

# Financial Statements

## 2019-2020





# CONTENTS

Introduction .....	2
Audit Opinion .....	3 - 7
Narrative Statement .....	8 - 23
Statement of Responsibilities .....	24
Comprehensive Income and Expenditure Statement (CIES).....	25
Balance Sheet .....	26
Statement of Movement in Reserves .....	27
Cash Flow Statement .....	28
Notes to the Financial Statements .....	29-59
Collection Fund .....	60
Notes to the Collection Fund .....	61
Appendix A Statement of Accounting Policies .....	
Appendix B Annual Governance Statement.....	
Appendix C Pension Fund Audit Opinion.....	
Appendix C Pension Fund Accounts and Notes.....	
Appendix D Pension Fund - IAS 26 Disclosures.....	
Appendix E Glossary of Terms .....	

Aidan Dunn  
Chief Financial Officer  
Dorset Council  
County Hall  
Dorchester  
Dorset  
DT1 1XJ

ISBN 978-1-84495-054-6

## INTRODUCTION

The purpose of this publication is to provide the Statutory Financial Statements for Dorset Council for the period from 1 April 2019 to 31 March 2020.

The Council provides a wide range of services for the citizens of Dorset, including education, social services, housing, transport, planning, trading standards and libraries. Decisions relating to these services are made by the Elected Councillors of the Council, each Councillor representing a particular part of the County. Services in Bournemouth, Christchurch and Poole are administered by a separate, Unitary Authority serving that area.

The Council's formal decision making and governance structure constitutes the Full Council and an Executive (the Cabinet), which are supported by four outcome-focused overview and scrutiny committees. These are the People and Health Overview/Scrutiny Committees, and Place and Resources Overview/Scrutiny Committees. Their respective terms of reference directly support their focus and oversight of the Council's Corporate Plan and monitor achievement against the council's five priorities of Economic growth; Unique environment; Staying safe and well; Strong, healthy communities; and Suitable housing. Each of these committees meet, formally on a quarterly basis to provide the necessary support and challenge and, when necessary, have the powers to call additional meetings. In addition, the Audit and Governance Committee provides oversight of the Council's conduct, financial, risk, performance and constitutional issues. The Council's remaining statutory responsibilities also continue to be delivered through existing arrangements e.g. Planning Committees, School Appeals, etc.

Further details about the Council are available on the [dorsetforyou.com](http://dorsetforyou.com) or [dorsetcouncil.gov.uk](http://dorsetcouncil.gov.uk) web site.

### **Certification by Chief Financial Officer**

I certify that these Financial Statements give a true and fair view of the financial position of Dorset Council and of its financial performance for the year ended 31 March 2020.

The Financial Statements for 2019/20 were authorised by the CFO for issue as a draft, subject to audit on 31 July 2020. These accounts were considered at the Audit and Governance Committee on 16 November 2020. They were authorised again as a final audited set of financial statements by the Audit and Governance Committee on 21 June 2021.



A handwritten signature in dark ink that reads "Aidan Dunn." The signature is written in a cursive style.

Aidan Dunn  
**Executive Director (Corporate Development)  
(Chief Financial Officer)**

21 June 2021

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DORSET COUNCIL REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, the financial statements of Dorset Council ('the Authority'):

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of the Authority's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We have audited the financial statements which comprise:

- the Comprehensive Income and Expenditure Statement;
- the Balance Sheet;
- the Statement of Movement in Reserves;
- the Cash Flow Statement;
- the related notes 1 to 61;
- the Collection Fund and the related notes 1 to 3; and
- the statement of accounting policies – appendix A.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2019/20.

### **Basis for qualified opinion**

#### **Non-Domestic Rates (NDR) Appeals Provision**

As at 31 March 2020 and 1 April 2019 the total NDR appeals provision covering all of the bodies in the collection fund was £31m and £32.7mm, respectively. The amount related to Dorset Council's proportion of the collection fund is £15.0m as at 31 March 2020 and £16.1m as at 1 April 2019.

The Authority recognises a provision in relation to their proportion of the appeals raised against the non-domestic rates it collects on behalf of itself and other entities as part of the collection fund.

We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the NDR provision as at 31 March 2020 and 1 April 2019 due to a lack of available information from the Valuation Tribunal on the claim success rate to assess the required provision. Consequently, we were unable to determine whether any adjustments to these amounts were necessary and conclude that the provisions held are in line with the CIPFA code.

In addition, the effect of this would also impact the discussion of financial performance in the narrative statement.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these

requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

#### **Emphasis of matter – material uncertainty related to property valuations**

We draw attention to note 57, which describes the effects of the uncertainties created by the coronavirus (COVID-19) pandemic on the valuation of the Authority's land and buildings, as well as UK property funds managed by the Dorset Pension Fund.. As noted by the Authority's external valuers, the pandemic has caused extensive disruptions to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the fair value of the property portfolio at the balance sheet date. Our opinion is not modified in respect of this matter.

#### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

- the Chief Financial Officer's use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

#### **Other information**

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the basis for qualified opinion section of our report, we were unable to satisfy ourselves concerning the non-domestic rates (NDR) appeals provision of £15.0m held at 31 March 2020 (£16.1m on 1 April 2019) that the provisions are held appropriately in line with the CIPFA code. We have concluded that where the other information refers to non-domestic rates (NDR) appeals provision, it may be materially misstated for the same reason.

