risk	Commentary
Capital Commitments The Council is disclosing capital commitments of £5.4 million in note 27 of the financial statements. There is no formal process to track capital commitments or to produce a working paper that provides suitable audit evidence. Our testing of bank payments not accrued identified a number of vehicles that were awaiting delivery and not recognised in the 2023/24, and these should be included in capital commitments but were not. There is a risk that capital commitments are not accurately reflected in the financial statements. Management should ensure that all notes to the accounts are supported by adequate working papers.	Management has updated its processes to appropriately capture capital commitments. The capital commitments note has been properly prepared in the current year.
Determination of asset values The Code requires that the carrying value of its assets is not materially different from the current value. Although management does undertake a comprehensive review, it does not quantify the changes in value due to movements in the period since the last valuation. We would expect that relevant indices are used on an asset class basis to determine whether material movements have occurred. There is a risk that there is a material movement in asset values that would require further valuations to be undertaken to address any differences. Management should ensure that a fully quantified to determine whether further valuations are not required to ensure that the carrying value of assets is not materially different from the current value.	Although management has undertaken an assessment of assets not revalued at the year end, the indices used are not, in our view appropriate. We have undertaken our own review and are satisfied that there is no material issue.
Sample populations The Council was unable to provide cleansed population listings for debtors and creditors containing only year end balances, rather than transactions made during the year. This significantly increased the time required to analyse the population and undertake our testing. Our testing identified a number of debtors and creditors misclassified within the note, which a thorough review may have identified prior to the accounts being submitted for audit.	Although the processes at the Authority have not changed, our greater understanding of the system enabled sample selection to be effected in a more timely manner.

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Follow up of prior year recommendations

Issue and risk	Recommendations
Incorrect classification of assets Testing identified a number of motor vehicle additions that had been incorrectly classified as assets under construction. There is a risk that the PPE disclosures do not accurately reflect the composition of the Council's asset base and that depreciation is not correctly charged on assets acquired. An isolated occurrence, and potential future similar classification will be considered to mitigate in future.	No instances identified in the current year
MRP calculation The Council has not calculated MRP in accordance with its approved MRP policy. The working paper to support the MRP calculation requires improvement to ensure that the calculation confirms to the guidance and policy. Management should review its calculation of MRP and ensure it is in accordance with the guidance.	Management has instructed its treasury management advisors to undertake a review of MRP. This resulted in a change in the method of calculation.
Impairment indicators The Council had undertaken a review of assets for indicators of impairment, although this did not include assets under construction or community assets. Management should include all relevant asset classes in their consideration of impairment.	This issue remains in the current year.
De minimis - PPE Valuation We have identified a control deficiency in relation to 174 assets which are regarded as de minimis and are not revalued. We have been able to conclude that these assets are still in use by the Council, however, they are not subject to revaluation. There is a risk that the value of these assets are misstated. This issue does not have a material impact on the accounts. Management should consider a periodic review of these assets to ensure that their value remains below the de minimis level.	The recommendation was made in January 2025, which was too late to include within the valuation process for the current year.

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Follow up of prior year recommendations

Issue and risk	Commentary
Assets with a nil Net Book Value and useful economic life We identified that the Council has a significant number of assets with a nil net book value on its balance sheet. From enquires we are satisfied that the majority of these assets remain in use, however as they are fully depreciated, the asset lives assigned do not fully reflect the period of use. Testing also identified a small number of assets with useful lives outside of the range in the Council's policy. Management should ensure that asset lives assigned to fixed assets reflect the period of use and undertake a review and adjust asset lives where appropriate.	Management has acted on our recommendation and has started a stock take of all nil book value assets to determine whether these remain in use. This was not completed prior to the year end, however the work to date has identified £3.1m of fully depreciated assets that the Authority has scrapped. We continued to identify a small number of assets with anomalous useful economic lives.
Fair value disclosure - PFI liability The PFI liability is a financial liability held at amortised cost on the balance sheet. IFRS 7 requires disclosure of the fair value of such liabilities where material. The Council has not made such a disclosure. The PFI total liability is £16 million with materiality of £13.4 million, there is no risk of material misstatement. However, this does represent a disclosure omission. Management should obtain fair value calculations for all material financial assets and liabilities.	Under IFRS 16 fair values are no longer required to be disclosed.
Immaterial notes The financial statements include a number of notes for immaterial balances including heritage assets, inventories, assets held for sale and long-term debtors. There is no requirement to produce a note to support immaterial balances and in our view their inclusion adds clutter to accounts, potentially distracting from material information. Management should review the accounts and only produce disclosures where balances and transactions are material unless required by statute.	Management has reviewed the financial statements against the requirements of the Code and removed a significant amount of immaterial disclosures.

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Value for Money arrangements

Value for Money arrangements

Approach to Value for Money work for the year ended 31 March 2025

The National Audit Office issued its latest Value for Money guidance to auditors in November 2024. The Code requires auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Additionally, The Code requires auditors to share a draft of the Auditor's Annual Report (AAR) with those charged with governance by 30th November each year from 2024-25. Our draft AAR has been reported to you on 13 October 2025.

In undertaking our work, we are required to have regard to three specified reporting criteria. These are as set out below.

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

In undertaking this work we have identified three significant weaknesses in arrangements. These are reported in more detail in our Auditors Annual Report.

Independence considerations

Independence considerations

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers). In this context, there are no independence matters that we would like to report to you.

We are required to report to you details of any breaches of the requirements of the FRC Ethical Standard, and of any safeguards applied and actions we have taken to address any threats to independence. We have no matters to report the following matters to you.

We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council's Ethical Standard

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in February 2025 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Independence considerations

As part of our assessment of our independence we note the following matters:

Matter	Conclusions
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Authority that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Authority.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Authority.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Authority, senior management or staff.

Independence considerations

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Fees and non-audit services

The following tables below sets out the total fees for audit and non-audit services that we have been engaged to provide or charged from the beginning of the financial year to 6 November 2025, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

Additional work has been necessary in relation to our response to the building health and safety investigation and any additional testing arising as a result. We will assess the impact on the overall fees for the audit at the conclusion of the work. The fees set out in the table below reflect those within the audit plan and maybe subject to further variations. We will discuss with management once our final time data has been reviewed at the conclusion of the audit.

The below non-audit services are consistent with the Authority's policy on the allotment of non-audit work to your auditor.

None of the below services were provided on a contingent fee basis

For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Dorset Council. The table summarises all non-audit services which were identified. We have adequate safeguards in place to mitigate the perceived self-interest threat from these fees.

Audit fees	£
Audit of Authority	609,874
Non audit fees	38,375
Total	648,249

Fees and non-audit services

Audit-related non-audit services

Service	2023/24 £	2024/25 £	Threats Identified	Safeguards applied
Certification of Housing Benefits Subsidy claim	39,600	25,875	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £25,875 in comparison to the total fee for the audit of £609,874 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers Pension Return	12,500	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £609,874 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Total	52,100	38,375		

Appendices

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A. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	●	
Confirmation of independence and objectivity	●	●
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	●	●
Significant matters in relation to going concern	●	●
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		●
Significant findings from the audit		●
Significant matters and issue arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit		●
Significant deficiencies in internal control identified during the audit		●
Significant matters arising in connection with related parties		●

A. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		●
Non-compliance with laws and regulations		●
Unadjusted misstatements and material disclosure omissions		●
Expected modifications to the auditor's report, or emphasis of matter		●

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the company directors and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance.

Grant Thornton UK LLP
2 Glass Wharf

Bristol

BS2 0EL

13 November 2025

Dear Grant Thornton UK LLP

Dorset Council
Financial Statements for the year ended 31 March 2025

This representation letter is provided in connection with the audit of the financial statements of Dorset Council ("the Authority") for the year ended 31 March 2025 for the purpose of expressing an opinion as to whether the Authority financial statements give a true and fair view in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024-25 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities, as set out in **the** Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited, for the preparation of the Authority's financial statements in accordance with the Accounts and Audit Regulations 2015, International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024-25 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Authority and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Authority has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of other land and buildings and the net defined benefit liability. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used.

vi. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for International Accounting Standard 19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

viii. Except as disclosed in the financial statements:

  a. there are no unrecorded liabilities, actual or contingent;

  b. none of the assets of the Authority has been assigned, pledged or mortgaged; and

  c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

ix. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

x. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

xi. The financial statements are free of material misstatements, including omissions.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. We have updated our going concern assessment. We continue to believe that the Authority's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

  a. the nature of the Authority means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements;

  b. the financial reporting framework permits the Authority to prepare its financial statements on the basis of the presumption set out under a) above; and

  c. the Authority's system of internal control has not identified any events or conditions relevant to going concern.

  We believe that no further disclosures relating to the Authority's ability to continue as a going concern need to be made in the financial statements.

xiv. The Authority has complied with all aspects of ring-fenced grants that could have a material effect on the Authority's financial statements in the event of non-compliance.

Information Provided

xv. We have provided you with:

  a. access to all information of which we are aware that is relevant to the preparation of the Authority's financial statements such as records, documentation and other matters.

  b. additional information that you have requested from us for the purpose of your audit; and

  c. access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

xvi. We have communicated to you all deficiencies in internal control of which management is aware.

xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others. We have considered the impact of the findings relating to the Building Health and Safety investigation on the financial statements as a whole and are satisfied that this does not give rise to a material misstatement.

xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxii. We have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.

xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

xxiv. On 30 September 2024 Parliament approved the Accounts and Audit (Amendment) Regulations 2024. These regulations set a publication date for financial statements in respect of 2024-25 of 27 February 2026. The new National Audit Office Code of Audit Practice, which was published on 14 November 2024, also requires that where auditors are unable to conclude their work, they should issue either a qualified audit opinion or a disclaimer of opinion by this date, known as the 'backstop date'. It has not been possible to provide you with all the information required for you to complete your audit for the year ending 31 March 2025 by the backstop date in relation to property, plant and equipment, pension related balances and reserves.

Annual Governance Statement

xxv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Authority's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvi. The disclosures within the Narrative Report fairly reflect our understanding of the Authority's financial and operating performance over the period covered by the Authority's financial statements.

Approval

The approval of this letter of representation was minuted by the Authority's Audit and Governance Committee.

Yours faithfully

Name……………………………

Position…………………………..

Date…………………………….

Name……………………………

Position…………………………..

Date…………………………….

Signed on behalf of the Authority

V2/25

Audit & Governance Committee

24 November 2025

Interim ISA 260 2024/25 (Audit Findings Report) and Letter of representation - Dorset Pension Fund

For Review and Consultation

Cabinet Member:
Cllr S Clifford, Finance & Capital Strategy

Local Councillor(s): All

Senior Leadership Team:
S Cremer, Corporate Director, Section 151 Officer

Report author and job title: Sean Cremer, Corporate Director, Section 151 Officer
Email: Sean.Cremer@dorsetcouncil.gov.uk

Statutory Authority: Dorset Council

Report status: Public

Executive summary (maximum of 500 words)

1. This report and attachments come to the Audit and Governance Committee to note reports of the external auditor for 2024/25.

1.1 The associated papers contain a summary of the findings from the audit as well as the management response to findings and/or recommendations as appropriate.

2. **Recommendation(s)**

2.1 The committee is asked to:

2.1.1 note the content of the Interim ISA 260 2024/25 (Audit Findings Report) and Letter of representation - Dorset Pension Fund:

2.1.1.1 Audit Findings Report 2024-25 – Dorset Pension Fund

2.1.1.2 Draft letter of representation for Dorset Pension Fund

3. **Reason for the recommendation(s)**

3.1 As part of the national backstop stop deadline of the 27th February 2026 for the completion of the 2024/25 audit, the committee are asked to approve the recommendations in relation to observations to date from audit of the financial statements for 2024/25.

4. **The report**

4.1 Background

4.1.1 The attached reports, provided by Grant Thornton set out the findings (to date) arising from the audit of the Dorset Council 2024/25 financial statements. The report details the work that has been carried out in line with what was agreed in the Audit Plan which was presented to committee on 30th June 2025.

4.1.2 The draft statements of accounts were submitted to Grant Thornton for their review on 20th June 2025.

5. **Alternative options considered**

5.1 n/a

6. **Legal considerations**

6.1 n/a

7. **Financial implications**

7.1 All covered within this report.

8. **Natural environment, climate & ecology implications**

8.1 None

9. **Well-being and health implications**

9.1 None

10. **Other implications**

10.1 None

11. **Risk implications**

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

Current Risk: High

Residual Risk: High

12. **Equalities**

12.1 None

13. **Appendices**

13.1 Audit Findings Report 2024-25 – Dorset Pension Fund

13.2 Draft letter of representation for Dorset Pension Fund

14. **Background papers**

14.1 (Public Pack)Agenda Document for Audit and Governance Committee, 30/06/2025 18:30

15 Report sign-off

15.1 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).

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Grant Thornton

Audit Findings (ISA 260) Report for Dorset Pension Fund

Year ended 31 March 2025

13 November 2025

Dorset Pension Fund
c/o Dorset Council
County Hall
Dorset
DT1 1XJ

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL

T +44 (0) 117 305 7600

www.grantthornton.co.uk

13 November 2025

Dear Members of the Audit and Governance Committee

Audit Findings for Dorset Pension Fund for the year ended 31 March 2025

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management. We will issue a final audit findings report on the conclusion of our work.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to manage risk, quality and internal control particularly through our Quality Management Approach. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at transparency-report-2024-.pdf.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Julie Masci

Director
For Grant Thornton UK LLP

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Headlines and status of the audit

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Headlines

Financial statements

Introduction

These are the key findings and other matters arising from the statutory audit of Dorset Pension Fund (the 'Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2025 for the attention of those charged with governance.

ISA Requirements

Under the National Audit Office (NAO) Code of Audit Practice (the 'Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2025 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Audit Work

Our audit work commenced in July 2025 and is substantially complete. We have received good cooperation from management in the course of our audit enquiries.

To date, we have not identified any adjustments that impact on the Pension Fund's reported financial position and only disclosure misstatements and changes have been identified. Audit adjustments are detailed in page 33.

We have identified £4.1m of unadjusted differences in the valuation of the Fund's investments disclosed in the financial statements at 31 March 2025 and the valuation statements received from the third-party investment managers. These unadjusted differences are detailed in page 37. Management are proposing not to amend the financial statements on the basis that the differences are not material both quantitively and qualitatively. The Audit Committee will be asked to confirm their agreement to this through the Letter of Representation.

We have also raised recommendations for management as a result of our audit work. These are set out in pages 39 to 41. Our follow up of recommendations from the prior year's audit are detailed in pages 42 to 43.

Continued overleaf

Headlines

Financial statements

Audit Work - continued

Our work is substantially complete, subject to the following outstanding matters:

- review of valuation bases of Level 2 and 3 investments, following a classification error identified;
- responses to our 2 remaining journal enquiries;
- responses to benefits payable sample testing;
- receipt and review of the Pension Fund Annual Report;
- receipt of management representation letter; and
- review of the final set of financial statements and final audit manager and engagement lead review.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.

Due to the disclaimer of opinion on the financial statements for the year ended 31 March 2024, our audit opinion on the current period's financial statements is modified because of the possible effects of this matter on the comparability of the current period's figures and the corresponding figures. Therefore, our anticipated audit opinion will be modified.

Whilst our work on the Pension Fund financial statements is nearing conclusion, we are unable to issue our final audit opinion on the Pension Fund financial statements until our audit, and the audit of the Administering Authority is complete.

We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements.

Due to statutory deadlines, the Pension Fund Annual Report is not required to be published until 1 December 2025 and therefore this report has not yet been produced. We are therefore unable to give this separate opinion and are unable to certify completion of the audit until this work has been completed.

Headlines

Local & National Context

Local Context

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- Dorset Pension Fund successfully connected to the Pension Dashboard ecosystem on 31st October 2025. Heywood provide the Integrated Service Provider for connectivity via both a multi and single source to integrate the fund's responsibilities to Additional Voluntary Contribution contracts. The member data is uploaded daily to capture any member status movements.
- Local Government Pension Scheme: Fit for the future consultation outcome – May 2025 – The government has decided to reduce the number of LGPS asset pools. Brunel Pension Partnership has been deemed unable to meet the newly set minimum pooling standards and must therefore be dissolved. The Council has selected Local Pension Partnership Investments (LPPI) as its preferred new investment pooling partner. Considerable uncertainties remain on how any new arrangements will be adopted and on the future of Brunel.
- In line with Regulation 2(6) of the Local Government Pension Scheme (Information) Regulations 2024, the Fund has exercised its discretion to defer inclusion of the McCloud Remedy underpin in the 2025 Annual Benefit Illustrations. This is due to ongoing delays with the required software delivery. The situation is being closely monitored, and the software provider is under continued pressure to resolve the issues.