#### **Chief Financial Officer's responsibilities**

As explained more fully in the Chief Financial Officer's responsibilities statement, the Chief Financial Officer is responsible for: the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United

Kingdom 2019/20 and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **REPORT ON OTHER LEGAL AND REGULATORY MATTERS**

### **Report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required to report to you if, in our opinion the Authority has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

#### **Qualified conclusion**

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2019, with the exception of the matters reported in the basis for qualified conclusion section below, we are satisfied that, in all significant respects, the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

#### **Basis for qualified conclusion**

##### **Children's Services and working with other partners**

In July 2018, the former Dorset County Council received the findings of an inspection by Ofsted, the Care Quality Commission (CQC), HMI Constabulary and Fire & Rescue Services (HMICFRS), and HMI Probation (HMIP) completed in May 2018 into the multi-agency response to child sexual exploitation, children associated with gangs and at risk of exploitation, and children missing from home, care or education in Dorset.

The report identified that: there are many concerns regarding practice in Dorset County Council, including: *'the most vulnerable children are not being sufficiently safeguarded by local authority and while some work is of a reasonable quality, the poorest work is very poor'*. The report noted that the Council needed to ensure that it effectively balances an outward focus on partnership working alongside the comprehensive internal improvement work underway.

In March 2019 Dorset County Council received the findings of a follow up inspection by Ofsted and the CQC completed in February 2019 of Special Education Needs / Disabilities provision in Dorset (specifically where Dorset County Council is responsible). This follow up inspection was to consider whether the local area has made sufficient progress in addressing the areas of significant weakness first identified in their March 2017 inspection on the Special Education Needs/Disabilities provision in Dorset. The inspectors were of the opinion that local area leaders have not made sufficient progress to improve a number of weaknesses which remained present.

As a result, the inspectors have referred the matter to the Department of Education and NHS England for consideration and further action. This can include the Secretary of State using his powers of intervention.

The issues described above were evidence of weaknesses in proper arrangements for planning, organising, and developing the workforce effectively to deliver strategic priorities and working with third parties effectively to deliver strategic priorities and caused us to qualify our conclusion in respect of this specific matter on the financial statements of the former Dorset County Council and its subsidiaries for the year-ended 31 March 2019. These weaknesses remain in the Authority for the year ended 31 March 2020, wherein October 2019 the Authority was subject to a focussed visit by OFSTED which showed improvement and positive steps taken by the Authority, but it did not result in 'qualification to be resolved' as further improvements are still required.

### **Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

The Authority 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.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2019, as to whether Dorset Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under

the Code of Audit Practice in satisfying ourselves whether Dorset Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

#### **Matters on which we are required to report by exception**

The Code of Audit Practice requires us to report to you if:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014; or
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

#### **DELAY IN THE CERTIFICATION OF COMPLETION OF THE AUDIT**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

#### **USE OF OUR REPORT**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

A handwritten signature in blue ink that reads "I C Howse". The signature is written in a cursive style with a large "I" and "C" followed by the name "Howse".

Ian Howse CA, CPFA (Appointed auditor)  
For and on behalf of Deloitte LLP  
Cardiff, Wales  
03 July 2021



# NARRATIVE STATEMENT TO THE ACCOUNTS

## Introduction

Welcome to the first set of published audited financial statements for Dorset Council. The Council was established on 1 April 2019 as part of the reorganisation of local government in Dorset brought about by the Bournemouth, Dorset and Poole (Structural Changes) Order 2018 (2018/648).

In February 2018, the Secretary of State, Sajid Javid, gave approval for plans proposed by Dorset's nine councils (*Future Dorset*), to converge to two new, unitary authorities with a view to improving services and outcomes for citizens, growing local businesses and reducing costs for the taxpayer.

One of the outcomes of reorganisation was that the predecessor Dorset County Council's finances were split (*disaggregated*) between the two new councils that have assumed responsibility for the County Council's assets, liabilities and continuing business obligations. So, whilst the County Council ceased, the business continues, via the disaggregation process, into *Dorset Council* and *Bournemouth, Christchurch and Poole Council*.

With 2019/20 being the first year for Dorset Council, prior year figures are not available for comparison. However, where appropriate, opening amounts for balance sheet items are given and also disclosed further, where appropriate, in the notes to the accounts, to show movements during the year.

In determining opening balances, it has been necessary to work through the disaggregation of the predecessor County Council's budgets and balance sheet. The same was also necessary for Weymouth & Portland Borough Council due to the creation of a new Town Council for Weymouth and the disaggregation of budgets, balance sheet and council tax precept that was required for this new organisation (Weymouth Town Council).

Creation of the new unitary councils was underpinned by analysis which included estimates of savings that would arise from reorganisation; in the region of £12.5m. Whilst the Council's first year of business has proved to be extremely challenging in terms of demand for services, we must keep sight of the fact that these demands would have arisen in any event and the decision to reorganise and take significant resources out of support services was the right thing to do to reduce overall costs and keep funding going into front-line services.

The Council set the 2019/20 net budget at £295m, funded from general grants (£6m), business rates (£47m) and council tax (£242m), meaning a band D equivalent council tax charge of £1,629.75. This figure was agreed after the Council took the decision to harmonise council tax immediately after agreeing an alternative notional amount (ANA) with MHCLG as part of the reorganisation process.

## Financial performance against budget

Table 1, below, shows the summary outturn for the Council compared with its budget. The analysis shows that, overall, service budgets were overspent by £20.462m, whilst there were underspends and offsetting savings in financing and central budgets of £15.473m, meaning that, overall, there was a net overspend of just under £5m. The analysis of performance against budget and how this feeds through to movements in the Council's general fund is shown in the expenditure and funding analysis (EFA).

The Council forecast an overspend throughout the year so the outturn position was not unexpected. When the budget was originally [agreed](#) by the Shadow Council in February 2019, a contingency sum was included in anticipation of potential cost pressures that could not be foreseen specifically at that time. The budget report also made reference to collection fund surpluses which, whilst not specifically included in the budget, have proved helpful in supporting the in-year position.

# NARRATIVE STATEMENT TO THE ACCOUNTS

Work to address cost pressures has been in progress during the year and this, alongside further savings from reorganisation and a higher than anticipated local government finance settlement for 2020/21, meant that it was possible to add significant resources into the new year's budget and medium-term financial plan (MTFP), more on which can be found on the Council's website [here](#).

*Table 1*

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

The overspend was funded from the Council's general fund. After disaggregation of predecessor councils, the general fund amounted to £28.2m. However, the consolidation of predecessor councils' balance sheets also allowed other reserves to be reviewed because the risk profile of the new Council is different and reserves can therefore be rationalised and repurposed. This enabled £5m from other earmarked reserves to be repurposed and made available to support the general fund.

2019/20 was the last financial year to be based on the four-year settlement set out in the Government's Spending Review 2015 (SR2015). Although it brought certainty for financial and operational planning purposes, SR2015 saw significant reductions in funding for councils. Although some of these were subsequently supported through transitional, one-off funding, and in spite of the improved one-year settlement given to local government for 2020/21, in the longer term, councils nationally need improved funding and longer-term certainty to manage service planning effectively.

For some time, the sector had been led to expect a three-year deal from 2021/22, as part of the funding future but given the response required to the Covid-19 pandemic, the Chancellor has announced that 2021/22 will be a single-year settlement only. It is understood still to be the Government's intention to return to a longer-term spending review when it is right to do so.

## Performance

When Dorset Council was established, it inherited a number of performance measurement and management frameworks from the predecessor councils. A new framework was therefore required and has been in development since 1 April 2019 and is described below.

The Dorset Council performance framework monitors a full range of measures, from high-level, strategic, key performance indicators (KPIs), to a multitude of lower-level, operational measures aimed at supporting the needs of individual services and teams.

# NARRATIVE STATEMENT TO THE ACCOUNTS

The framework has four core strands of reporting:

- 1 Strategic level reporting focuses on the outcomes associated with the delivery of the Council Plan, and strategic oversight of the Council's overall performance. This includes the provision of a monthly KPI balanced scorecard to the Senior Leadership Team (SLT) and Corporate Leadership Team (CLT), and a monthly performance leadership scorecard for executive directors and portfolio holders. The scorecard contains a balance of both financial and non-financial targeted measures and provides a complete picture of performance across the Council. The monthly balanced scorecard is made up of four reporting areas:
  - operational metrics (an effective modern organisation)
  - customer metrics (a customer-focused organisation)
  - HR metrics (an employer of choice)
  - finance metrics (a sustainable organisation).

There are also quarterly reports to the Place and Resource Overview Committee and the People and Health Overview Committee, and a quarterly update on progress against the Dorset Council Plan for CLT, SLT and the Cabinet. Quarterly risk management and internal audit updates are provided to the Audit and Governance Committee.

- 2 Service level reporting covers the decision-making and progress tracking needs of service level leadership and management in each of the Council's directorates: People – adults and housing; People – children's; Place; and Corporate development.
- 3 Operational level reporting provides the performance information required to successfully oversee and manage the individual operations within services.
- 4 Statutory performance reporting (including reporting to agencies and partners) covers the reporting returned to central government as part of the statutory reporting process.

In terms of governance and approach, the framework makes use of a reporting by exception process whereby measures which are identified as off-track require detailed explanation from accountable managers. In particular this requires:

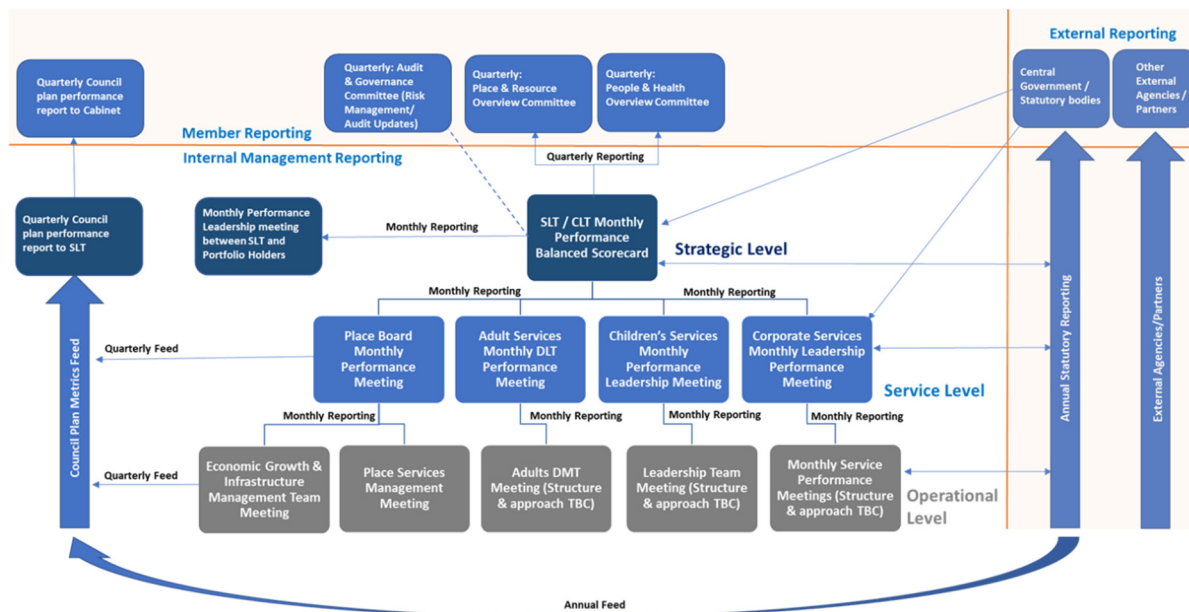
- an explanation of why a target is being missed/an item is off-track
- an action plan identifying how this will be rectified
- a timeline for returning to within tolerance (path to green)
- an accountable officer.