Government proposals around the backstop

On 30 September 2024, the Accounts and Audit (Amendment) Regulations 2024 came into force. This legislation introduced a series of backstop dates for local authority audits. These Regulations required audited financial statements to be published by the following dates:

- For years ended 31 March 2025 by 27 February 2026
- For years ended 31 March 2026 by 31 January 2027
- For years ended 31 March 2027 by 30 November 2027

The statutory instrument is supported by the National Audit Office's (NAO) new Code of Audit Practice 2024. The backstop dates were introduced with the purpose of clearing the backlog of historic financial statements and enable to the reset of local audit. Where audit work is not complete, this will give rise to a disclaimer of opinion. This means the auditor has not been able to form an opinion on the financial statements.

Our audit work on the pension fund is substantially complete, but we cannot issue our opinion until we have concluded our outstanding work and until the administering authority audit is complete. This is expected to be concluded ahead of the statutory deadline.

Financial statements

Financial statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the NAO Code of Audit Practice (the 'Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

For Dorset Pension Fund, the Audit and Governance Committee fulfil the role of those charged with governance.

The Pension Committee considers the draft financial statements and is part of the overall member oversight process. We have determined they are an appropriate sub-group to communicate with under ISA (UK) 260.)

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- an evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have had to alter our audit plan, as communicated to you on 30 June 2025, to reflect our updated materiality threshold based on receipt of draft financial statements. This is detailed from pages 12 to 14. There is no change in the risks reported in audit plan.

Financial statements (continued)

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing a modified audit opinion once the Fund and Administering Authority's audit is complete. The outstanding items are set out on page 7.

Acknowledgements

We would like to take this opportunity to record our appreciated for the assistance provided by the finance team and other staff involved in the audit.

Materiality

Our approach to materiality

As communicated in our Audit Plan dated 18 June 2025, we determined materiality at the planning stage as £71m based on 1.82% of your gross investment assets as at 31 March 2024. At year-end, we have reconsidered planning materiality based on the 2024/25 figures in the draft financial statements. Both the materiality for the Net Asset Statement and the specific materiality for the Fund Account changed due to significant change noted in the value of the benchmark used.

A recap of our approach to determining materiality is set out below.

Basis for our determination of materiality

- We have determined materiality at £75m based on professional judgement in the context of our knowledge of the Fund, including consideration of factors such as control environment, economic environment, concentration of ownership, etc.
- We have used 1.83% of gross investment assets as at 31 March 2025 as the benchmark for our materiality. We have revised the materiality from planning as a result of the increase in value in gross investment assets compared to the prior year.
- We have used gross investments asset as the materiality benchmark. This is consistent with our approach in 2023/24.

Performance materiality

- We have determined performance materiality at £56m which is determined as 75% of headline materiality.

Specific materiality for the Fund Account

- We have determined a lower separate materiality for the fund account at £23m, this is based on 10% of gross expenditure (in the fund account) as at March 2025. The lower specific materiality for the fund account will be applied to the audit of all fund account transactions, except for testing of (Profit) and losses on disposal of investments and changes in market value of investments, for which headline materiality will be applied. We have revised the fund account materiality from planning as a result of increase in fund's expenditure as compared to prior year.

Reporting threshold

- We will report to you all misstatements identified in excess of £3.75m, in addition to any matters considered to be qualitatively material.

Our approach to materiality (continued)

A summary of our approach to determining materiality is set out below.

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Description	Amount (£)	Qualitative factors considered
Materiality for the financial statements	£75m (£71m at planning)	We have considered the proportion of gross investment assets to the Fund to be an appropriate benchmark for the financial year. This is approximately 1.83% of your gross investment assets as at 31 March 2025. In setting this materiality level, we considered key qualitative factors like control environment, economic environment, concentration of ownership etc.
Performance materiality	£56m (£53m at planning)	We have determined this using 75% of headline materiality. This reflects the fact that there were no material errors within the 2023/24 accounts and that there has not historically been a large number of significant misstatements, senior management and key reporting personnel in finance function has remained relatively stable and the scoped items for audit remain relatively consistent.
Specific materiality for the fund account	£23m (£17m at planning)	Due to sensitivity of the fund account disclosures to those stakeholders who are admitted members of the Fund, we have determined a lower materiality threshold over the relevant fund account disclosures. This is approximately 10% of the fund's gross expenditure in the year ending 31 March 2025.
Trivial matters - reporting threshold	£3.75m (£3.5m at planning)	This is based on 5% of headline materiality, which we consider to be an appropriate threshold to use in terms of our reporting to the Audit and Governance Committee as 'Those Charged with Governance'

Overview of audit risks

Overview of audit risks

Risk title	Risk level	Change in risk since Audit Plan	Fraud risk	Level of judgement or estimation uncertainty	Status of work
Management override of controls	Significant	↔	✓	Low	🟠
Valuation of Level 3 Investments	Significant	↔	✗	High	🟢
Valuation of Directly Held Investment Properties	Significant	↔	✗	High	🟢
The revenue cycle includes fraudulent transactions	Rebutted	↔	✗	Low	N/A
The expenditure cycle includes fraudulent transactions	Rebutted	↔	✗	Low	N/A

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↑ Assessed risk increased since audit plan

↔ Assessed risk consistent with audit plan

↓ Assessed risk decrease since audit plan

🟢 Not likely to result in material adjustment or change to disclosures within the financial statements

🟠 Potential to result in material adjustment or significant change to disclosures within the financial statements

🔴 Likely to result in material adjustment or significant changes to disclosures within the financial statements

Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risk identified	Audit procedures performed	Key observations
Management Override of Controls In accordance with ISA (UK) 240, we have identified a risk of fraud in respect of management override of controls. Significant	As part of our audit procedures, we have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; and • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness.	Our journals work is substantially complete subject to receipt of outstanding responses to our journal enquiries and audit manager and engagement lead review. Our work has not identified any instances of management override of controls, however, we raised improvement recommendations regarding the points identified below: • we identified that journals below £50k are posted directly into SAP without authorisation. Journals above £50k are required to be approved prior to posting with the exception of FB05 transactions. FB05 transactions are relating to bank postings and direct postings of income and expenditure from the bank statement imports. These journals are automatically approved without the need of approval regardless of value. Journals not subject to second user authorisation are at risk of error or fraud, and hence, we have identified a control deficiency and recommend that compensatory controls are put in place; and • our IT audit work identified a number of control findings which are set out in more detail within our IT audit findings report. This was previously presented to the Audit and Governance Committee on 4th of August 2025. We considered these as part of our journals work and did not identify any issues arising from these deficiencies in the journals that were selected for testing. Outstanding responses to journal enquiries relate to two casual employees with privileged access rights who posted journals on behalf of the Fund and have since left the Council. We are discussing with management as to how obtain enquiries from these individuals or how to gain assurance that there are no instances of management override of controls on the journals posted by these individuals.

Significant risks (continued)

Risk identified	Audit procedures performed	Key observations
Valuation of Level 3 Investments The valuations of level 3 investments are based on unobservable inputs and hence there is a risk of material misstatement due to error. Significant Relevant assertion(s) Valuation, Existence Applicable assertion(s) Rights & Obligations, Presentation Planned level of control reliance None	As part of our audit procedures, we have: • evaluated management's processes for valuing Level 3 investments; • obtained and reviewed the audited financial statements of the investment accounts, where these are at a different reporting date to the Fund's financial statements the valuations are compared accounting for cashflows; • obtained and reviewed the corresponding investment manager report as at the investment accounts and the Fund accounts reporting dates where appropriate; • reviewed purchase and sale transactions of the investment near the reporting date where appropriate; • reviewed the guidelines under which the investment has been valued at the date of the investment accounts and the Fund accounts; • reviewed management's classification of the assets; and • obtained and reviewed investment manager service auditor report on design and operating effectiveness of internal controls where appropriate	Our testing of level 3 investment is substantially complete subject to completion of the work detailed below and subject to engagement lead review. Our work in relation to assessing the appropriateness of the valuation bases and fair value hierarchy is still in progress. We have experienced delay in completing this work due to the fact that the management does not complete its own assessment and relies on its custodian. The responsibility to determine the categorisation of investments remains with the Council in accordance with the requirements of the CIPFA Code. We have raised improvement recommendations in relation to this as set out on page 41 of our report. Based on the work completed thus far, a number of estimation differences regarding the valuation of Level 3 investments were identified. These typically arise as the values at 31 March 2025 are estimated using latest available data (e.g., capital account statement at 31 December 2024) which is then adjusted for known changes, such as calls and distributions (i.e., further investments or capital withdrawals). We have identified a £3.67m understatement of level 3 investments which we reported as an unadjusted misstatement. We have also identified a disclosure issue in terms of classification of investment. An investment amounting to £31.03m will be reclassified from Level 2 to Level 3. Note that this does not impact the overall net assets of the Fund.

Significant risks (continued)

Risk identified	Audit procedures performed	Key observations
Valuation of Directly Held Properties The valuations of directly held investment properties are based assumptions resulting to a material accounting estimate, hence, there is a risk of material misstatement due to error. **Significant** Relevant assertion(s) Valuation Applicable assertion(s) Existence*, Rights & Obligations, Presentation Planned level of control reliance None *Note that following completion of our risk assessment, we deemed that existence is only an applicable assertion rather than relevant assertion.	As part of our audit procedures, we have: • evaluated management's processes for valuing directly held property investments; • assessed the qualification, competence and objectivity if the expert; • obtained and reviewed the valuation report provided by management's expert; • reviewed the methodology and assumptions used in the valuations; • reviewed the movement in valuation from the prior year where appropriate; and • reviewed the inputs and significant assumptions used as part of the valuation for a sample of assets.	Our testing of directly held properties is complete subject to final review. Our work to date has not identified any significant issues with regards to the valuation of Directly Held Properties. An additional disclosure has been added under Note 14 to ensure that the accounts are compliant with the requirements of paragraph 4.4.4.2 4 of the CIFPA Code to disclose a reconciliation between the carrying amounts of investment property at the beginning and end of period.

Other findings

Other findings – key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Summary of management's approach

Level 3 investments (excluding directly held properties) - £491m

The Pension Fund has investments which are valued on the balance sheet as at 31 March 2025 in the following:

- pooled investments that in total are valued at £280m (PY: £255m);
- pooled property investments that in total are valued at £73m (PY: £72m); and
- private equity funds that in total are valued at £137m (PY: £138m).

Management have reviewed the year-end valuations provided by the Fund Managers and have treated them as management experts. These investments are not traded on an open exchange/market, and the valuation of investment is highly subjective due to lack of observable inputs.

Note 17 to the Pension Fund's financial statements sets out the basis of the valuations for the Level 2 investments.

The Pension Fund uses custodian to obtain the valuations provided by fund managers. Service auditor reports (for investment manager and custodians) are obtained and considered by the Pension Fund.

Audit comments

In response to management's approach, we have:

1. Evaluated the design and implementation of relevant controls of management's process for valuing Level 3 investments.
2. Completed and assessment of management's experts – the investment managers.
3. For sample of investments, tested the valuation by obtaining and reviewing the audited accounts (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2025 with reference to known movements in the intervening period.
4. Reviewed the guidelines under which the investment has been valued at the date of the investment accounts and fund accounts.

Continued overleaf

Other findings – key judgements and estimates (continued)

Audit comments (continued)

5. Considered the impact of any changes to the valuation method from the prior period (where applicable).
6. Obtained and reviewed investment manager service auditor reports on design and operating effectiveness of internal controls where appropriate.
7. Evaluation the reasonableness of any increase/decrease in valuation of the estimate, using relevant indices where appropriate
8. Challenged management's classification of the assets.

Additionally, the sensitivities disclosed in the notes to the accounts are deemed to be reasonable in line with the Code, and the estimate is adequately disclosed in the financial statements.

We identified a £6.06m understatement in respect of valuation of level 3 investments because of differences in the auditor's point estimates using audited financial statements in comparison to year-end Fund reporting. As this is an immaterial estimation variance and not deemed to be an error, this is not reported as an unadjusted misstatement in the financial statements. However, this is reported for transparency of the work performed and supports the conclusion that level 3 investments are materially accurate.

In addition, we have identified £31.03m of investments that are classified as level 2 but are actually level 3 investments as these relates to investments valued using unobservable inputs. Management agreed to update this in Note 17 Fair Value of Investment Assets.

Assessment

● [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

Assessment Key

● [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated

● [Amber] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic

● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious

● [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Other findings – key judgements and estimates (continued)

Summary of management's approach

Directly Held Properties - £212m

Directly held properties are investment properties and are required to be revalued each year in line with the Code and Accounting Standards. The valuations are completed by Savills, management's expert, and 100% of total investment property assets were revalued during 2024/25.

The total year-end valuation of investment property was £212m (PY:236m).

Valuation methods are used to calculate a value for each property, including the capitalisation of rental income using yield assumptions.

The management employs CBRE as their property manager who keeps record of investments such as tenancy schedules, rental agreements, etc.

Audit comments

In response to management's approach, we have:

1. Assessed management's experts to ensure they are suitably qualified and independent.
2. Engaged an auditor's expert to review terms of engagements and valuation report.
3. Assessed the completeness and accuracy of underlying information used to determine the estimate.
4. Confirmed that there were no changes to valuation method.
5. Assessed the adequacy of disclosure of the estimate in the financial statements.
6. Evaluated the significant assumptions (yield and market rent) determined by the valuer and involved are auditor's expert, where necessary.

No issues identified in our testing. We deemed that the valuation of Directly Held Properties as at 31 March 2025 is materially accurate.

Other findings – key judgements and estimates (continued)

Assessment
● [Green] We consider management's process is appropriate and key assumptions are neither optimistic nor cautious.

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Assessment Key

- ● [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Amber] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Other findings – key judgements and estimates (continued)

Summary of management's approach

Level 2 investments - £3,279m

The Pension Fund has investments in a range of areas that in total are valued on the net asset statement as at 31 March 2025 at £3,279m (PY: £3,134m). These investments include pooled property funds and other managed funds.

The investments are not directly traded on an open exchange / market as they may be restricted, for example, to Pension Funds that sit within the Brunel arrangement. The valuation of these investments is subjective, although valuations are based on observable inputs and so are not as subjective as Level 3 investments.

Note 17 to the Pension Fund's financial statements sets out the basis of the valuations for the Level 2 investments.

In order to determine the value, management has employed expert fund managers and other advisors who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts.

Audit comments

In response to management's approach, we have:

1. For a sample of investments, tested the valuation by obtaining independent pricing data (where available) and/or reviewing the audited accounts (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2025 with reference to known movements in the intervening period.

2. Reviewed the guidelines under which the investment has been valued at the date of the investment accounts and fund accounts.

3. Considered the impact of any changes to valuation method from prior period (where applicable).

Continued overleaf

Other findings – key judgements and estimates (continued)

Audit comments (continued)

4. Obtained and reviewed investment managers service auditors on design and operating effectiveness of internal controls where appropriate.
5. Evaluated the reasonableness of any increase/decrease in valuation of the estimate, using relevant indices where appropriate.
6. Challenged management's classification of the assets.

We identified a maximum of £23.5m estimated understatement in respect of valuation of level 2 investments because of differences in the auditor's point estimates using independent pricing information in comparison to year-end Fund reporting. As this is an immaterial estimation variance and not deemed to be an error, this is not reported as an unadjusted misstatement in the financial statements. However, this is reported for transparency of the work performed and supports the conclusion that level 2 investments are materially accurate.

In addition, we have identified £31.03m of investments that are classified as level 2 but are actually level 3 investments as these relates to investments valued using unobservable inputs. Management agreed to update this in Note 17 Fair Value of Investment Assets.

Assessment

● [Green] We consider management's process is appropriate and key assumptions are neither optimistic nor cautious.

Assessment Key

● [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
● [Amber] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
● [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Other findings – Information Technology

This section provides an overview of results from our assessment of the Information Technology (IT) environment and controls therein which included identifying risks from IT related business process controls relevant to the financial audit. This table below includes an overall IT General Control (ITGC) rating per IT application and details of the ratings assigned to individual control areas. For further detail of the IT audit scope and findings please see separate 'IT Audit Findings' report presented previously to the Audit and Governance Committee on 4th of August 2025.