These actions are tracked via a dedicated action tracking process with regular status updates at subsequent performance meetings. New actions identified as part of the performance management meeting are added into this action tracking process.

# NARRATIVE STATEMENT TO THE ACCOUNTS

The Dorset Council Performance Framework is shown in Chart 1.

*Chart 1*



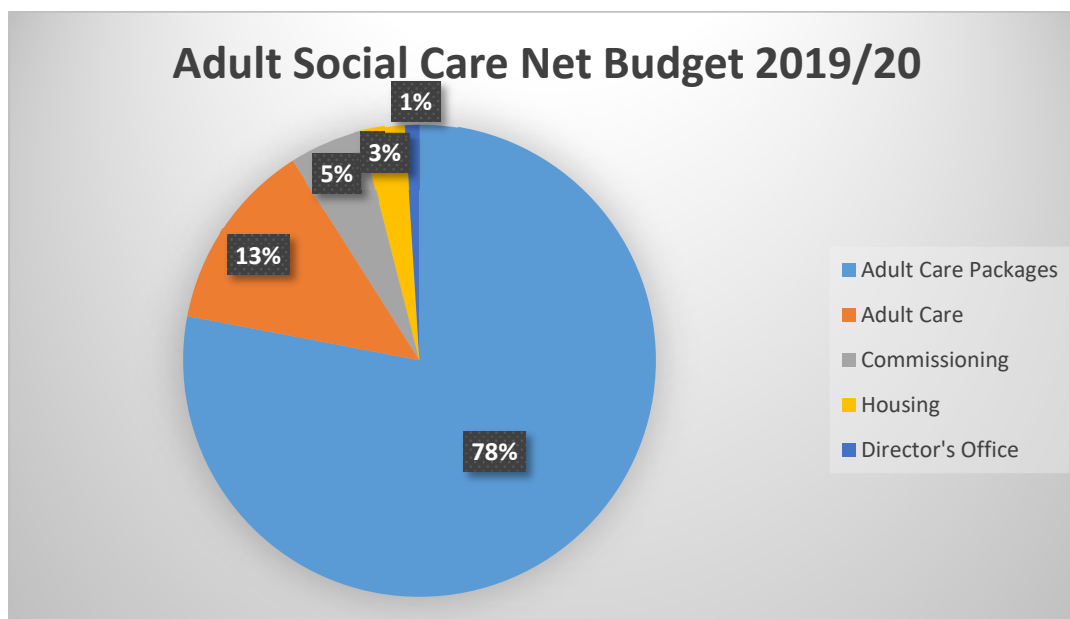
Dorset Council Performance Framework – Information Flows and Governance

In addition to the above, a selection of reporting has been developed to monitor the Council's response to the Covid-19 pandemic. This reporting will continue for as long as required.

## Adult and Community Services

People - Adult and Housing is the largest Directorate in the Council. The Directorate's approved, net, revenue budget for 2019/20 was £114.2. The largest element, £87.9m (78%) was spent on Adult Social Care spend on packages of care element as shown in Chart 2 below.

*Chart 2*



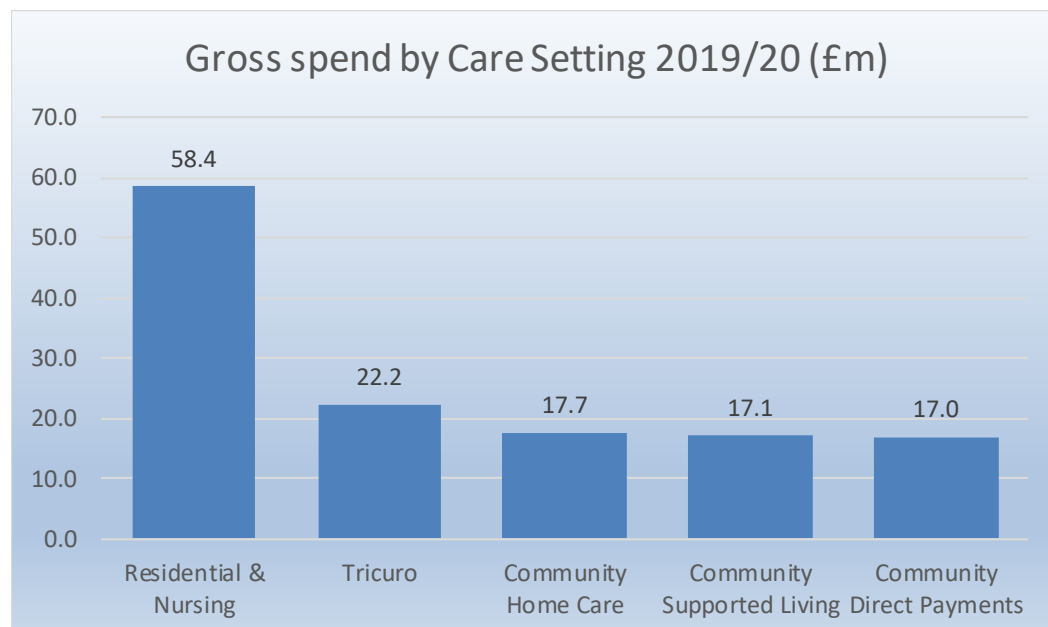
The gross budgeted spend on individual packages of care was £131.3m. In line with national trends, the cost of adult social care services in Dorset continues to rise. This area of



## NARRATIVE STATEMENT TO THE ACCOUNTS

the budget was overspent by a net £10.3m. The key factor affecting spend was the increased costs of care. This was caused through a mixture of increasing acuity or complexity of packages of care plus generally increasing costs, e.g. national living wage which impacts heavily on care market providers. A breakdown of the spend by the main types of care is shown in Chart 3, below.

Chart 3



The other area of overspend within the Directorate was within Commissioning equating to £1.3m. The Council provides a provision for Dorset Accessible Homes and Disabled Facilities Grants which have seen an increase in cost and demand within 2019/20. These costs have been offset by underspends on Adult Care Operations of £0.52m due to staffing vacancies in year across Locality and Specialist Teams.

Improved Better Care Fund (iBCF) monies totalling £10.4m were received in 2019/20. These formed a part of a system-wide BCF plan, developed by the Clinical Commissioning Group (CCG) and the local authorities under the governance of the Dorset Health & Wellbeing Board.

The national guidance for the BCF requires the Clinical Commissioning Group and the County and District Councils to set out how they will work together to invest, commission and, where required, deliver health and social care services in a joined-up way for the benefit of Dorset residents. The combined funds totalled £132.1m with Dorset Council contributing £73.7m as shown in table 2, below.

Table 2

Scheme	CCG	LA	Grand Total
Carers	1,056,924		1,056,924
High Impact Changes Implementation / Supported Hospital Discharge	5,549,186	4,556,292	10,105,478
Integrated health and social care locality teams	16,864,915		16,864,915
Maintaining independence	6,864,197	7,378,364	14,242,561
Moving on from Hospital Living	3,441,000	1,213,000	4,654,000
Strong and sustainable care markets	24,627,000	60,587,024	85,214,024
<b>Grand Total</b>	<b>58,403,222</b>	<b>73,734,680</b>	<b>132,137,902</b>

The economic situation continues to be extremely challenging. Budget constraints and the need to achieve efficiency targets mean the Directorate continues to face significant

# NARRATIVE STATEMENT TO THE ACCOUNTS

challenges in delivering its commitments to those in need of assistance. The Directorate is committed to further cost reductions in future to balance the budget, including initiatives to review the appropriateness of many packages of care, increase income and make efficiency savings.

## Children's Services

Children's Services budgets include funding for social care, education and early action services. Excluding the Dedicated Schools Grant (DSG) which funds schools, early years provision, and associated activity, Children's Services is the Council's second largest budget.

Children's Services contributes to the Council Plan in two key areas: to create strong, healthy communities for the best start in life through our education system, and to contribute to staying safe and well through a number of ways including child protection, children in care, and wider social care. Children's Services has safeguarding responsibility for 68,000 children (under 18) across the Council area. There are 160 schools in the Dorset Council area; 78 maintained schools and 82 academies or free schools.

### Children in care

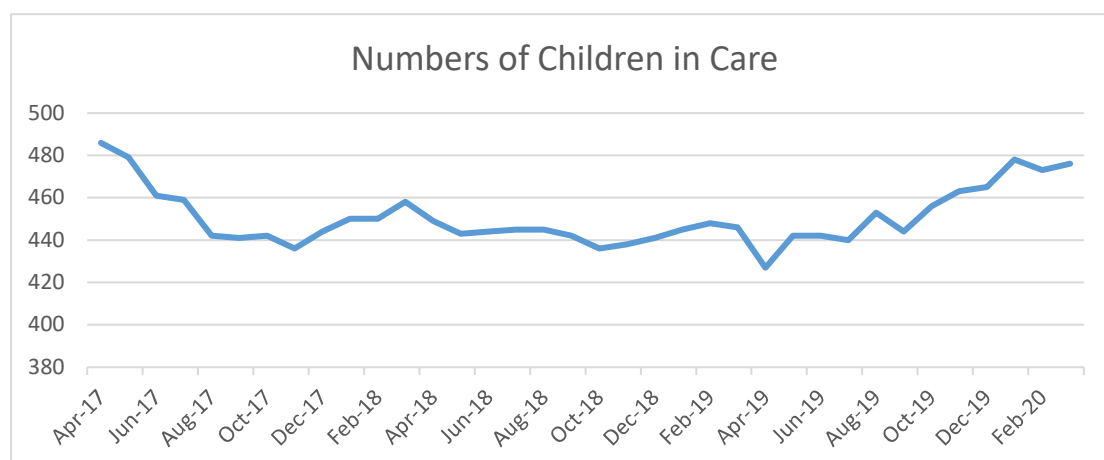
As part of its safeguarding role the Council is responsible for providing care for children and young people who can't be looked after by their families.

In line with national trends, the cost of providing care for children continues to be a challenge. There are more children, with increasingly complex needs being placed in higher-cost, residential placements or in independent fostering placements. The chart below tracks the number of children in care in recent times.

The Care and Protection budget has overspent by approximately £8m in 2019/20. The main pressure on this budget has been in relation to external placements, with a net increase of 41 placements during the year. The weekly cost of placements can vary hugely, with a range from £650 to £10,000 per week.

Whilst the Council has limited ability to influence the numbers of children in care, steps are being taken to improve cost-effectiveness in this area going forward. This includes the new locality working and new commissioning team being implemented under Blueprint for Change, a review of the fostering service, and proposals for new accommodation in Weymouth.

### Chart 4



# NARRATIVE STATEMENT TO THE ACCOUNTS

## Education and Learning

Education and Learning Dorset Council budgets overspent by £1.27m. This was primarily in the area of SEN Transport costs, where both volumes and costs were higher than budgeted.

## Blueprint for Change

Our vision is that children are happy, thrive and are able to be the best they can be. We want to make our services as good as they can be for our children and families. Blueprint for Change is about getting the right structures in place to allow us to do this. It's separate from issues caused by local government reorganisation (as Dorset became two unitary councils from 1 April 2019), which were about reducing duplication of roles.

The work we are doing in children's services is much bigger – it's about designing services and structures to improve the lives of our children and families, which, in turn, should also help reduce our escalating costs.