			ITGC control area rating			
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks
SAP	Roll forward ITGC assessment	● [Red]	● [Red]	● [Amber]	● [Black]	Management override of controls
UPM	Roll forward ITGC assessment	● [Red]	● [Red]	● [Red]	● [Black]	Contributions and benefits payments and membership data
Active Directory	Roll forward ITGC assessment	● [Red]	● [Red]	● [Black]	● [Black]	n/a

Assessment:

- ● [Red] Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● [Amber] Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● [Green] IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● [Black] Not in scope for assessment

Communication requirements and other responsibilities

Other communication requirements

	Issue	Commentary
1	Matters in relation to fraud	• We have previously discussed the risk of fraud with the Audit and Governance Committee and been made aware of an on-going fraud investigation with the administering authority. Our audit approach is not considered to be impacted but we will assess the impact of this within the Fund once the result of the investigation is available.
2	Matters in relation to related parties	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	• We have requested a Letter of Representation from management and this is included as a separate agenda item.
5	Confirmation requests from third parties	• We requested from management permission to send confirmation requests to their custodian and investment managers. This permission was granted and the requests were sent.
6	Disclosures	• Our review found no material omissions in the financial statements • Significant disclosures in the 2024/25 statutory financial statements include: o Fair value Hierarchy, Actuarial valuation, Uncertainty and risk disclosures
7	Audit evidence and explanations	• Refer to page 7 for outstanding matters and queries.
8	Accounting practices	• We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.

Other communication requirements (continued)

Going Concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Commentary

In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2024). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.

Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:

- 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 entity'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, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities
- for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting.

Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10.

Continued overleaf

Other communication requirements (continued)

Going Concern

Commentary (continued)

The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:

- the nature of the Pension Fund and the environment in which it operates
- the Pension Fund's financial reporting framework
- the Pension Fund's system of internal control for identifying events or conditions relevant to going concern

On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:

- a material uncertainty related to going concern has not been identified
- management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Other responsibilities

Issue	Commentary
Other information	The Pension Fund is administered by Dorset Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements. We are required to read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority. No inconsistencies have been identified.
Matters on which we report by exception	We are required to give a separate consistency opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines, the Pension Fund Annual Report is not required to be published until 1 December 2025 and therefore this report has not yet been produced. We are therefore unable to give this separate opinion and are unable to certify completion of the audit until this work has been completed. We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matter.

Audit adjustments

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Adjusted misstatements

This is a summary of adjusted misstatements identified during the audit. We are required to report all non-trivial misstatements to those charged with governance.

Impact of adjusted misstatements

To date, we have not identified any adjustments that impact the primary financial statements.

Misclassification and disclosure changes

Disclosure misstatement	Detail	Adjusted?
Note 11 Management Expenses	The additional proposed fee in relation to the work in Directly Held Properties were added in the disclosure to ensure that this is consistent with audit plan.	✓
Note 24 Contingent Assets, Liabilities and Contractual Commitments	Our work on the actuarial valuation of the Fund noted that on-going Virgin Media Limited vs NTL Pension Trustees II Limited Case has experienced some updates during the financial year. At this stage the impact on the financial statement is yet to be determined. Our review of the case and the on-going government updates suggest that this meets the definition of Contingent Liability as per IAS 37 and the CIPFA Code. Management agreed to add a narrative disclosure under Note 24.	✓
Other Information (Appendix D)	Our review of the contribution amount identified a variance of £22m between the Fund accounts and the actuary data. This is due to timing difference wherein estimated data has been provided to the actuary. The estimated impact as per the actuary is an increase of 0.2% if the total liability of the Fund. This equates to increase of £7,447k of the defined benefit obligation. Note that this do not impact the Fund Accounts and Net Asset Statement but is only deemed to be a disclosure/other information error and will be communicated via the IAS 19 assurance letter.	✓
Accounting policies	Our review of cash and cash equivalent identified that the accounting policy with regards to what the Fund classifies as cash equivalent is not included. This is not in line with the requirements of CIPFA Code para 3.4.2.15. Management agreed to update their accounting policy to "Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, subject to minimal risk of changes in value and are close to maturity at the time of acquisition, generally within three months or less."	✓

Adjusted misstatements

Disclosure misstatement	Detail	Adjusted?
Note 14 Investment Assets	Our review of investment disclosure identified that the disclosure in relation to the market value of the assets at balance sheet date that were under the management of fund managers and the proportion managed by each manager as required by para 6.5.5.1 h) of the Code is missing. The client agreed to update the accounts to reflect this. An additional table in relation to this has been added under Note 14.	✓
Note 14 Investment Assets	Our review of the future lease minimum receivable payments identified that there were rent contracts included despite the property being sold. There were also issues with the formula used causing material differences. The management reviewed this and revised the disclosure as below: Within one year - from £13,422k to £9,498k Between one and five years - from £41,927k to £20,667k Later than five years - from £43,730k to £37,360k Total - from £99,079k to £67,524k However, upon further review of the contracts, we identified contracts wherein the current rent is not updated. Our recalculation identified a net variance in the total of £5,202k understatement of future minimum lease receivables. This is not material, hence, the Fund did not further update the disclosure. We recommend to the management to review the tenancy schedules and make sure that this is current to ensure accurate reporting within the accounts.	✓
Note 14B Property Holdings	An additional disclosure has been added under Note 14 to ensure that the accounts is compliant with the requirements of paragraph 4.4.4.2 4) of CIFPA Code to disclose a reconciliation between the carrying amounts of investment property at the beginning and end of period.	✓

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Adjusted misstatements

Disclosure misstatement	Detail	Adjusted?
Note 14 Investment Assets	Our review of investment note asset disclosures identified that the requirement of the CIPFA Code [para 6.5.5.1 l)] to disclose any single investment exceeding 5% of the net assets available for benefits is not being complied with. The Fund has since then revised their Note 14 to show the percentages of each single investment. However, we noted that the Fund used the total investment assets instead of the total net investment asset available for benefits. The percentages movement were not material if the Fund used the net investment assets but we still recommend to the Fund to disclose this in the future using the net investment assets available for benefits.	Partially
Note 17 Fair Value of Investments	A couple of adjustments have been made to Note 17 to ensure that is materially correct and in line with the requirements of CIPFA Code: – One investment amounting to £31.03m was reclassified from Level 2 to Level 3 as it has been valued using unobservable inputs. This is a disclosure adjustment only and does not impact the Net Asset Statement. – The cash and cash equivalents have been omitted from the disclosure. The adjustments are currently being finalised.	TBC
Note 18 Classification of Financial Instruments	Our testing identified that in Note 18, all cash and cash equivalents were disclosed as amortised cost which is not in line with our expectations given that this includes cash equivalents that are valued on a fair value basis at year-end. The following adjustments were made: Cash and cash equivalents Fair value through profit or loss – from nil to £83,044k Assets at amortised cost – from £88,239k to £51,95k	✓
Throughout	Following review of accounts by engagement lead and manager and also consistency check carried out, we have noted minor errors and wording amendments. Management has agreed to update the financial statements to reflect these changes.	TBC

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Unadjusted misstatements

This is a summary of unadjusted misstatements identified during the audit. We are required to report all non-trivial misstatements to those charged with governance.

		Pension Fund Account		Net Asset Statement £'000			
Adjustment ref.	Detail	Debit £'000	Credit £'000	Debit £'000	Credit £'000	Impact on total net assets £'000	Reason for not adjusting
	Total net assets per final accounts					**£4,085,317**	
	We have noted variances between the Level 2 and 3 investment values stated in the financial statements and the Level 2 and 3 investment values confirmed by Fund manager. This resulted to understatement in Level 2 and 3 investments.	-	£4,108	£4,108	-	£4,108	Not material
	We have identified one (1) sample in Transfers in testing that is relating to 2023/24. This caused overstatement in the Transfers in figure for 2024/25. Note that this do not impact the total net assets as the other entry is credit to the opening balance of net assets.	£4,302	-	-	£4,302	-	Not material
	Total net assets – recalculated to include unadjusted misstatements					**£4,089,425**	

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Impact of unadjusted misstatements in the prior year

This is a summary of unadjusted misstatements identified during the prior year audit, which impact the current year financial statements.

	Pension Fund Account		Net Asset Statement £'000			
Detail	Debit £'000	Credit £'000	Debit £'000	Credit £'000	Impact on total net assets £'000	Reason for not adjusting
Our testing of level 3 investments identified differences between the estimated investment values used in the financial statements and the actual investment values per the capital asset statements as at 31 March 2024 due to timing differences. The total of these differences are an understatement of investments of £2.892m. Note that since investments are valued at year-end, the impact would only be on the Profit/(loss) on disposal of investments and changes in the value of investments which is in the Fund Account and the opening net assets of the Fund.	£2,892	-	-	£2,892	-	Not material
Total net assets – recalculated to include unadjusted misstatements identified in both the prior and current year					**£4,089,245**	

Action plan

We have identified 6 recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2025/26 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	● [Red]	Our audit work has identified that journals below £50k are posted directly into SAP without authorisation. Journals above £50k are required to be approved prior to posting with the exception of FB05 transactions (refer to page 17). This increases the risk of error and the potential for fraud and management override of controls.	We recommend that compensatory controls are put in place. **Management response** The financial system currently used by the Council (SAP) does not allow for approvals within the system. This will be reviewed as part of the process for implementing a replacement system. The process for approval of journals in the pension fund accounts is the same as that for the 'main' Council accounts, where the £50k threshold has been set as a balance between risk and resource.
2	● [Amber]	We have again identified that there was no budget monitoring undertaken for the pension fund. Investments are monitored throughout the year but there is no monitoring of items within the fund account such as management expenses, benefit payments and contributions. Monitoring and reporting of these values through out the year would help early identification of anomalies.	We recommend that a budget for fund account items is developed and reporting against throughout the year. **Management response** A budget for fund account items has been developed and will be reported against throughout the year

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Assessment key:
- [Red] High – Significant effect on financial statements
- [Amber] Medium – Limited effect on financial statements
- [Green] Low – Best practice

Action plan (continued)

	Assessment	Issue and risk	Recommendations
3	●	Our testing of starters and leavers identified that a number of leavers did not have leaving dates recorded. This was due to a backlog of leaver processing within the Pension Fund team. All leavers tested had left and evidence to support this was provided. However, their pension leaving date and status had not been updated in the UPM system.	We recommend that status updates are processed in a more timely manner. **Management response** Typically, the leaver processes are processed in a timely manner in line with KPIs and Service Level Agreements covered within the pension fund's administration strategy. However, there may be instances where delays for deferments occur due to resource needing to be pooled on work areas of a higher priority.
4	●	We identified issue in our testing wherein transfers in payment relating to 2023/24 was only recognised in the general ledger in 2024/25 due to resourcing issue creating backlog in pensions admin team. This creates risk that material transaction could be missed causing material error within the accounts.	We recommend that management should ensure adequate resource and controls to be put in place to ensure transactions are recorded in the timely manner. **Management response** Typically, transfers in payment are processed in a timely manner but there may be instances where delays occur due to resource needing to be pooled on work areas of a higher priority. It is highly unlikely that such transactions would be material and, if they were, that they would be missed.

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Assessment key:
- ● [Red] High – Significant effect on financial statements
- ● [Amber] Medium – Limited effect on financial statements
- ● [Green] Low – Best practice

Action plan (continued)

	Assessment	Issue and risk	Recommendations
5	[Amber]	Our testing identified that the Fund does not have its own assessment of the classification and valuation level of the investments they hold as well as the detailed breakdown of their cash equivalent under Level 1 and 2 investments. They solely rely on their custodian to provide this assessment and information. This cause some delays in the audit wherein we had been back and forth with the Fund to obtain this information. Due to the significance of the investment the Funds hold, there is a risk of material misstatement in the disclosure if the classification is incorrect.	We recommend that management should ensure they have their own assessment of their valuation bases in line with CIPFA Code and they should maintain own records of their investment asset. This should be readily available for audit at beginning of fieldwork. **Management response** The classification of the pension fund's assets by Fair Value hierarchy is initially undertaken by the pension fund's custodian, then reviewed by officers, but we agree that the reasons for the classification of each asset should be readily available each year at the beginning of audit field work.
6	[Amber]	Our review of investments disclosures identified that the tenancy schedule were not updated by the Fund and its property manager. It still includes properties that were sold by the Fund and some of the annual rent were not updated in line with the latest agreed rent. This resulted to disclosure error in future minimum lease receivable payments which the Fund amended. Refer to page 35 for our findings. This creates risk of material error within the disclosure.	We recommend that management ensure the tenancy schedule is up to date. **Management response** Agreed.

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Assessment key:
- [Red] High – Significant effect on financial statements
- [Amber] Medium – Limited effect on financial statements
- [Green] Low – Best practice

Follow up of prior year recommendations

This is a summary of where we identified recommendations for the Pension Fund because of issues identified during the prior year audit, and an update on actions taken by management as a result.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	×	Our audit work has identified that journals below £50k are posted directly into SAP without authorisation. Journals above £50k are required to be approved prior to posting. This increases the risk of error and the potential for fraud and management override of controls. We recommend that compensatory controls are put in place.	This remains as finding in our audit. We have raised this again as part of this year's audit recommendation – see Action Plan.
2	×	We identified that was no budget monitoring undertaken for the pension fund. Investments are monitored throughout the year but there is no monitoring of items within the fund account such as management expenses, benefit payments and contributions. Monitoring and reporting of these values through out the year would help early identification of anomalies. We recommend that a budget for fund account items is developed and reporting against throughout the year.	This remains as finding in our audit. We have raised this again as part of this year's audit recommendation – see Action Plan.
3	✓	Our Directly Owned Property testing identified that a formal 'Terms of Engagement' document is not issued annually between the valuer and the Pension Fund. This is a mandatory requirement for Valuers under the RICS valuation standards. We recommend that an annual 'Terms of Engagement' document for any valuation completed is obtained.	Management changed valuer during the year and has provided us with formal 'Terms of Engagement' This has been reviewed by our auditor's expert and confirmed this is appropriate.

Assessment:

✓ Action completed

→ Work in progress / Partially addressed

× Not yet addressed

Follow up of prior year recommendations (continued)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4	×	Our testing of starters and leavers identified that a number of leavers did not have leaving dates recorded. This was due to a backlog of leaver processing within the Pension Fund team. All leavers tested had left and evidence to support this was provided. However, their pension leaving date and status had not been updated in the UPM system. We recommend that status updates are processed in a more timely manner.	This remains as finding in our audit. We have raised this again as part of this year's audit recommendation – see Action Plan.
5	✓	Our testing of year end bank reconciliations for both the 2022/23 and 2023/24 financial years noted that there were a number of items that had not been cleared for a significant period, with the oldest dated 2022. We recommend that as part of monthly bank reconciliations the fund ensure items are cleared before the following month. Any remaining should be investigated further and written off where necessary.	Our work in the current year audit has not identified any long outstanding bank reconciling items, therefore, we consider this recommendation as addressed.
6	✓	We reviewed the opening trial balance for 2023/24 and compared this against the prior year closing position (31/03/23) to ensure completeness. In our review, we identified a manual adjustment of £490k that was made to the comparator figures in the 2023/24 accounts, however, this was not reflected in the ledger. This was a late 2022/23 audit adjustment. Whilst we are satisfied that the correct adjustment has been made to the prior year comparators, and the amount is trivial, we are reporting this as a control weakness as all transactions should be posted to through the general ledger. Going forward we recommend that all transactions/adjustments are processed in the ledger to ensure all transactions/adjustments are subject to the same level of internal control and scrutiny.	Our reconciliation of closing balance in 2023/24 to opening balance in 2024/25 has not identified any similar manual adjustments therefore, we consider this recommendation as addressed.

Assessment:

✓ Action completed

→ Work in progress / Partially addressed

× Not yet addressed

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Independence considerations

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Independence considerations

As part of our assessment of our independence we note the following matters:

Matter	Conclusions
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Fund that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Fund or investments in the Fund held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Fund as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Fund.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Fund's committees, senior management or staff (that would exceed the threshold set in the Ethical Standard).

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person and network firms have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Fees and non-audit services

Our firm also provides audit and non-audit services to the Dorset Council, the administering authority. The fees in relation to these services and the related ethical considerations are reported in the Audit Findings Report issued to TCWG for that entity. Consequently, such fees are disclosed in the Council's financial statements rather than the Pension Fund's.

We confirm below our final proposed fees charged for the audit and confirm that there were no fees for the provision of non-audit services.

Audit fees	£
Audit of Dorset Pension Fund – Scale Fee	£93,992
Direct Property Valuations Work (estimated)	£10,000
Total (Exc. VAT)	**£103,992**

Additional fee analysis – fee variation for in year work

The following table sets out further information on additional fees and a final analysis will be provided at the conclusion of the audit once all time records are finalised. A separate table for the additional fees arising from the work of our auditor's valuation expert is also shown below.

Grade	Rate (Determined by PSAA)	Hours	Fee variation for Audit 2024/25
Director	£428	TBC	TBC
Manager	£236	TBC	TBC
Senior Auditor	£153	TBC	TBC
Other staff	£117	TBC	TBC
Total			

Expert Fee	Rate	Hours	Fee variation for Audit 2024/25
Stage 1 and 2 Review	£3,000 plus VAT	Fixed	£3,000
Stage 3 Review	£125	4	£500
Total			£3,500

The above is subject to review by PSAA who will make a final determination.