Changes are needed; previous Ofsted inspections, including around SEND, child exploitation and wider children's services all highlighted the need for improvement. We are a new Council with new leadership and must transform the way we work, so we can improve for our families and manage our resources better.

The new model is a locality-based model, with a matrix style approach to the previously separated functions of social care and the education system, which places resources around the child in a more efficient and effective manner. The new model of working will formally be in place for September 2020, with staffing appointments now completed and transitions underway in advance of that date. The new model will not be finalised for some time, with some longer-term aspirations around accommodation not possible for 2020.

## Covid-19

This report focuses on the financial position for the year 2019/20, and the consequences of the Covid-19 outbreak and response primarily impacted upon Children's Services, both operationally and financially, in the subsequent financial year.

The expenditure figures for 2019/20 include costs of around £56k that were additional spend directly attributable to the pandemic, and which were funded by specific grant from Government as part of a £21m package as Dorset's share of the national £3.2bn. This spend was in relation to additional support via foodbanks and support to the supply chain in line with Government's requirements.

## Dedicated Schools Grant (DSG)

In line with local expectations and the national picture, spend in the High Needs Block (HNB) element of the DSG was significantly greater than the available funding, with the overall DSG overspend at around £8m. This sum is carried forward as a deficit in the Council balance sheet together with the deficit from prior years, as required by DfE guidance published during the year, setting out that overspends on the HNB are not the responsibility of council tax payers and should therefore not be funded from local resources. The cumulative deficit at the end of 2019/20 is £21.8m.

Dorset Council is working actively in partnership with the Schools Forum to determine how to reduce expenditure in this area. Nevertheless, the size of the deficit and the likely extent of further overspends in future remain a significant concern.

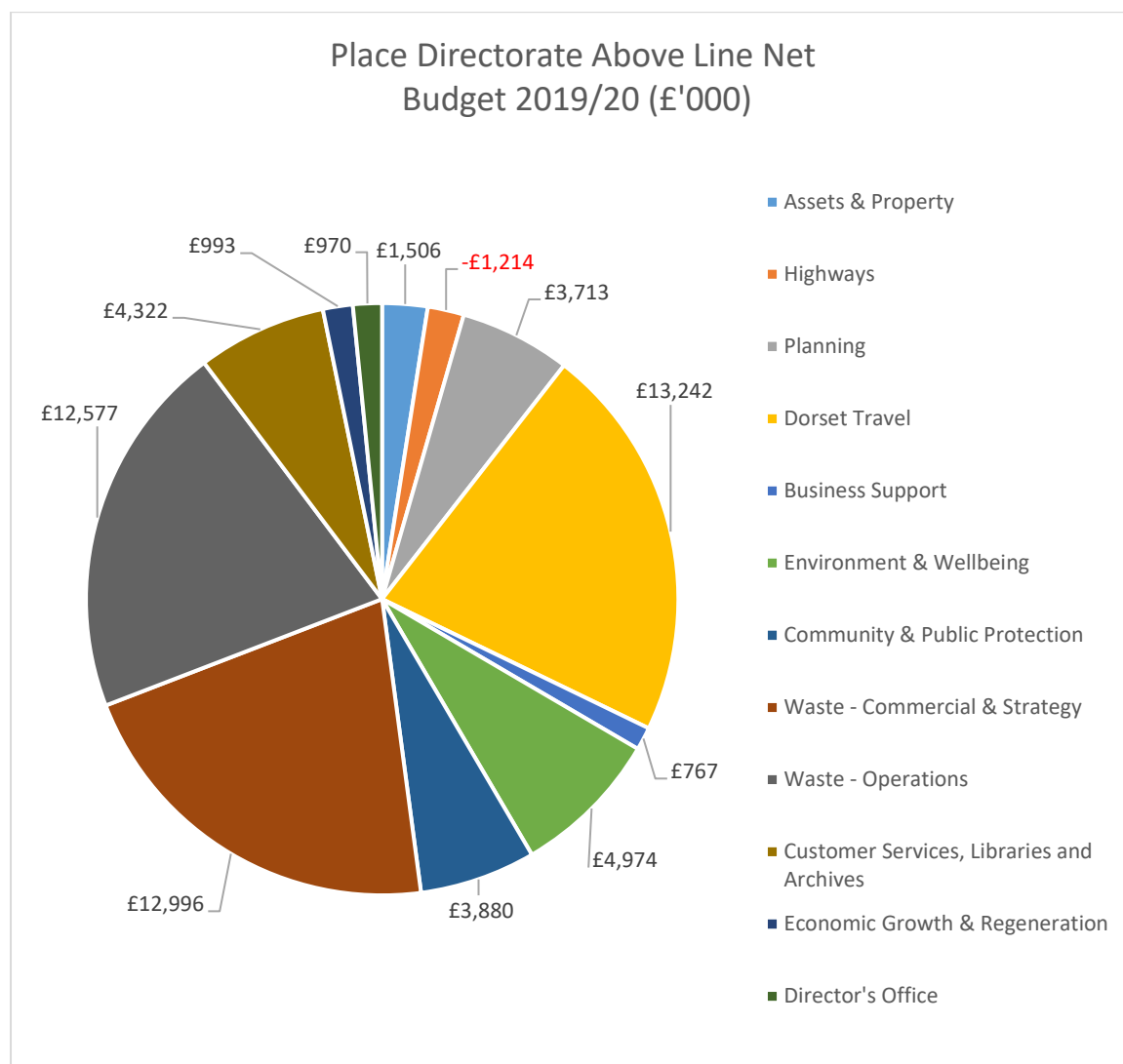
## **Place Services**

The service areas within the Place Directorate include Assets & Property, Highways, Planning, Dorset Travel, Waste Services, Community & Public Protection, Environment & Wellbeing, Customer Services, Libraries & Archives, Economic Growth and Business

# NARRATIVE STATEMENT TO THE ACCOUNTS

Support. The Place Directorate net budget for 2019/20 was £59m, split out into each service area as detailed in the chart below.

Chart 5



The Place Directorate has many diverse services it delivers to the community.

- Approximately 1,500 staff work in the Directorate, which fluctuates due to the addition of seasonal staff
- Dorset Waste Service provides waste collection and disposal for over 200,000 properties, businesses and the local community in the Dorset Council area (including Christchurch for 2019/20 only), plus street cleansing, commercial waste services and running Household Recycling Centres
- Highways is responsible for maintaining 3,797km of carriageway and 1,336 other structures including bridges. The team also manages 47,854 streetlights, illuminated signs and bollards. The Highways team also manages all of the Council's on-street and off-street car parking operations
- Dorset Travel manages travel for over 10,000 passengers per day, on over 500 routes covering schools
- The Assets & Property service manages and maintains, for safety, compliance and operational continuity, an estate of over 1,400 property assets which include 450 commercial assets as well as coastal and flood defence assets and infrastructure. We



# NARRATIVE STATEMENT TO THE ACCOUNTS

secure, very broadly, in excess of £10m income from our estate and commission and deliver capital projects/expenditure in excess of £20m

- The Planning service would expect to receive approximately 5,000 planning applications per annum
- Community Protection manages many services including Building Control, Registration Services, Coroners, Trading Standards, Bereavement, Environment Health & Food Safety and Port Health
- Registration Services registered 1,636 births and 3,600 deaths and conducted 1,039 marriages and 40 civil partnerships
- Over 2,000 food businesses were inspected to ensure that food is safe to eat
- Customer Services provide information and advice, signposting to community resources, completing applications, processing payments and promoting on-line services through telephony, face-to-face, email and digital channels. It handles over 330,000 contacts a year ranging from simple transactional requests to far more complex enquiries such as adult social care
- The Economic Growth & Regeneration team assist many businesses within the Dorset Council area
- Leisure Services manage seven owned or operated Leisure Centres with over 8,500 members paying monthly
- Is responsible for three harbours (Weymouth, West Bay and Lyme Regis)
- Greenspace is also responsible for maintaining almost 4,828km of Rights of Way and thousands of km of highway verge
- Greenspace also manages four country parks (Moors Valley, Avon Heath, Durlston and Thorncombe Woods)
- 1,418 square km of areas of outstanding natural beauty, covering 55% of its total land area
- 141 sites of special scientific interest, covering 18,730 hectares
- 14 national nature reserves – Local reserves such as Thorncombe Woods
- 59 regionally important geological and geomorphological sites (with further sites under consideration)
- 1,294 sites of nature conservation interest
- 95 km of heritage coast
- 112 km of the Jurassic Coast World Heritage Site
- 86% of British mammal species can be found in Dorset, along with 69% of our birds, 78% of our butterflies, 67% of our dragonflies and all of our native reptiles and amphibians.

## **Corporate Development**

Corporate Services is the collective name for services across Corporate Development and Legal Services. This includes Finance and Commercial (including Revenues and Benefits), Human Resources and Organisational Development, ICT Operations, Digital and Change, Business Intelligence, Communications and Engagement, Legal Services, Assurance, Democratic and Electoral Services and Land Charges.

The net budget for Corporate Services was £44m and the in-year performance was an underspend of £0.68m, largely due to two active vacancy managements and further de-duplication savings stemming from being a single council.

However, pressures have emerged within the Revenues and Benefits function, particularly the Housing Benefit and placements over the subsidy Dorset Council receives. This overspend was £0.8m over the total 523 cases, with 63% of the overspend in the Weymouth and Portland area.

# NARRATIVE STATEMENT TO THE ACCOUNTS

During the financial year a net saving of £4.4m on pay budgets across Dorset Council was achieved through removal of duplicate posts and implementing new structures, predominantly within Corporate Services. These savings build on those delivered as part-year savings in 2019/20 and amount to more than £10m that has been saved from staff costs budgets since reorganisation.

Additional expenditure due to the response to Covid-19 totalled £0.155m during the financial year. This was predominantly concerning a county-wide letter drop, shielding activities and the initial purchase of personal protective equipment (PPE). This was funded from the additional grant funding the Council received from central government.

## **Developing the 2020/21 budget**

2020/21 was the second budget for Dorset Council. As mentioned elsewhere in this report, the improved settlement from Government and the resources released from support services through reorganisation meant that considerable extra funding could be added to budgets for front line services. The link, earlier, to the budget report in this narrative statement can be used to see more details of the resources allocated to respective services and the process used to develop the budget strategy for 2020/21.

For 2020/21 Dorset Council set a net budget of £304m, funded from general grants (£5m), business rates (£47m) and council tax (£252m) meaning a band D equivalent council tax charge of £1,694.79.

## **Future funding prospects**

Development of the next iteration of the MTFP will be extremely challenging, especially against the backdrop of a single-year spending review mentioned earlier. The current recovery from the coronavirus pandemic means Government attention is necessarily focused on that rather than longer-term funding needs across the public sector.

There is therefore considerable uncertainty even in the first year of the new plan as there is currently a significant amount of funding which is still not incorporated into the Council's baseline funding but is instead rolled-forward as one-off funding.

## **Borrowing, servicing of debt and liquidity**

The Council's overall borrowing stood at £217m at the end of the year, a net reduction of approximately £15m during the year.

Just over £37m of the debt is repayable within the next 12 months with the remainder being scheduled in line with the treasury management strategy principles on maturity. Average interest rates payable through the Public Works Loan Board (PWLB) are 3.95% and 3.41% with other lenders.

Interest payable during the year was £7.4m and interest receivable plus other investment income amounted to £3.6m in total.