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Appendices

A. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	●	
Confirmation of independence and objectivity	●	●
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	●	●
Significant matters in relation to going concern	●	●
Views about the qualitative aspects of the Fund's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		●
Significant findings from the audit		●
Significant matters and issue arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit		●
Significant deficiencies in internal control identified during the audit		●
Significant matters arising in connection with related parties		●

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A. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		●
Non-compliance with laws and regulations		●
Unadjusted misstatements and material disclosure omissions		●
Expected modifications to the auditor's report, or emphasis of matter		●

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ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the company directors and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance.

Grant Thornton

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[Prepare on client letterhead**]**

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL

[Date of Accounts Approval]

Dear Grant Thornton UK LLP

Dorset Pension Fund
Financial Statements for the year ended 31 March 2025

This representation letter is provided in connection with the audit of the financial statements of Dorset Pension Fund ("the Fund") for the year ended 31 March 2025 for the purpose of expressing an opinion as to whether the Fund financial statements give a true and fair view in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024-25 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities, as set out in the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited, for the preparation of the Fund's financial statements in accordance with the Accounts and Audit Regulations 2015, International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024-25 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of level 2 and level 3 investments and directly owned properties. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent;

b. none of the assets of the Fund has been assigned, pledged or mortgaged; and

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

ix. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached to this letter. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

x. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xi. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xii. We have updated our going concern assessment. We continue to believe that the Fund’s financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that that:

a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements;

b. the financial reporting framework permits the Fund to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Fund’s system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xiii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Fund from whom you determined it necessary to obtain audit evidence.

xiv. We have communicated to you all deficiencies in internal control of which management is aware.

xv. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xvii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xviii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xix. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xx. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xxi. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxii. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Fund's Audit and Governance Committee at its meeting on 24 November 2025.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Fund

Summary of Unadjusted Misstatements

Detail	Pension Fund Account Debit £'000	Pension Fund Account Credit £'000	Net Asset Statement £'000 Debit £'000	Net Asset Statement £'000 Credit £'000	Impact on total net assets £'000	Reason for not adjusting
Total net assets per final accounts					£4,085,317	
We have noted variances between the Level 2 and 3 investment values stated in the financial statements and the Level 2 and 3 investment values confirmed by Fund manager. This resulted to understatement in Level 2 and 3 investments.	-	£4,108	£4,108	-	£4,108	Not material
We have identified one (1) sample in Transfers in testing that is relating to 2023/24. This caused overstatement in the Transfers in figure for 2024/25. Note that this do not impact the total net assets as the other entry is credit to the opening balance of net assets.	£4,302	-	-	£4,302	-	Not material
Total net assets – recalculated to include unadjusted misstatements					**£4,089,425**	

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V2/25

Audit & Governance Committee
24 November 2025
Interim Auditors Annual Report 2024/25
For Review and Consultation

Cabinet Member:
Cllr S Clifford, Finance & Capital Strategy

Local Councillor(s): All

Senior Leadership Team:
S Cremer, Corporate Director, Section 151 Officer

Report author and job title: Sean Cremer, Corporate Director, Section 151 Officer
Email: Sean.Cremer@dorsetcouncil.gov.uk

Statutory Authority: Dorset Council

Report status: Public

Executive summary (maximum of 500 words)

1. This report and attachment comes to the Audit and Governance Committee to note the report of the external auditor for 2024/25.

1.1 The associated paper contains a summary of the findings from the audit as well as the management response to findings and/or recommendations as appropriate.

2. **Recommendation(s)**

2.1 The committee is asked to:

2.1.1 note the content of the Interim Auditors Annual Report 2024/25.

3. **Reason for the recommendation(s)**

3.1 As part of the national backstop stop deadline of the 27th February 2026 for the completion of the 2024/25 audit, the committee are asked to approve the recommendation in relation to observations to date from audit of the financial statements for 2024/25.

4. **The report**

4.1 Background

4.1.1 The attached report, provided by Grant Thornton set out the findings (to date) arising from the audit of the Dorset Council 2024/25 financial statements. The report details the work that has been carried out in line with what was agreed in the Audit Plan which was presented to committee on 30th June 2025.

4.1.2 The draft statements of accounts were submitted to Grant Thornton for their review on 20th June 2025.

5. **Alternative options considered**

5.1 n/a

6. **Legal considerations**

6.1 n/a

7. **Financial implications**

7.1 All covered within this report.

8. **Natural environment, climate & ecology implications**

8.1 None

9. **Well-being and health implications**

9.1 None

10. **Other implications**

10.1 None

11. **Risk implications**

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

Current Risk: High

Residual Risk: High

12. **Equalities**

12.1 None

13. **Appendices**

13.3 Interim Auditors Annual Report 2024/25

14. Background papers

14.1 (Public Pack)Agenda Document for Audit and Governance Committee, 30/06/2025 18:30

15 Report sign-off

15.1 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).

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Dorset Council

Interim Auditor's Annual Report
Year ending 31 March 2025

14 November 2025

Contents

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting, on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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01 Introduction and context

Introduction

This report brings together a summary of all the work we have undertaken for Dorset Council during 2024/25 as the appointed external auditor. The core element of the report is the commentary on the value for money (VfM) arrangements. The responsibilities of the Council are set out in Appendix A. The Value for Money Auditor responsibilities are set out in Appendix B.

Opinion on the financial statements

Auditors provide an opinion on the financial statements which confirms whether they:

- give a true and fair view of the financial position of the Council as at 31 March 2025 and of its expenditure and income for the year then ended
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2024/25
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014

We also consider the Annual Governance Statement and undertake work relating to the Whole of Government Accounts consolidation exercise.

Auditor's powers

Under Section 31 of the Local Audit and Accountability Act, the auditor of a local authority may make an application for judicial review of a decision of that authority, or of a failure by that authority to act, which it is reasonable to believe would have an effect on the accounts of that body. They may also issue:

- Statutory Recommendations to the full Council which must be considered publicly
- A Public Interest Report (PIR)

Value for money

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (referred to as Value for Money). The National Audit Office (NAO) Code of Audit Practice ('the Code'), requires us to assess arrangements under three areas:

- financial sustainability
- governance
- improving economy, efficiency and effectiveness.

Our report is based on those matters which come to our attention during the conduct of our normal audit procedures, which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. The NAO has consulted on and updated the Code to align it to accounts backstop legislation. The new Code requires auditors to share a draft Auditor's Annual Report (AAR) with those charged with governance by a nationally set deadline each year, and for the audited body to publish the AAR thereafter. This new deadline requirement is introduced from November 2025.

Local government – context

Local government has remained under significant pressure in 2024/25

National

Past

Funding Not Meeting Need

The sector has seen prolonged funding reductions whilst demand and demographic pressures for key statutory services has increased; and has managed a period of high inflation and economic uncertainty.

Workforce and Governance Challenges

Recruitment and retention challenges in many service areas have placed pressure on governance. Recent years have seen a rise in the instance of auditors issuing statutory recommendations.

Present

Financial Sustainability

Many councils continue to face significant financial challenges, including housing revenue account pressures. There are an increasing number of councils in receipt of Exceptional Financial Support from the government.

External Audit Backlog

Councils, their auditors and other key stakeholders continue to manage and reset the backlog of annual accounts, to provide the necessary assurance on local government finances.

Future

Funding Reform

The UK government plans to reform the system of funding for local government and introduce multi-annual settlements. The state of national public finances means that overall funding pressures are likely to continue for many councils.

Reorganisation and Devolution

Many councils in England will be impacted by reorganisation and / or devolution, creating capacity and other challenges in meeting business as usual service delivery.

Local

Dorset Council (the Council) is a unitary council formed in 2019 following local government reorganisation. It has an estimated population of 379,584 residents (ONS 2021). The Council operates under an Executive decision-making model, which oversees the formation of all major policies, strategies and plans and as such the Council's formal decision making and governance structure constitutes the Full Council and an Executive (the Cabinet). Full Council and Cabinet are supported by several scrutiny committees. The Council has 82 councillors, and the Council is elected every four years. The most recent elections were in May 2025 when the Liberal Democrats secured a majority with 42 elected councillors.

It is within this context that we set out our commentary on the Council's value for money arrangements in 2024/25.

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02 Executive Summary

Executive Summary – our assessment of value for money arrangements

Our overall summary of our Value for Money assessment of the Council's arrangements is set out below. Further detail can be found on the following pages. This is an interim report and our final findings and conclusions will be confirmed following the completion of our financial statements audit. Further details on the status of this report are set out on page 11.

Criteria		2023/24 Assessment of arrangements	2024/25 Risk assessment		2024/25 Assessment of arrangements
Financial sustainability	R	Significant weakness in arrangements identified, one key recommendation and three improvement recommendations also raised.	Two risks of significant weakness identified in relation to: the Dedicated Schools Grants (DSG) deficit and failure to deliver transformational (Our Future Council) savings.	R	Significant weakness in arrangements; the increasing DSG deficit was identified and a key recommendation raised. We also raise one new improvement recommendation focusing on delivering transformational savings.
Governance	R	Significant weaknesses identified in relation to procurement arrangements and six improvement recommendations raised.	One risk of significant weakness identified in relation to: procurement and compliance with the Contract Procedure Rules.	R	Four significant weaknesses in arrangements were identified and one key recommendation made relating to arrangements with the health and safety compliance in the Council's own buildings and properties. We also raise two improvement recommendations.
Improving economy, efficiency and effectiveness	R	Significant weaknesses identified in relation to procurement arrangements and two improvement recommendations raised.	No new significant weakness identified, but carry forward of 2023/24 significant weakness.	R	One significant weaknesses in arrangements identified and one key recommendation as raised above relating to the health and safety compliance team.

G	No significant weaknesses or improvement recommendations.
A	No significant weaknesses, improvement recommendation(s) made.
R	Significant weaknesses in arrangements identified and key recommendation(s) made.

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Executive Summary

We set out below the key findings from our commentary on the Council's arrangements in respect of value for money.

Financial sustainability

In 2024/25 the Council incurred a £6.7m revenue overspend, which was mitigated using reserve balances to deliver a breakeven outturn for the year. The Council delivered savings of £21m during the period, but failed to deliver its transformational savings of £8.6m.

The Dedicated Schools Grant (DSG) cumulative deficit rose to £95.63m, following an in year overspend of £37.3m. This was raised as a significant weakness in 2023/24 and given the continued deterioration in 2024/25 has remained a significant weakness this year.

General fund reserves remain reasonable at £39.8m and earmarked reserves of £114m. Significant financial risks would crystalise if the statutory override supporting the DSG deficit were to be removed in 2027/28.

Governance

A range of policies are in place to support officers and members, including a whistleblowing policy and Codes of Conduct. Risk management arrangements are also in place.

However, these arrangements were undermined by inadequate governance arrangements in place to address the Council's lack of management, member oversight and control relating to its Building Health and Safety Compliance arrangements. An Internal Audit investigation found significant failings across corporate governance, budget monitoring, authorisation of funding and internal controls. This is a significant weakness in arrangements and due to the significance of this matter, we have raised a key recommendation.

Improving economy, efficiency and effectiveness

Performance reporting was undertaken through a leadership dashboard and informal Cabinet and we continue to recommend reporting in a public meeting. In March 2025, the Council received an 'Outstanding' grade following the Ofsted inspection of its children's services.

The Council has maintained focus on its significant partnerships with regular reporting to Cabinet.

Arrangements were in place to oversee procurement and contract management. However, the Internal Audit investigation into Building Health and Safety Compliance identified significant failings in controls with the Council's procurement procedures. This is a significant weakness in arrangements and due to the significance of this matter, we have raised a key recommendation.

Executive summary – auditor's other responsibilities

This page summarises our opinion on the Council's financial statements and sets out whether we have used any of the other powers available to us as the Council's auditors.

Auditor's responsibility	2024/25 outcome
Opinion on the Financial Statements	We are progressing well with the audit of your financial statements and at the time of writing this report, our work remains in progress. Our workplans estimate completion of our work in time to report our findings to the Council's Audit and Governance Committee in November 2025. This is subject to any further residual work required in response to the outcomes of the recent Building Health and Safety investigation findings and the outcomes of ongoing police investigative work into the matter.
Use of auditor's powers	Our work remains in progress. At the time of writing we confirm: • We did not make any written statutory recommendations under Schedule 7 of the Local Audit and Accountability Act 2014. • We did not make an application to the Court or issue any Advisory Notices under Section 28 of the Local Audit and Accountability Act 2014. • We did not make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014. • We did not identify any issues that required us to issue a Public Interest Report (PIR) under Schedule 7 of the Local Audit and Accountability Act 2014. We will reassess these requirements at the conclusion of our financial statements audit.

03 Opinion on the financial statements and use of auditor's powers

Opinion on the financial statements

These pages set out the key findings from our audit of the Council's financial statements, and whether we have used any of the other powers available to us as the Council's auditors.

Audit opinion on the financial statements

We are progressing well with the audit of your financial statements and at the time of writing this report, our work remains in progress. Our workplan estimates completion of our work in time to report our findings to the Council's Audit and Governance Committee in November 2025. This is subject to any further residual work required in response to the outcomes of the recent Building Health and Safety investigation findings and the outcomes of ongoing police investigative work into the matter.

Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2025 and of its expenditure and income for the year then ended
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2024/25
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with: International Standards on Auditing (UK), the Code of Audit Practice (2024) published by the National Audit Office, and applicable law. We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Findings from the audit of the financial statements

The Council provided draft accounts in line with the national deadline of 30 June 2025.

Draft financial statements were of a reasonable standard and supported by detailed working papers.

The Council issued a press statement on 28 July 2025 surrounding serious findings identified from two significant investigations into urgent health and safety compliance work. This concluded significant weaknesses in governance, financial controls, procurement practices and management oversight at the Council.

Given the significant failures within the control environment and the consequential financial impact on the Council, we are required to consider the impact of these findings of the 2024/25 audit and determine any additional audit response required.

In any situations where fraud is suspected or identified, further investigative work will be required into the circumstances surrounding these findings and assessment of the risk of possible wider occurrences impacting the financial statements. We will utilise specialist forensic accounting specialists within our team to support us with this aspect.

Audit Findings Report

We will report the detailed findings from our audit in our Audit Findings Report. This report is scheduled to be presented to the Council's Audit and Governance Committee in November 2025. The issuing of our final audit opinion will be subject to the final outcomes of the ongoing police investigative work.

Opinion on the pension fund statements

These pages set out the key findings from our audit of the pension fund financial statements, and whether we have used any of the other powers available to us as the Council's auditors.

Audit opinion on the financial statements

We are progressing well with the audit of your pension fund financial statements and at the time of writing this report, our work is substantially complete with only a small number of areas outstanding. Our workplan estimates completion of our work in time to report our findings to the Council's Audit and Governance Committee in November 2025.

The Pension Fund is required to publish its Annual Report by 1 December 2025. We issue an auditor's consistency report which includes our opinion that the 2024/25 Dorset Pension Fund financial statements within the Pension Fund Annual Report are consistent, in all material aspects, with those within the audited administering authority's Financial Statements.

Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Pension Fund as at 31 March 2025 and of its expenditure and income for the year then ended
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2024/25
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014

We conducted our audit in accordance with: International Standards on Auditing (UK), the Code of Audit Practice (2024) published by the National Audit Office, and applicable law. We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Findings from the audit of the financial statements

The Pension Fund provided draft accounts in line with the national deadline.

Draft financial statements were of a reasonable standard, There are opportunities to improve the quality of some working papers supporting the detailed notes to the pension fund financial statements. We have received good cooperation from officers throughout the course of our work.

Audit Findings Report

We will report the detailed findings from our pension fund audit in our Audit Findings Report. A final version of our report is scheduled to be presented to the Council's Audit and Governance Committee in November 2025. Requests for this Audit Findings Report should be directed to the Council.

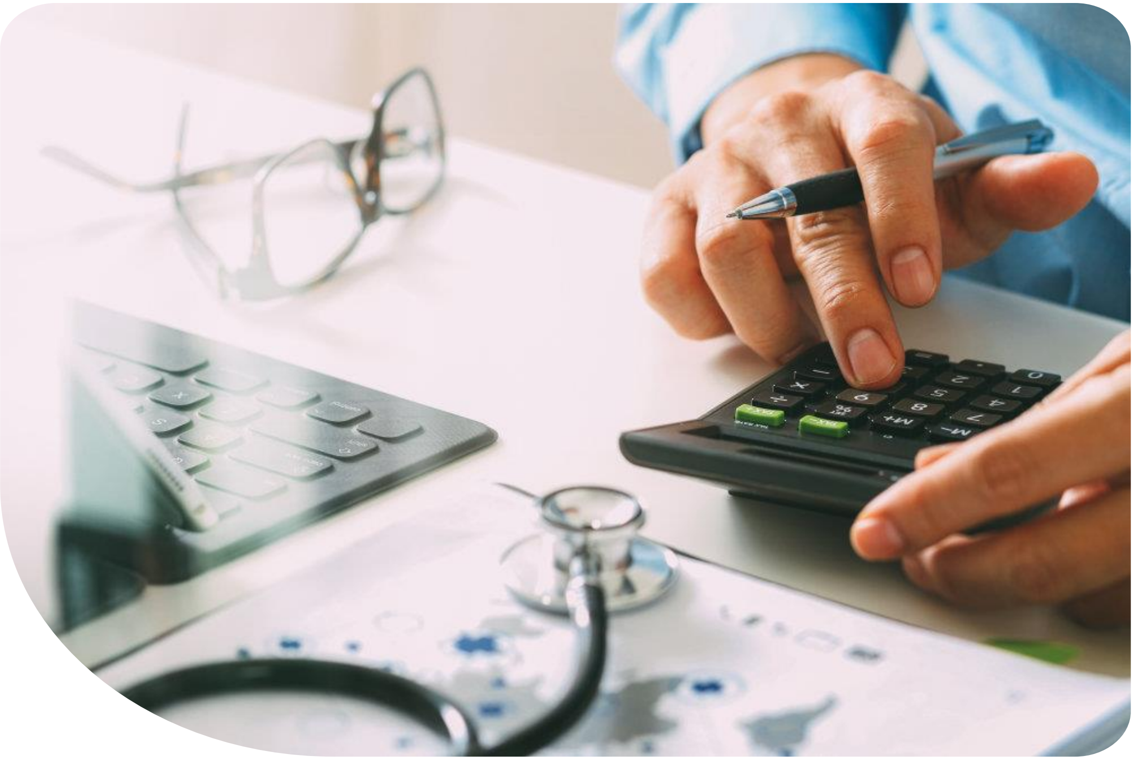
Other reporting requirements

Annual Governance Statement

Under the Code of Audit Practice published by the National Audit Office we are required to consider whether the Annual Governance Statement does not comply with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting, or is misleading or inconsistent with the information of which we are aware from our audit.

We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

Our work on the Annual Governance Statement remains in progress. We have nothing to report in this regard at this stage.



Use of auditor's powers

We bring the following matters to your attention:

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body.

At the time of writing, we have not issued any statutory recommendations to the Council in 2024/25.

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Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

At the time of writing we have not issued a report in the Public Interest with regard to arrangements at Dorset Council for 2024/25.

04 Value for Money commentary on arrangements

Value for Money – commentary on arrangements

This page explains how we undertake the value for money assessment of arrangements and provide a commentary under three specified areas.

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Councils report on their arrangements, and the effectiveness of these arrangements as part of their Annual Governance Statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office (NAO) Code of Audit Practice ('the Code'), requires us to assess arrangements under three areas:

Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and budget management, risk management, and making decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial sustainability – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
Identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	The Council reported a £6.7m overspend for the 2024/25 year, which was mitigated using reserve balances to deliver a breakeven outturn. This was a result of an overspend within adults' social care and the failure to deliver planned transformation savings through its Our Future Council programme. The Council experienced pressure within its demand-led services from the start of 2024/25 and financial controls were tightened to try and reduce escalating costs. The Dedicated Schools Grant (DSG) deficit has continued to increase and as at 31 March 2025 the cumulative deficit was reported as £95.63m, following an overspend of £37.3m in-year. This was raised as a significant weakness in 2023/24 and continues to be a significant weakness in 2024/25. The key recommendation which we raised in 2023/24 remains valid and is set out on page 42. The Council reported general fund reserves of £39.8m and earmarked reserves of £114m within its draft financial statements. This level of reserves is reasonable, however further financial risks would crystalise and would not be sufficient if the statutory override is removed in 2027/28 and DSG deficits had to be covered by reserves in future. The Council spent £89.7m on capital projects in 2024/25, compared to a budget of £119.3m agreed in February 2024, 75% of original budget. The capital budget was adjusted throughout the year for slippage and new projects and the outturn report set out the capital budget of £551.9m from 2024/25 to 2028/29. The Council's Medium Term Financial Plan (MTFP) was approved by Full Council in February 2025 and covered four years up until 2029/30. A refresh is currently underway to support the 2026/27 budget.	R

G	No significant weaknesses or improvement recommendations.
A	No significant weaknesses, improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendation(s) made.

Financial sustainability – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
plans to bridge its funding gaps and identify achievable savings	The Council set out its funding gaps and savings target within its MTFP. The 2024/25 savings target was £34m (including £8.6m of transformational (Our Future Council) savings). The Council delivered savings of £21m. It failed to deliver any of its transformational savings, as these savings were introduced late in the process and were not supported by any plans. A contingency reserve allocation to the total value of the savings target, £8.6m, was set aside to mitigate this risk. We raise an improvement recommendation on page 20. In 2025/26 the Council needs to deliver £44.6m in savings, including £10m as part of its transformation savings, this is larger than in previous years and will be a challenge for the Council.	A
plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	The Council has aligned its corporate priorities and financial plans to ensure sustainable delivery of services. The Council Plan 2024-2029 had four key priorities: provide affordable and high-quality housing, grow the economy, communities for all, respond to the climate and nature crisis. There is a contingency budget for 2025/26 which includes allocations to support delivery of the Council Plan priorities. The Council has also accounted for pressures relating to the delivery of statutory services and considers discretionary spend when setting the budget.	G

G	No significant weaknesses or improvement recommendations.
A	No significant weaknesses, improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendation(s) made.

Financial sustainability – commentary on arrangements (continued)

We considered how the Council:	Commentary on arrangements	Rating
ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system	The Council's financial plan and other strategies like the Climate and Ecological Emergency Action Plan and the Strategic Asset Management Plan 2024-2030 were consistent. The Council's capital programme is also aligned with strategic objectives listed in the Council Plan 2024-2029.	G
identifies and manages risk to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions in underlying plans	Risks to financial delivery were monitored and identified throughout 2024/25 and were reported to Cabinet in the quarterly financial monitoring reports. These reports included risk assessments which scored current and residual risk. The 2025/26 budget and MTFP also set out risks to financial delivery. The budget setting process in 2024/25 included scenario planning to mitigate uncertainty around several variables. Savings options were developed with various scenarios to show what percentage of savings would be required to balance the budget.	G

G	No significant weaknesses or improvement recommendations.
A	No significant weaknesses, improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendation(s) made.

Financial sustainability (continued)

Area for Improvement identified: identifying and delivering transformational (Our Future Council) savings

Key Finding: As part of the 2024/25 budget setting process in February 2024 the Council agreed a transformation programme, Our Future Council, to address the budget gap. This was for a savings requirement of £12m decreased to £8.6m when additional funds were made available. The Council failed to deliver any of the £8.6m transformational savings target. This was recognised by the Council as a risk, and a contingency reserve was set aside for £8.6m to cover this saving.

The Council did not have a business case or plans in place to deliver these savings, when they agreed the budget in February 2024.

Evidence: The Council developed a business case during in 2024/25, supported by a four-year transformation plan, which was agreed in November 2024.

In 2025/26, the transformational savings requirement is £10m and includes reducing employee spend (£9m) and reducing third-party spend (£1m). The £10m requirement is part of the £44.6m (22.4%) savings target for 2025/26, and is 2.4% of the overall net revenue budget of £417m for 2025/26.

As at period 4 of 2025/26 the Council anticipate delivering £5m of the £10m target.

Governance and monitoring arrangements have been strengthened in 2025/26 and a report was presented to the Audit and Governance Committee in June 2025 setting out these new arrangements. It set out the new strengthened governance model to manage delivery of the transformation programme, supported by a centralised transformation office. These new arrangements include regular updates to the Boards and steering group which have been introduced.

Impact: A lack of adequate savings plans and an inability to deliver planned transformational savings puts the Council's Medium Term Financial Plan (MTFP) at risk, including the reduction in reserve balances.

Improvement Recommendation 1

IR1: The Council should:

- ensure there are robust and realistic plans in place for the delivery of its transitional savings (our Future Council) target of £10m in 2025/26.
- have effective governance arrangements in place so that mitigating actions can be taken as necessary.

Governance – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
monitors and assesses risk and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud	The Council had appropriate risk management arrangements in place and regular updates were taken to the Audit and Governance Committee throughout 2024/25. We note that the corporate risk register is not yet reviewed by Cabinet in a public meeting, and as a result, an improvement recommendation raised in 2023/24 remains outstanding, see page 49 for more details. We are aware that the Council is in the process of updating its Risk Management Strategy 2020, alongside its risk appetite. The draft AGS has summarised the risks and actions required for 2025/26 and an effective Internal Audit service has been in place throughout 2024/25. Our review has raised some concern around management's ability to respond and implement recommendations raised by Internal Audit in a timely manner, and as a result, this remains an area for improvement, see page 50. The Head of Internal Audit opinion 2024/25 was a limited assurance opinion and this reflects the lack of controls relating to the health and safety building compliance investigation findings. Despite the arrangements in place described above, the Council has not had adequate governance arrangements to address its health and safety building compliance requirements. There has been a lack of management and member control. The lack of oversight and control has meant that issues which began in 2023/24, continued into 2024/25, concerns were raised in September 2024 with investigations starting in late 2024/25. Findings were reported to the appropriate members in November 2024, who were then kept informed. A full report was formally considered by members in 2025/26. We consider this to be a significant weakness in arrangements and have raised a key recommendation on pages 25 and 26.	R

G	No significant weaknesses or improvement recommendations.
A	No significant weaknesses, improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendation(s) made.

Governance – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
approaches and carries out its annual budget setting process	The Council has an established annual budget setting process which involved extensive engagement with officers, members and the wider public. This included the use of a rolling ten-year financial model which was then consolidated into a five-year MTFP and the in-year budget. Cabinet were kept informed on the budget setting process through quarterly financial reports, and received a paper on the budget process, principles and strategy as the budget was being developed. Scrutiny on the budget was undertaken by the People and Health Scrutiny Committee and the Place and Resources Scrutiny Committee. External consultation on the budget was also undertaken with the public and the business sector.	G
ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information; supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships	Cabinet received quarterly budget monitoring reports throughout 2024/25, which looked at revenue and capital expenditure compared to budget. The Audit and Governance Committee also received quarterly updates. Two reviews have been undertaken by Internal Audit one relating to monitoring of the capital programme and an improvement recommendation has been raised on page 27. The second review was a detailed review which considered the issues relating to building health and safety compliance. This review found significant failings in budgetary control. This was a result of expenditure exceeding the budget, due to a cost centre being established without any budget, and costs escalated in both 2023/24 and 2024/25 without appropriate action being taken. The Council did not follow its own procedures and did not ask members to approve the budget and expenditure. We raise a key recommendation on pages 25 and 26.	R

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G	No significant weaknesses or improvement recommendations.
A	No significant weaknesses, improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendation(s) made.

Governance – commentary on arrangements (continued)

We considered how the Council:	Commentary on arrangements	Rating
ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency, including from audit committee	The Council has a Constitution in place that sets out the decision-making processes. It was last refreshed in May 2025. Throughout the year, decisions were made by Cabinet and the Council as necessary, and a number of scrutiny committees and the Audit and Governance Committee met regularly during the year. We found that the Audit and Governance Committee were involved in budget monitoring in 2024/25, this is an unusual activity for an assurance committee, and we raise an insight on page 29. In addition, Internal Audit undertook two investigations. These included a review of contract and expenditure compliance under the scheme of delegation and a detailed review of the Council's health and safety issues within its buildings' compliance. These reviews found that the budgets (both revenue and capital) were not included in the 2024/25 budget and that subsequent member approval was not obtained neither was approval sought to fund the expenditure from reserves. This was not in line with the Council's Financial Procedure Rules, as set out in its Constitution. Failure to comply with the Council's scheme of delegation and that expenditure often exceeded agreed limits and thresholds was identified. This is a significant weakness in arrangements and a key recommendation has been raised on page 25 and 26.	R

Page 247

G	No significant weaknesses or improvement recommendations.
A	No significant weaknesses, improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendation(s) made.

Governance – commentary on arrangements (continued)

We considered how the Council:	Commentary on arrangements	Rating
monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour	The Council has Codes of Conduct in place for members and officers. The members' Code of Conduct includes the requirements for registering and disclosing interests, as well as for gifts and hospitality. During our review we identified interests which had not been declared, such as Directorships of companies. Two reviews were undertaken by Internal Audit and identified instances where officers had not declared their interests, the most significant being the Building Compliance review. We raise an improvement recommendation on page 28. The Internal Audit review of the procurement arrangements relating to the award of contractors to complete the building compliance work found arrangements to be significantly flawed, and not in line with the Council's contract procedure rules. Existing controls were overridden, and the majority of contracts were awarded directly. We consider this to be a significant weakness in arrangements and raise a key recommendation, see page 32.	R

Page 248

G	No significant weaknesses or improvement recommendations.
A	No significant weaknesses, improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendation(s) made.

Governance (continued)

Significant weakness identified in relation to governance

Key Finding: The Council set up an interim team to address health and safety issues within its Council owned (building compliance issues). A temporary team was established in 2023/24 and incurred significant expenditure of just under £13m across 2023/24 and 2024/25. Due to escalating costs, the interim team were wound up in October 2024 and all individuals have left the Council. An investigation has been undertaken by Internal Audit and the following key failures, but are not exhaustive, identified:

- failure to approve the budget for the compliance work – Cabinet should have approved the budget for 2023/24 and 2024/25, however no approval from Cabinet was sought prior to July 2024. This approval should have included the use of reserves to fund this expenditure
- the structure and appointment of interim staff did not include HR, and as a result, it lacked independent oversight, consideration of conflicts of interest (in the recruitment and management of the interim staff)
- lack of formal budget and financial monitoring, so expenditure was incurred without proper scrutiny and lack of escalation procedures, so throughout 2023/24 and up to August 2024 spend escalated dramatically
- lack of structured project management.

We consider the range and extent of the governance issues identified, whilst identified only in relation to the Building Compliance team, to be a significant weakness in arrangements.

Evidence: The Internal Audit investigation raised 34 areas where action is required by the Council.

Impact: If the Council is not able to improve its governance arrangements, similar failings could occur in other areas.

Governance (continued)

Key recommendation 1

KR1: The Council should take immediate action to ensure members and officers have effective control and oversight of its budgets and commissioning and procurement procedures to ensure effective governance arrangements are in place. This should include:

- financial governance to prevent expenditure occurring where a budget has not been set or funding arrangements agreed
- compliance with procurement regulations, the Council's scheme of delegation and procedures as set out within its Constitution.

This key recommendation should be considered along side the key recommendation on page 32 and the improvement recommendations on pages 39 and 40.

Governance (continued)

Area for Improvement identified: capital expenditure

Findings: The Council has a governance structure in place to set and monitor its capital programme, however a review by Internal Audit established that:

- current arrangements were not operating effectively to easily identify red flags, such as timeline slippage, incorrect processes being followed or potential overspent budgets
- confusion around what stage a project is approved
- the capital dashboard for the Senior Leadership Team could be improved
- a lack of central overview of the status of each project and what stage it is at prior to the project commencing.

Evidence: The Internal Audit review was reported in March 2025 provided limited assurance and raised 14 recommendations.

Impact: The capital programme is not managed and monitored effectively, which could result in additional costs and a lack of financial control.

Improvement Recommendation 2

IR2: The Council should improve its capital programme governance arrangements and implement the recommendations raised by Internal Audit.

Governance (continued)

Area for Improvement identified: declaration of interest and gifts and hospitality

Key Finding: The Council has both officer and member Codes of Conduct that should set out the requirement to declare interests and gifts and hospitality received.

The Council does not have a central record of all officers' declaration of gifts and hospitality received; the Code of Conduct could be improved to ensure it clearly sets out examples of what should be declared.

Our review of a sample of members identified a number of Directorships which were registered with Companies House that had not been declared.

Two specific Internal Audit investigations identified instances where officers had interests which they had not declared, such as:

- offers of gifts and hospitality, whether the officer attended or not
- professional and personal relationships, which impact and affect recruitment and create potential conflicts of interest
- pecuniary interests and the conflict of interest with an officer's existing role within the Council.

Evidence: The two investigations raised undertaken by Internal Audit raised a significant number of recommendations.

Impact: The failure to declare interests and gifts and hospitality could result in fraudulent activity or the perception that decisions and activities are not being undertaken in an open and transparent way.

Improvement Recommendation 3

IR3: The Council should strengthen its arrangements for the declaration of interest and gifts and hospitality for members and officers by:

- raising awareness and providing training to ensure all requirements are declared
- establishing a central record for officers' declarations (gifts, hospitality and interests)
- introducing an annual declarations of interest, including nil returns where appropriate
- setting out guidelines for declaring gifts, hospitality and interests in the Officer Code of Conduct.

Grant Thornton insights – learning from others

The Council has the arrangements we would expect to see in respect of member oversight of financial reporting, but could challenge itself to go further, based on the best arrangements we see across the sector

What the Council is already doing

- Cabinet receive quarterly budget monitoring reports.
- Financial governance is supported by member oversight, the Council's Audit and Governance Committee receiving and reviewing quarterly budget monitoring reports.

What others do well

- In other organisations, the overview and scrutiny function is typically tasked with supporting financial governance. The Committee reviews performance, finance and risk reporting prior to Cabinet decisions to undertake pre-decision and/or budget scrutiny.
- Effective Audit Committees are tasked with obtaining independent assurance on governance and the integrity of financial reporting, not reviewing and scrutinising financial reports.

The Council could consider

- Having Overview and Scrutiny Committee review financial monitoring reports and budget papers prior to Cabinet to ensure effective scrutiny of financial matters, and to hold the Executive to account.

Improving economy, efficiency and effectiveness – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
uses financial and performance information to assess performance to identify areas for improvement	In 2024/25, whilst performance reporting was not made public it was undertaken through a leadership dashboard provided to the senior leadership team (SLT) and informal Cabinet, accompanied by a covering report. The Council is currently working on creating a dashboard linking strategic performance and risk which would be presented to members, and this is expected in 2025/26. We have retained an improvement recommendation raised in 2023/24 on performance reporting.	A
evaluates the services it provides to assess performance and identify areas for improvement	The Council received positive external inspections and reviews in 2024/25 from Ofsted. In March 2025, the Council received an 'Outstanding' grade following the Ofsted inspection of the Council's children's services. Action plans have been developed in response to these inspections and reported to Cabinet. There are clear governance and oversight arrangements to assess performance and identify areas for improvement.	G
ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives	The Council's Council Plan 2024-2029 emphasised the importance of partnership working. The Council ensured it delivers its role within significant partnerships through reporting to Cabinet. In 2024/25 the Council entered an urgent and emergency care (UEC) partnership agreement with NHS Dorset, University Hospitals Dorset, Dorset County Hospital, Dorset Healthcare and Bournemouth, Christchurch and Poole (BCP) Council. This transformation programme should benefit the residents of Dorset and should provide financial benefits for the Council.	G

G	No significant weaknesses or improvement recommendations.
A	No significant weaknesses, improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendation(s) made.

Improving economy, efficiency and effectiveness – commentary on arrangements (continued)

We considered how the Council:	Commentary on arrangements	Rating
commissions or procures services, assessing whether it is realising the expected benefits	In 2024/25 Cabinet received regular procurement reports for contracts over £0.5m, which constitute key decisions for procurement activity. However, the Council's Internal Audit review of contract and expenditure compliance with the Constitution and Scheme of Delegation in June 2025 and the investigation into health and safety compliance identified significant failures in controls with the Council's procurement procedures. We consider this to be a significant weakness in arrangements and a key recommendation has been raised on page 32. In August and September 2025, to inform our work, our Counter Fraud Specialists undertook a review and considered the Council's fraud prevention and control considerations that will apply to procurement under the new legislation that came into force on 1 September 2025 with respect to the implementation of the Economic Crime and Corporate Transparency Act 2023 and the Procurement Act 2023. This review also considered conflicts of interest, anti-bribery and corruption, contract management and reviews. The review aimed not to duplicate any work already undertaken by the Internal Audit investigations. It did identify areas for improvement in relation to preparation for the new regulations and we have raised an improvement recommendation on page 33.	R

G	No significant weaknesses or improvement recommendations.
A	No significant weaknesses, improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendation(s) made.

Improving economy, efficiency and effectiveness (continued)

Significant weakness identified in relation to improving economy, efficiency and effectiveness

Key Finding: The interim Building Compliance team established in 2023/24 to address health and safety issues failed to comply and appeared to have deliberately overridden procurement controls. An Internal Audit review and a subsequent Internal Audit investigation found that the Council failed to comply with controls and procedures relating to its procurement systems and scheme of delegation to ensure compliance with the Council's Contract Procedure Rules, Financial Regulations and Constitution. This included a lack of:

- compliance with contract thresholds and manipulation to comply with thresholds and monitoring of contract thresholds
- the direct award of contracts and why direct award of contracts were being made
- the reporting of contract exemptions and breaches (see also IR 40).

The Council is undertaking further work to establish if its procurement regulations and controls have been breached in any other area of the Council.

Evidence: A review of the Council's scheme of delegation and contract and expenditure arrangements identified 16 areas where action is required. This was followed by a more detailed Internal Audit investigation which identified 34 areas where action is required by the Council.

Impact: Failure to improve the Council's procurement procedures and identify other areas where similar failures in controls maybe occurring would leave the Council open to fraud and legal challenge.

Key recommendation 2

KR2: The Council should ensure that prompt and immediate action is taken to address the control failures and weaknesses identified following the Internal Audit investigation of Building Compliance. To do this it should:

- develop its own action plan in response to both the investigation and review undertaken by Internal Audit, due to the number and extent the Council may need to prioritise these
- ensure progress is reported to members to ensure effective progress and action is taken.

Improving economy, efficiency and effectiveness (continued)

Area for Improvement identified: procurement arrangements and implementation of the Economic Crime and Corporate Transparency Act 2023 and the Procurement Act 2023

Key Findings: The Council's Contract Procedure Rules (CPR) cover variations or exception of the CPRs, but the procedures do not clearly address when a direct award of contract is permissible and when it is not. The Internal Audit review of the Building Compliance arrangements identified a significant number of direct award of contracts and that controls were disregarded to enable the direct award of contracts.

The Council has not yet updated its procurement policies and procedures to refer to the Procurement Act 2023.

In addition, the Council has not updated its key governance strategies for the Procurement Act 2023 and the Economic Crime and Corporate Transparency Act 2023. This includes the Council's Whistleblowing Policy, Codes of Conduct, Counter Fraud and Financial Crime Policy, Anti Fraud, Corruption and Bribery Strategy and Anti-Money Laundering Policy.

The Council maintains a register of contract exemptions, although no exemptions were recorded relating to the letting of contracts relating to Building Compliance. An analysis of this register including values and trends in 2024/25 was not reported to members to either provide scrutiny or assurance. The monitoring of contract exemptions and the reasons for the exemptions could be used as a fraud red flag monitor.

Evidence: The investigation undertaken by Internal Audit and our detailed procurement review.

Impact: The prevention of fraudulent procurement activity and adequate arrangements to ensure the Council complies with current regulations.

Improvement Recommendation 4

IR4: The Council should:

- review and update its Contract Procedure Rules, to ensure they cover the direct award of contracts and the Procurement Act 2023
- update its key governance strategies (Whistleblowing Policy, Codes of Conduct, Counter Fraud and Financial Crime Policy, Anti Fraud, Corruption and Bribery Strategy and Anti-Money Laundering Policy) for the Procurement Act 2023 and the Economic Crime and Corporate Transparency Act 2023
- ensure members have access to and are able to review contract exemptions
- introduce the use of fraud red flag monitoring for procurement and contract monitoring. These reg flags should act as an early warning system to alert management to fraud risk areas.

Pension Fund

The Council is the administering authority for the Dorset Pension Fund. As part of our VfM work we are required to consider the Council's arrangements in respect of the Pension Fund.

We considered the Pension Fund's:	Commentary on arrangements	Rating
Financial Sustainability: sufficiency of funds to meet liabilities	The Pension Fund has sufficient funds to meet liabilities. The most recent formal valuation, as at 31 March 2022, assessed the Fund as being 96% funded, a slight increase from 92% in 2019. Benchmarking against other Local Government Pension Schemes (LGPS) based on 2023/24 data indicated that the Fund had comparatively low management costs relative to net investment assets (0.46%).	G
Governance: appropriateness of governance arrangements	Governance arrangements include the Pension Fund Committee and the Local Pension Board, both of which met regularly in 2024/25. Over 2024/25, key strategies and statements, like the Investment Strategy Statement, were refreshed and agreed by the Committee. The Funding Strategy Statement is set to be reviewed and updated after the triennial evaluation. The risk register was reviewed regularly by the Local Pension Board. Pooling arrangements were regularly discussed by Committee in exempt papers, and external due diligence work has been commissioned on prospective pools, given the Government's rejection of proposals by Brunel Pensions Partnership Ltd. The Fund is on track to meet the deadline, and a way forward was agreed at the Committee meeting held on 9 September 2025.	
Improving Economy, Efficiency and Effectiveness: annual report findings	The Fund will not meet the deadline to implement the McCloud remedy as a result of software issues, and has been postponed, the deadline is now 31 August 2026. Implementation is continuing as planned but rectification work will be delayed. The Fund has also been preparing for the Pensions Dashboard, which is progressing and should be in place by 1 October 2025.	

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G No significant weaknesses or improvement recommendations.
A No significant weaknesses, improvement recommendations made.
R Significant weaknesses in arrangements identified and key recommendation(s) made.

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05 Summary of Value for Money Recommendations raised in 2024/25

Key recommendations raised in 2024/25

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	Recommendation	Relates to	Management Actions
KR1	The Council should take immediate action to ensure members and officers have effective control and oversight of its budgets, commissioning and procurement procedures to ensure effective governance arrangements are in place. This should include: • financial governance to prevent expenditure occurring where a budget has not been set or funding arrangements agreed • compliance with procurement regulations, the Council's scheme of delegation and procedures as set out within its Constitution.	Governance (pages 25 and 26)	Actions: The Council will continue to present updated finance reports to Cabinet and A&G Committee as part of the 2025/26 cycle. The Scheme of Delegation for Financial Powers was revised on 23 October 2025. Governance arrangements will be actively monitored and strengthened on an ongoing basis, with clear accountability for compliance. As this recommendation relates to ongoing governance arrangements the due date has been set to "ongoing". Responsible Officer: Section 151 Officer Due Date: Ongoing

Key recommendations raised in 2024/25

	Recommendation	Relates to	Management Actions
KR2	The Council should ensure that prompt and immediate action is taken to address the control failures and weaknesses identified following the Internal Audit investigation of Building Compliance. To do this it should: • develop its own action plan in response to the review undertaken by the Internal Audit, due to the number and extent the Council may need to prioritise these • ensure progress is reported to members to ensure effective progress and action is taken.	Improving economy, efficiency and effectiveness (page 32)	Actions: Two officer workings groups have been established and are actively developing and implementing a consolidated action plan in response to the internal audit report and investigation. Progress is reported to A&G Committee and a dedicated sub-group of members from Audit & Governance Committee. The work of these groups has gone further than to simply work through the recommendations, it has also considered the use of scrutiny, how decisions are made across the organisation, how to support staff understanding of the rules around purchasing and decision making as well as introducing tightened oversight, preventative and detective controls. At the centre of this work, is a determination to restore trust with the workforce, elected members and the public. Going beyond a response to technical actions, and implementing organisation learning and development. The next update of this work will be a written report presented to Audit & Governance Committee on 24 November 2025. Responsible Officer: Section 151 Officer Due Date: Ongoing

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Improvement recommendations raised in 2024/25

	Recommendation	Relates to	Management Actions
IR1	The Council should: • ensure robust and realistic plans are in place for the delivery of its transitional savings (Our Future Council) target of £10m in 2025/26. • have effective governance arrangements in place so that mitigating actions can be taken as necessary.	Financial sustainability (page 20)	Actions: Cabinet approved an updated investment case for OFC, in year savings and next period delivery plan was approved by Cabinet in October 2025. Governance, both SLT board, wider officer and cross-party steering groups have been in place and strengthened since June 2024 which continues to evolve and strengthen through delivery. We have commissioned SWAP to ensure robust governance, delivery and oversight Responsible Officer: Corporate Director Transformation Customer and Cultural Services Due Date: Actioned
IR2	The Council should improve its capital programme governance arrangement and implement the recommendations raised by Internal Audit.	Governance (page 27)	Actions: The Council will implement the recommendations raised by Internal Audit and will provide regular progress updates to members through the SWAP progress reports. Responsible Officer: Chair of Capital Strategy & Asset Management Group Due Date: As set out in the Internal Audit report

Improvement recommendations raised in 2024/25

	Recommendation	Relates to	Management Actions
R3	The Council should strengthen its arrangements for the declaration of interest and gifts and hospitality for members and officers by: • raising awareness and providing training to ensure all requirements are declared • establishing a central record for officers' declarations (gifts, hospitality and interests) • introducing an annual declarations of interest, including nil returns where appropriate • setting out guidelines for declaring gifts, hospitality and interests in the Officer Code of Conduct.	Governance (page 28)	Actions: Officers will launch a form to capture this information in the new year. All managers will be required to complete this as part of the annual checks process (alongside driving risk assessments and DBS checks), and require a return from all employees, even if it is a nil return. Responsible Officer: Head of People & Workforce Due Date: 31 March 2026

Improvement recommendations raised in 2024/25

	Recommendation	Relates to	Management Actions
Page 264 IR4	The Council should: • review and update its Contract Procedure Rules, to ensure they cover the direct award of contracts and the Procurement Act 2023 • update its key governance strategies (Whistleblowing Policy, Codes of Conduct, Counter Fraud and Financial Crime Policy, Anti Fraud, Corruption and Bribery Strategy and Anti-Money Laundering Policy) for the Procurement Act 2023 and the Economic Crime and Corporate Transparency Act 2023 • ensure members have access to and are able to review contract exemptions • introduce the use of fraud red flag monitoring for procurement and contract monitoring. These reg flags should act as an early warning system to alert management to fraud risk areas.	Improvement economy, efficiency and effectiveness (page 33)	Actions: 1. The Council will undertake a review of Contract Procedure Rules, to ensure they cover the direct award of contracts and the Procurement Act 2023 2. All relevant policies have been updated in line with current legislation and the changes have been approved by A&G Committee on 4 August 2025; we are planning training. 3. Contract waivers (exemptions) are now included in the quarterly finance reports provided to members at Cabinet and Audit & Governance. These waivers (exemptions) are permitted and justified under the Council's Contract Procedure Rules, and the current process ensures appropriate governance and transparency (approvals and records). More details of specific waivers (exemptions) can be made available on request. 4. A review of existing functionality will be undertaken seeking to introduce the use of fraud red flag monitoring or equivalent functionality for procurement and contract monitoring. Responsible Officer: 1. Section 151 Officer, 2. Monitoring Officer, 3. Section 151 Officer, 4. Section 151 Officer Due Date: 1. 31 September 2026, 2. Complete, 3. Complete, 4. 31 March 2026

06 Follow up of previous Key recommendations

Follow up of 2023/24 Key recommendations

	Prior Recommendation	Raised	Progress	Current status	Further action
KR1	The Council should continue to renegotiate its Safety Valve management plan with the Department for Education (DfE) to ensure the Council can manage its DSG deficit and remain financially sustainable.	2023/24	The DSG deficit position increased by £37.3m in 2024/25 and as at 31 March 2025 the cumulative deficit was £95.63m and is expected to increase to £114.18m by the end of 2025/26. The Council was part of the Safety Valve Programme with the Department for Education, but the agreement is under review and as such any additional funding has been withheld. A revised plan was submitted in March 2025, another updated plan was required in September 2025, the outcome of which is unknown. Although the Council is continuing to progress actions within its management plan, this has had limited impact on the increasing deficit position. This key recommendation remains in place	Limited progress made	Implement the original recommendation

Management response

Actions: Dorset Council's CEO to write to the Parliamentary Under Secretary (Department for Education) and Minister of State (Minister for School Standards) seeking a resolution to the negotiations following recent submission of a revised plan.

Responsible Officer: Chief Executive

Due Date: 1 December 2025

Follow up of 2023/24 Key recommendations

	Prior Recommendation	Raised	Progress	Current status	Further action
KR2	The Council should: - take immediate action to ensure controls and procedures relating to its procurement systems and scheme of delegation are compliant and in line with the Council's contract procedure rules and constitution; - review all spend with suppliers to identify all instances where procurement has not been in accordance with contract procedure rules or procurement legislation; - ensure that appropriate action is taken to ensure breaches are identified in a timely manner, with appropriate action taken; (continued)	2023/24	The detailed investigation undertaken by Internal Audit was completed in 2025/26. This review identified a range of failures relating to corporate governance, budget monitoring, authorisation of funding, compliance with the Council's constitution and procurement procedures. The failing were wide ranged and the items noted above are not exhaustive.	No progress made in 2024/25	Two key recommendations have been raised within this report and replace this key recommendation.

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Follow up of 2023/24 Key recommendations

	Prior Recommendation	Raised	Progress	Current status	Further action
KR2	(continued) - report contract exemptions and breaches to members at a public meeting, such as the Audit and Governance Committee, including the number and extent of contract exemptions; - ensure that there is no residual risk to the Council from those services procured by non-compliant procurement methods; and - ensure that as further investigations are concluded, prompt action is taken with consideration given to actions which would apply to other areas of the Council.	2023/24	The detailed investigation undertaken by Internal Audit was completed in 2025/26. This review identified a range of failures relating to corporate governance, budget monitoring, authorisation of funding, compliance with the Council's constitution and procurement procedures. The failing were wide ranged and the items noted above are not exhaustive.	No progress made in 2024/25	Two key recommendations have been raised within this report and replace this key recommendation.

07 Appendices

Appendix A: Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Council's Chief Finance Officer is responsible for preparing the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Appendix B: Value for Money Auditor responsibilities

Our work is risk-based and focused on providing a commentary assessment of the Council's Value for Money arrangements

Phase 1 – Planning and initial risk assessment

As part of our planning, we assess our knowledge of the Council's arrangements and whether we consider there are any indications of risks of significant weakness. This is done against each of the reporting criteria and continues throughout the reporting period.

Phase 2 – Additional risk-based procedures and evaluation

Where we identify risks of significant weakness in arrangements, we will undertake further work to understand whether there are significant weaknesses. We use auditor's professional judgement in assessing whether there is a significant weakness in arrangements and ensure that we consider any further guidance issued by the NAO.

Phase 3 – Reporting our commentary and recommendations

The Code requires us to provide a commentary on your arrangements which is detailed within this report. Where we identify weaknesses in arrangements we raise recommendations.

A range of different recommendations can be raised by the Council's auditors as follows:

Statutory recommendations – recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.

Key recommendations – the actions which should be taken by the Council where significant weaknesses are identified within arrangements.

Improvement recommendations – actions which are not a result of us identifying significant weaknesses in the Council's arrangements, but which if not addressed could increase the risk of a significant weakness in the future.

Information that informs our ongoing risk assessment

Cumulative knowledge of arrangements from the prior year	Key performance and risk management information reported to the Executive or full Council
Interviews and discussions with key stakeholders	External review such as by the LGA, CIPFA, or Local Government Ombudsman
Progress with implementing recommendations	Regulatory inspections such as from Ofsted and CQC
Findings from our opinion audit	Annual Governance Statement including the Head of Internal Audit annual opinion

Appendix C: Follow up of 2023/24 improvement recommendations

	Prior Recommendation	Raised	Progress	Current position	Further action
IR1	Officers should develop or augment existing contingency plans for additional savings that the Council may need to make if existing savings plans are not progressing adequately.	2023/24	Although the Council has improved reporting and monitoring of savings, contingency plans for savings were not reported to members. Given the Council's non-delivery of transformational savings in 2024/25, contingency plans should be identified and reported to members in the case that savings plans are at risk of being undelivered.	Outstanding	Complete original recommendation
IR2	The Council should make arrangements to consult with residents on budget priorities as part of the budget setting and MTFP process.	2023/24	The Council completed consultation with members of the public as part of the 2025/26 budget setting process. Proposals were driven by the new Council Plan and priorities. Over 700 responses were received through the engagement to shape Council priorities that were reflected in budget proposals and the MTFP.	Complete	No further action
IR3	The Council should put into place arrangements to report to members on the progress in the achievement of savings four times a year to an appropriate level of detail.	2023/24	Progress against the savings programme was reported in financial monitoring reports considered by Cabinet quarterly. Reports provided clear explanation of savings that had been achieved to date and also included RAG-rating to indicate high-risk savings that may not be delivered by year-end.	Complete	No further action

Appendix C: Follow up of 2023/24 improvement recommendations

	Prior Recommendation	Raised	Progress	Current position	Further action
IR4	To improve its risk management arrangements the Council should: - require Cabinet to review the corporate risk register in a public meeting to ensure they are formally involved in the risk management process, as the Council's decision makers, and to ensure the corporate risk register is publicly available; and - ensure the recommendations raised by Internal Audit regarding risk management are actioned in a timely manner, including the review and update of the risk management policy and framework.	2023/24	The Council's Corporate Risk Register is not currently available publicly, and in 2024/25, Cabinet did not review risk management reports. Members did have access to the Risk Register in 2024/25, and there was a refresh of risk management arrangements in 2024/25. This recommendation remains outstanding, we understand that that the Council has made various improvements following Internal Audit recommendations, however the Council is still in the process of implementing a new risk/performance framework. As a result, we consider that the Council is working on completion of this recommendation in 2025/26.	Outstanding	Complete original recommendation

Appendix C: Follow up of 2023/24 improvement recommendations

	Prior Recommendation	Raised	Progress	Current position	Further action
IR5	The Council should ensure that recommendations raised by Internal Audit (SWAP) are implemented in a timely manner.	2023/24	The 2024/25 Head of Internal Audit opinion noted the Council's lack of response in implementing agreed management actions. We do not consider this recommendation to be complete.	Outstanding	Complete original recommendation
IR6	The Council should consider including a section within the member committee reports titled 'Legal Implications', to ensure legal issues have been considered and can be easily identified by the reader (Cabinet and Full Council members).	2023/24	This has not been introduced.	Outstanding	Complete original recommendation
IR7	The Council should ensure the continued effectiveness of the Audit and Governance Committee by conducting a self-assessment exercise, in line with the Chartered Institute of Public Finance and Accounting's (CIPFA) methodology.	2023/24	A self-assessment exercise and skills survey over completed in 2024/25, but this was not aligned with CIPFA methodology.	Partially	Complete the next self-assessment in line with the CIPFA methodology.

Appendix C: Follow up of 2023/24 improvement recommendations

	Prior Recommendation	Raised	Progress	Current position	Further action
IR8	The Council should: - establish a central record for officers' declarations (gifts, hospitality and interests); and - consider introducing annual declarations of interest, including nil returns where appropriate, for officers.	2023/24	A central record of gifts and hospitality has not been established. The Council is in the process of figuring out how to best implement this following concerns identified as part of the building compliance review.	Outstanding	This recommendation is now included within IR3 on page 28.
IR9	The Council should ensure that controls are in place to ensure any data breaches are minimised, prior to any actions/recommendations being received from the Information Commissioners Office.	2023/24	The Council has implemented various controls to minimise data breaches. This includes insider risk management, data loss prevention policies, sensitivity labels, global policies and advanced messaging encryption. The Council is also investing in the Microsoft M365 platform to provide access to new information governance capabilities.	Complete	No further action
IR10	The Council should enable easy public access to performance information and show how this information is used in the organisation.	2023/24	Performance reports/dashboards have been presented to informal Cabinet meetings. These meeting are not public, so this information is not publicly available.	Outstanding	The Council intend to make performance information publicly available in 2025/26.

Appendix C: Follow up of 2023/24 improvement recommendations

	Prior Recommendation	Raised	Progress	Current position	Further action
R11	The Council should progress its plans for benchmarking as part of a corporate approach to transformation and service review.	2023/24	The Council has arrangements in place to learn from similar organisations and to improve performance. In the children's services directorate, there is benchmarking done nationally against statistical neighbours. The service also uses LG Futures to compare the Council's performance with other authorities. The internal audit service also undertook a benchmarking exercise in 2024/25 with other partners and the wider local authority network to provide comparative data on capital governance and spend. The Council has not yet used benchmarking as part of its transformation agenda, but based on the areas where benchmarking is used we are satisfied that sufficient progress has been made.	Complete	No further action

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V2/25

Audit and Governance Committee

24 November 2025

Revised Terms of Reference for Dorchester Markets Informal Joint Panel

For Decision

Cabinet Member:
Cllr G Taylor, Health and Housing

Local Councillor(s): Cllrs S Jones; R Major: R Biggs; A Canning; L Fry

Senior Leadership Team:
S Crowe, Director of Public Health & Prevention

Report author and job title: Graham Duggan, Head of Regulatory Services
Email: graham.duggan@dorsetcouncil.gov.uk

Statutory Authority: Royal Charter, 22 September 1630

Report status: Public (the exemption paragraph is N/A)

1. Executive summary

1.1 The historic right to hold a market in Dorchester was confirmed by Royal Charter in 1630. Since February 1984, West Dorset District Council (later Dorset Council) and Dorchester Town Council has jointly managed the market. Management was initially through a Joint Committee. In 2001, day to day responsibility for the market was leased to Ensors, the current market operator. The Joint Committee was replaced with an Informal Joint Panel that oversaw this arrangement. Ensor's lease terminates on 2 April 2026, after which Dorchester Town Council will assume direct management under a concession agreement with Dorset Council. Minor amendments to the Panel's Terms of Reference are proposed to reflect this change.

2. Recommendation

2.1 Your Committee is asked to approve the revised Terms of Reference for Dorchester Markets Informal Joint Panel given in Appendix 1.

3. Reason for the recommendation

3.1 To ensure effective arrangements for the provision of Dorchester Markets and satisfactory governance arrangements between the parties.

4. Report

4.1 Dorchester's historic right to hold a market was confirmed by a 1630 Royal Charter. Following local government reorganisation in 1974, a dispute between West Dorset District Council and Dorchester Town Council arose over which authority held the market rights. On 24 February 1984, the parties into an agreement providing that the day-to-day operation of the market should be jointly managed ("the 1984 Agreement"). A Joint Committee was established to manage the market as per the terms of reference set out in Schedule 6 of the 1984 Agreement.

4.2 On 26 June 2001, a 25-year lease was granted to T. Ensor and Son (Dorchester) Limited ("Ensors") in order that they might administer the operation of the Markets on the Fairfield Market Site on Weymouth Avenue, Dorchester. The lease transferred many of the powers previously exercised by the Dorchester Markets Joint Committee to Ensors in order that could operate the Market as a business. This substantially reduced the powers and functions of the Dorchester Markets Joint Committee. It was agreed that the Dorchester Markets Joint Committee be dissolved and replaced with the Dorchester Markets Informal Joint Panel. The agreement was completed and dated 18 November 2010.

4.3 On the 1 April 2019, Dorset Council succeeded West Dorset District Council.

4.4 The lease to Ensors terminates on 2 April 2026. The Parties agree that the Town Council should take over the day-to-day management of the Dorchester Markets (Fairfield and Cornhill) subject to the terms and conditions of a Concession Agreement which is under draft and will be considered by the General Licensing Committee at a future meeting. The terms of reference for the continuing Informal Joint Panel require limited amendment to reflect this change of circumstance. The proposed terms of reference are attached as Appendix 1.

4.5 The proposed terms of reference are similar to those in existence for the Informal Joint Committee before the lease to Ensors was granted. They include some specific operational functions that had been transferred to Ensors to allow them to operate the Market. Also, the number of elected members sitting on the Panel has been reduced from fourteen to six to streamline governance arrangements.

4.6 The proposed terms of reference have been prepared by officers with oversight from a Working Group of the Informal Joint Panel consisting of Elected Members from both councils and Dorset Council Legal Services.

5. **Alternative options considered**

5.1 Dorchester Markets Informal Joint Panel has considered the options for the operation of the markets after the Ensors lease finishes. It is their considered opinion that the best option for the future prosperity of the markets, and both councils, is for Dorchester Town Council to take on operational responsibility through a Concession Agreement with Dorset Council.

6. **Legal Considerations**

6.1 The proposed governance arrangements are consistent with the original 1984 Agreement and subsequent legal instruments, including the lease and market protocols. The revised Terms of Reference provide a clear framework for joint oversight and operational responsibilities under the forthcoming concession agreement.

7. **Financial implications**

7.1 Under the proposal, financial management for the markets would transfer to Dorchester Town Council from Dorset Council. There is no anticipated financial impact from the proposal.

8. **Natural environment, climate & ecology implications**

8.1 The sale of goods within urban centres can reduce the need for travel and lessen carbon footprint.

9. **Well-being and health implications**

9.1 Thriving market environments can be a valuable community asset as a place to meet, eat, and greet. The sale of fresh, healthy foodstuffs at competitive prices can support people in managing their budgets.

10. **Other implications**

10.1 Economic impact – supporting small traders and adding vitality to the local area, increasing shopper footfall.

11. **Risk implications**

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

Current Risk: Low

Residual Risk: Low

12. **Equalities**

12.1 There are no equality impacts.

13. Appendices

13.1 Appendix 1 – Revised Draft Terms of Reference for Dorchester Markets Informal Joint Panel.

14. Background papers

14.1 Current Terms of Reference for Dorchester Markets Informal Joint Panel
Draft Concession Agreement between Dorset Council and Dorchester Town Council for the operation of Dorchester Markets.

15. Report sign-off

15.1 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).

APPENDIX 1

DRAFT TERMS OF REFERENCE FOR DORCHESTER MARKETS INFORMAL JOINT PANEL

(a) This Market Panel will conduct its functions subject to the Market Agreement dated [INSERT] between Dorchester Town Council, Dorset Council and the Dorchester Markets Trustees and any subsequent variation, renewal, or replacement of the agreement.

(b) The Market Panel shall be constituted as follows:

a. Three (3) elected members to be appointed by Dorchester Town Council.

b. Three (3) elected members to be appointed by Dorset Council of whom two (2) should preferably represent wards wholly or predominantly within the Dorchester Town Council area - provided that such appointments do not result in the appointee also being a member of Dorchester Town Council.

If a Dorset Council appointee subsequently becomes a member of Dorchester Town Council, they shall cease to be a member of the Market Panel. Dorset Council shall then consider appointing a replacement who is not a member of Dorchester Town Council.

If it is not possible to appoint two members from wards within the Dorchester Town Council area, Dorset Council may instead appoint members wards wholly or predominantly within a six and two third miles radius of the Fairfield Market reference point as shown on the plan annexed at Schedule 5 of the Concession Agreement. If that is not possible, appointments may be made from the wider Dorset Council area.

(c) Management duties of the Market Panel will be;

1. To ensure that the operator employs suitable and sufficient resources to deliver an appropriate market function.

2. To arrange the settlement of financial matters, review of rents, fees, tolls, and charges relating to the market operation, subject to the budget and other arrangements referred to in the 1984 Agreement relating to Dorchester Market.

3. To determination of the frequency of meetings and meeting arrangements for the Market Panel.

(d) Operational duties of the Market Panel will be;

1. To ensure effective day to day control and management of the markets and tolls at the sites and locations on which the same are existing or entitled at the 1 October 1978.

2. To determine and apply the hours of opening.

3. To ensure effective arrangements for the satisfactory layout of the markets including the arrangement of stalls.

4. To ensure that appropriate and satisfactory agreements and licences are in place for market tenants.

5. To ensure that adequate insurance is in place for Market days and operations.

(e) Duties of the Market Panel that will be exercised in conjunction with Dorchester Town Council and/or Dorset Council will be;

1. The grant or renewal of leases, tenancies, etc. relating to the operation of the Market on designated days for periods not exceeding 3 years.

2. Ensuring that Market structures and infrastructures are maintained in a good state of repair.

3. Matters affecting food hygiene, food safety and health and safety at work requirements (subject to the powers and duties of Dorset Council under the relevant statutes and at common law).

4. The temporary or permanent extension of days on which markets operate.

5. The arrangements for market vehicle parking and associated car parks on market days.

6. Oversight of the incurring of all items of expenditure and as to income, the fixing of all charges, subject to the provisions and procedures as provided in the Financial Regulations.

7. Complying with the requirements of financial and audit regulations and policies.

8. The making of byelaws and regulations governing the use of the market.

9. Prosecution under market byelaws and legal proceedings within the purview of the Market Panel subject to proper legal advice.

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Audit and Governance Committee

24 November 2025

Update on response to the SWAP investigation and compliance audit

For Decision

Cabinet Member:
Cllr B Wilson, Corporate Development and Transformation

Local Councillor(s):

Senior Leadership Team:
S Crowe, Director of Public Health & Prevention

Report author and job title: Sam Crowe, Director of Public Health and Prevention
Email: sam.crowe@dorsetcouncil.gov.uk

Statutory Authority:

Report status: Public Choose an item.

1. Executive summary

1.1 Dorset Council received two highly critical reports relating to the way work was carried out urgently to improve health and safety compliance across its assets and properties between December 2022 and October 2024. The reports comprised an audit of contract and expenditure compliance with the council's scheme of delegation, and a detailed investigation into exactly what happened during the period the health and safety compliance works were being carried out.

1.2 The findings from the audit and investigation identified many serious issues. This included weaknesses, gaps in controls, and compliance issues in the council that require concerted action. Recommended actions included establishing clear and transparent cost centres and budget monitoring, and improvements to procurement and contract management, recruitment and management of agency and interim workers, project management, knowledge and understanding of corporate policies, declarations of gifts and hospitality, governance, and oversight of how complex issues are dealt with including involvement of elected Members.

1.3 A working group of officers was stood up to carry out the work in response to the initial SWAP audit, overseen by a small cross-party group of members plus the Cabinet Member for Finance. This has provided direct assurance to Committee members that the auditors recommendations were being acted on quickly. At that stage however the recommendations from the SWAP investigation remained confidential.

1.4 Audit and Governance Committee agreed to hold a workshop on the investigation findings on 7 July. This recommended development of a clear, consolidated plan that encompassed the detailed actions in relation to the audit and investigation, and actions for wider organisational learning. Work has taken place over the late summer and autumn to produce this consolidated plan with clear trackable actions and owners.

1.5 This report therefore updates Audit and Governance Committee on Dorset Council's response to the recommendations. And it provides a timeline and clear list of actions, with progress, as Appendix A. A future report will contain the progress with the SWAP investigation actions, and the organisational learning actions following the December workshop.

2. Recommendation(s)

2.1 Note the progress with development of the action plan and work programme to identify and measure progress on all actions arising from the SWAP investigation.

2.2 Note the progress with completion of priority actions from the SWAP audit of contract and expenditure compliance and how this has improved compliance and practice and reduced the risk of future incidents.

2.3 Approve the proposed governance and member oversight for this continued work. The Organisational Learning group recommends that progress on the actions from the audit and investigation are reported and tracked through Audit and Governance Committee. Wider learning from these actions that connects to changes happening in the council due to transformation (e.g. introduction of the Enterprise Resource Planning system) should report into the member-led Transformation Steering Group.

3. Reason for the recommendation(s)

3.1 The Council needs to restore confidence that steps have been taken to correct gaps in controls and weaknesses in oversight that allowed the failures in connection with the commissioning and procurement of health and safety compliance work.

3.2 The first part of this work was responding to the actions from the SWAP audit of contract and expenditure compliance with Dorset Council's Constitution. These have largely been completed. The second part of the plan involves demonstrating clear response to the actions from the SWAP investigation. These are in the process of being agreed between SWAP and senior officers. They will be issued as trackable actions with an AP number (Audit Plan) and reported through Audit and Governance Committee in a similar way to other audit actions. This will allow Committee Members to monitor and assess progress in a public forum.

3.3 The planned approach to wider organisational learning will have clear links into the way the council communicates expectations on joining, supports employee training, establishes clear rules for disclosure of interests, and ongoing learning and development. Because of the opportunity through transformation and change to reset expectations and behaviours, as new platforms are introduced, the recommendation is for these actions to be tracked through the member-led Transformation Steering Committee.

4. Background and context

4.1 This report provides an overview of the work being carried out in response to significant failures identified by SWAP in connection with a large programme to upgrade assets and properties following a Health and Safety compliance audit. The details of the findings have been reported in the public domain to Audit and Governance Committee (the SWAP audit of contract and expenditure compliance with Dorset Council's Constitution) and by publishing the summary of a separate investigation by SWAP into the failures at the Council in connection with the health and safety work.

4.2 In advance of the SWAP Audit urgent action was taken in response to emerging issues to add controls within the Council and Comensura system to tighten access to and approvals within the system to stop impersonation and ensure only authorised council staff could give approvals.

4.3 Also in advance of the SWAP Audit an Officer Working Group was established to continue urgent action on emerging issues and then to carry out actions identified in the Audit.

4.4 The SWAP Audit was reported to Audit and Governance Committee on 2 June, which established a Member Oversight group to oversee officer actions arising from the first audit. This Group meet regularly with officers for update and discussion on actions identified in the SWAP Audit.

4.5 The Audit and Governance Committee did not consider actions from the SWAP investigation as this remained confidential. Dorset Council's Senior Leadership Team agreed in July 2025 to establish a wider officer organisational learning group to consolidate actions arising from both SWAP pieces of work – as well as a focus on longer term learning for the organisation.

4.6 The risk identified early on was that a small number of officers working on the technical actions would understand the context and importance of the changes. But the wider learning for all employees involved in project management, budget monitoring, procurement and commissioning suppliers was needed to ensure all understood the seriousness of what happened. In particular, organisation wide actions to improve controls, improve compliance and reduce the risk of something similar happening again.

4.7 Finally, it is important to note that while this report presents the detail around the consolidated actions arising from the audit and investigation, there are wider changes at the council which will improve trust and confidence. This includes how we approach budget setting, getting a better understanding of where the money is being used, and the value being obtained from it. Senior Leadership Team has a focused budget meeting aimed at closing the in-year budget gap. Leaders and managers across the organisation have been engaged in a 'getting a grip' programme to control unnecessary spending, as well as developing savings ideas for future years.

4.8 There is also a large change programme around implementing a new Enterprise Resource Planning software system, following successful procurement. Introducing this system will allow better information on finance and accounting, procurement and purchasing and human resources, and help us plan and forecast our use of resources more effectively. That is the wider context around organisational learning, and the group is going to take time to ensure we design the right interventions and test whether we can measure change effectively. It is vital that trust is restored in Dorset Council, and part of that involves demonstrating that we use resources wisely, securing best value wherever possible.

5. Current position

5.1 An organisational learning group was established in August 2025 with senior officers representing all directorates, and corporate services. Project support was identified to help build the consolidated plan. The group are building a plan around 4 elements:

- Governance actions and those taken in advance of the SWP audit (part 1);
- actions arising from the SWAP audit of contract and expenditure compliance with Dorset Council's Constitution (part 2);
- actions arising from the SWAP investigation (part 3);
- wider learning themes arising from the compliance audit and investigation (part 4).

5.2 Appendix A sets out actions relating to the first 2 parts; governance and SWAP Audit.

5.2.1 Governance: There are four actions in the action list at Appendix A which relate to governance – agreeing leadership and ownership of the activities, securing resources, agreeing terms of reference and defining the shape and content of the plan. These have all been completed.

5.2.2 There were two very early technical actions identified as a priority for action relating to use of the Comensura platform – that allowed impersonation (by allowing dual roles) and also approval of transactions that breached scheme of delegation thresholds. Both were rectified as a matter of urgency, in December 2024, so this cannot happen again.

5.2.3 SWAP audit of compliance: In terms of progress on completing the 16 actions from the compliance audit (part 1 of the plan), both of the priority 1 actions are complete, and all but two of the 14 priority 2 actions. Of the outstanding priority 2 actions 1 has been flagged with an issue, and the remaining action is in progress. The issue relates to a potential legal issue, which in turn may affect the timing for a decision on whether to extend use of the Comensura platform.

5.3 Addressing the majority of these actions promptly means that the council has:

- **Strengthened financial controls**: Agreed via full Council a revised the Scheme of Delegation which sets out who can approve spending and at what thresholds, aligned authorisation levels in the council's finance system, and introduced compliance checkpoints for all projects involving procurement. The new scheme takes effect from January 2026, with training and guidance for staff in advance.

- **Improved procurement practices**: Tightened user permissions in the Comensura procurement system, introduced monthly monitoring reports, and strengthened arrangements for recruitment of temporary and interim staff.

- **Enhanced governance and oversight**: Established a cross-functional audit response taskforce and ensured regular reporting to the senior leadership and elected members through the A and G Committee.

5.4 SWAP investigation: In terms of progress with part 3 of the consolidated plan, there is an ongoing process to validate, assign senior officers, agree priority and remove duplicate actions working closely with SWAP. When these actions have been finalised with senior managers and SWAP, they will be issued with an AP number and tracked in the usual way, reporting into Audit and Governance Committee.

5.5 There are 34 actions arising from the SWAP investigation – many of which will need to be tracked through wider council change activities, not just those in relation to securing works in relation to health and safety compliance. This includes reviewing project management controls, oversight of major projects and programmes, recruitment, induction training, understanding of corporate policies, declarations, budget monitoring and training issues relating to procurement, approvals, project planning and use of Comensura.

5.6 Organisational learning: There are then 40 draft actions relating to organisational learning, which will form part 4 of the plan. They will be reviewed at a workshop in December, when we are aiming to complete the final part of the plan. This will include developing clear measures to evaluate progress with wider understanding of the issues raised by the audit and investigation.

6. Next steps

6.1 The consolidated plan including the finalised SWAP investigation actions will be reviewed by the organisational learning group in early December. This will include developing measures to evaluate the effectiveness of actions relating to improving understanding and compliance with corporate policies on project management, budget monitoring, approvals and expenditure limits under the scheme of delegation, commissioning and procurement.

6.2 It is also important to remember that the issue began with urgency around the need to carry out significant work to improve compliance with health and safety regulations on a number of Dorset Council assets. Committee should be assured about the current safety state of council buildings and safe working practices. There is a planned audit by SWAP underway on the Property and Assets Improvement Plan, which will provide internal audit's opinion on progress made in improving the management of the service since the issues came to light. It may also be useful for Committee to receive an officer report at a future committee on the safety status of council buildings, and safe systems of work.

6.3 Finally there is also work commissioned from the Centre for Governance and Scrutiny which will consider the wider issue of how officers and Members work together to make better decisions together. This will include consideration of how we are using scrutiny and overview committees. Much of the learning identified from the audit and investigation findings will be used to inform the work.

7. Legal considerations

7.1 Having a clear response plan to the issues raised by the audit and investigation will provide greater assurance that the council is operating in a legally compliant way. This means appropriate approvals and oversight sought for agreement to commit resources, including the right delegations under the scheme of delegation.

8. Financial implications

8.1 Having a clear response plan to the issues raised by the audit and investigation will provide greater assurance that the council is securing value for money in use of taxpayers funding. It should ensure we are more aware as an organisation of how to limit wasteful, inefficient or unnecessary spending. The controls introduced into financial systems to stop the issues identified by SWAP happening again are part of the solution. The wider organisational learning is also important in underlining the importance of every employee taking utmost care with public money

9. Natural environment, climate & ecology implications

9.1 No direct implications.

10. Well-being and health implications

10.1 No direct implications.

11. Other implications

11.1 It is likely public trust was damaged by the issues identified by the audit and investigation. This plan is just the start of the process to restore that trust. Public communications and engagement should be used to test whether trust is returning as controls are established, and behaviour improves.

12. Risk implications

12.1 The issues identified by the audit and investigation have resulted in a new strategic risk being added to the corporate risk register – 807/82. This states:

"Due to a breach in the oversight and control framework, contract and expenditure approvals may breach constitutional requirements, resulting in overspends and financial mismanagement." Work will continue to review and mitigate this risk, while the response to the actions continues. It will regularly be reviewed by senior leadership team, and the organisational learning group. Until further progress has been made on the wider organisational learning actions, it is proposed to keep the risk rating as medium.

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

Current Risk: MEDIUM

Residual Risk: MEDIUM

13. Equalities

13.1 No direct implications.

14. Appendices

14.1 Appendix A – summary table showing progress against the priority actions arising from the SWAP audit, and governance actions. There is also a timeline showing how the consolidated plan is being built.

15. Background papers

15.1 SWAP audit of contract and expenditure compliance with Dorset Council's Constitution

15.2 SWAP investigation – summary report.

16. Report sign-off

16.1 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)

APPENDIX A

V2/25

Priority actions arising from the SWAP audit, and governance actions

Workstream /Theme	Activity	Description	Priority	RAG
Technical Actions	Incorrect approval of transactions in c.net Allowing Dual Roles (Impersonation)	User permissions in c.net allowed people to have more than one role and act as someone else, without proper records.		Complete
Technical Actions	Incorrect approval of transactions in c.net, breaching Scheme of Delegation thresholds	Transactions in c.net were approved incorrectly, breaking the rules for who can approve what.		Complete
Governance	Terms of Reference Decision Paper	A paper was sent to the Senior Leadership Team (SLT) to agree on the terms of reference for SWAP work.		Approved
Governance	Develop terms of reference and ensure membership of a core group to oversee development of an integrated plan	Set up a core group with clear roles to oversee the plan, making sure audit and learning points are included.		Complete
Governance	Develop an integrated plan with clear leads, confidence and timelines	Share a strong, clear plan with the core group before reporting to the Audit and Governance Committee.		Complete
Governance	Prepare Audit and Gov Cttee report	Provide proof of a solid plan and keep reporting progress to the Committee.		Complete
Priority Audit Actions AP#6332	SWAP AUDIT - Authorisation levels in SAP do not align with the Scheme of Delegation	Review SAP authorisation levels and Scheme of Delegation and report any changes to the SLT and Full Council.	Priority 1	Complete
Priority Audit Actions AP#6230	Use of Comensura contract for SoW works	Clarify which type of supplier can be engaged using the Comensura contract, and Monitoring Officer consider if a public interest report is needed.	Priority 1	Complete
Priority Audit Actions AP#6503	Use of Comensura contract for SoW -	Update the Guide to Engaging External Resources after clarifying the contract's scope.	Priority 2	Complete
Priority Audit Actions AP#6337	Use of Comensura contract for SoW	Plan for future arrangements when the Comensura contract is due to end and update guidance for staff.	Priority 2	Issue
Priority Audit Actions AP#6234	SWAP AUDIT - Approval of SoW projects	If Comensura contract continues, make sure all projects follow an approval process which complies with Scheme of Delegation Commercial and Procurement to act as gatekeeper.	Priority 2	Complete

Priority Audit Actions AP#6396	SWAP AUDIT - Approval of SoW projects	Review Commercial and Procurement to ensure capacity to carry out the additional processes as a result of this audit.	Priority 2	Complete
Priority Audit Actions AP#6235	SWAP AUDIT - Approval of SoW projects	Keep records of all project documents (PIDs, Fee Proposals, Instructions for works) in c.net as audit trail proof for approvals.	Priority 2	Complete
Priority Audit Actions AP#6236	SWAP AUDIT - Increases to SoW project budgets	Any increase in project budgets/milestones must go through the same approval process as new projects and be recorded in SAP.	Priority 2	Issue
Priority Audit Actions AP#6231	SWAP Audit - User permissions in c.net	Decide which staff can have approver status in c.net, and if interim and temporary staff can be approvers.	Priority 2	Complete
Priority Audit Actions AP#6232	SWAP Audit - User permissions in c.net	Check if people outside Commercial & Procurement have and should keep customer admin rights in c.net.	Priority 2	Complete
Priority Audit Actions AP#6395	SWAP Audit - User permissions in c.net	Periodic checks to ensure only Commercial and Procurement staff have Customer admin status.	Priority 2	Complete
Priority Audit Actions AP#6237	SWAP AUDIT – approval of transactions in c.net	Issue guidance to staff about approval of transactions in c.net and Scheme of Delegation thresholds especially for multiple transactions with a single supplier.	Priority 2	Complete
Priority Audit Actions AP#6233	SWAP AUDIT - Commitments in SAP	Make sure the new ERP system can link orders to contracts and approvals, and workflow for non-trade payments, authorisations and budget in advance.	Priority 2	Complete
Priority Audit Actions AP#6238	SWAP AUDIT - Monitoring by Commercial & Procurement	Set up monitoring reports to check compliance with controls within C.net system and escalate instances of non-compliance to Corporate Director for Finance and Commercial.	Priority 2	Complete
Priority Audit Actions AP#6334	SWAP AUDIT - Publishing payments over £500	Review payments over £500 to make sure all are published on the Council's website and inform the Monitoring Officer if needed.	Priority 2	Complete
Priority Audit Actions AP#6559	SWAP AUDIT - Award of contract though Comensura contract	Decide if Comensura should still be used for engaging specialist contractors (SoW) and give guidance to staff.	Priority 2	Complete

Audit and Governance Committee Work Programme 2025-26

12 Jan 2026		
SWAP Update Report	Update Report	Officer Contact – Sally White/Sophie Blackburn
Risk Management Update	Update Report	Officer Contact-Chris Swain, Liz Crocker
Update on Our Future Council Work	Update	Officer Contact- Lisa Cotton

23 March 2026		
Quarter 3 Financial Management Report 2025/26	Report	Officer Contact- Sean Cremer
Grant Thornton – 2025-26 Audit Plan Dorset Council	Report	Officer Contact - Julie Masci/Sam Harding
Grant Thornton – 2025-26 Audit Plan Dorset Pension Fund	Report	Officer Contact - Julie Masci/Chrissa Viente
Update on Our Future Council Work	Update	Officer Contact- Lisa Cotton

27 April 2026		
Annual Governance Statement	Statement	Officer contact- Marc Eyre
SWAP Update Report	Update Report	Officer Contact – Sally White/Sophie Blackburn
Planning Paper 2026-27 & Internal Audit Charter	Planning Paper	Officer Contact – Sally White/Sophie Blackburn
Annual Internal Audit Opinion 2025-26	Opinion Report	Officer Contact – Sally White/Sophie Blackburn
Quarterly Risk Management Update	Update Report	Officer Contact- Chris Swain, Liz Crocker
Grant Thornton – External audit progress report	Update Report	Officer Contact - Julie Masci/Sam Harding
Update on Our Future Council Work	Update	Officer Contact- Lisa Cotton

Other items raised by Audit and Governance Committee requiring further consideration.

Issue	Notes	Date raised