The prudential borrowing system enables councils to borrow for capital investment without Government consent, as long as they can afford to service the debt. At 31 March 2020 the Council's capital financing requirement (CFR) was £320m, including £24m relating to PFI schemes and £3m to finance leases. As noted, external borrowing was £217m, with the remainder financed temporarily from the Council's own cash resources.

Liquidity was maintained at adequate levels during the year with no concerns over the ability to discharge creditors and other payments as they fell due.

More information on debt and liquidity is routinely included in reports to the Council's Cabinet and Audit & Governance Committee all available on the website.

# NARRATIVE STATEMENT TO THE ACCOUNTS

## **Staffing and restructuring**

During the year the Council implemented the plans reflected in the approved 2019/20 budget to restructure support services and in particular to de-duplicate budgets across areas such as Finance, Legal Services, HR ICT and digital.

More than £10m in total has been saved from staff costs in leadership, management and support service across the Council, with the majority of these falling in 2019/20. In designing new structures, the Council benefitted from external challenge from Ameo to help develop a resourcing level for support services that compared well with other unitary authorities and supported the Council's front line services to deliver the outcomes of the new corporate plan effectively.

The Council will continue to remain flexible to meet future service and funding challenges as it transforms and improves to deliver efficient services to residents.

Notes to the accounts also cover the disclosures required for the Council's senior staffing group and also bandings of salary earnings for employees with remuneration in excess of £50,000 per annum. Information is also disclosed for exit packages and termination benefits during the year.

## **Exit from the European Union**

Whilst the United Kingdom has now officially left the European Union, there is a transition period during which further work and negotiation is continuing on how the parties will transact business and interact once the transition period comes to an end. The terms of future trading agreements are still to be agreed, but it is possible that these will have short and long-term implications for the Council's funding and financial position.

It is not appropriate to speculate on the nature of the relationship that might emerge between the UK and the EU and in turn, how this might impact on the Council, but the emerging relationship and its potential impact will be kept under review.

## **Covid-19**

At the time of preparing these financial statements in draft, the UK is starting to ease lockdown measures and more businesses are reopening. However, it will be some time before the financial impact of the response to and recovery from Covid-19 pandemic becomes clear.

Despite only a small amount of impact (£0.5m) on costs in the 2019/20 outturn, all of which was funded by grant from Government, there is considerable uncertainty around the impact that the pandemic will have on the 2020/21 position and beyond.

Government has already paid more than £21m in Covid-19 funding to Dorset Council on top of additional sums which the Council has been able to distribute directly to businesses and individuals through the various business grants schemes, extended business rates reliefs, the hardship fund and infection control grants.

At the time of writing, further support for local government has just been announced and Dorset Council is awaiting clarification of its share of additional funding as well as how the income protection scheme and collection fund impact schemes will work. We will then have a clearer idea of whether there are extreme circumstances which the Council will need to pick up directly with Government.

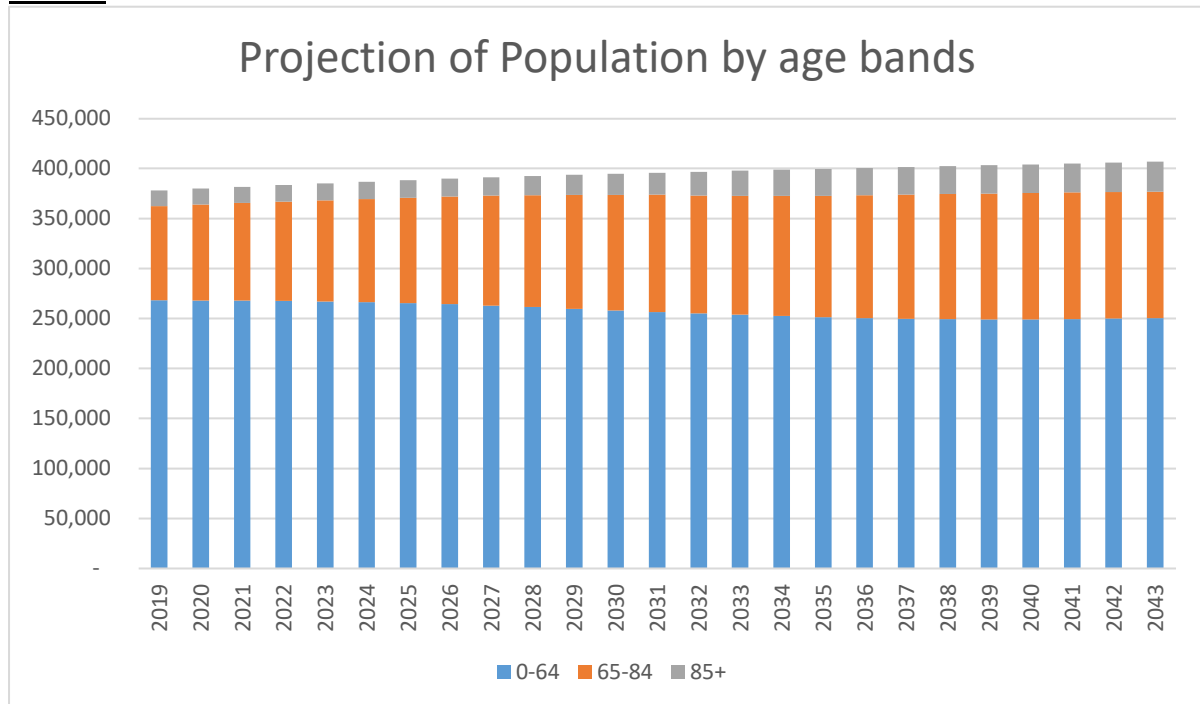
## **Population Data**

The Council provides services to a total estimated population of 379,901 (2019 being 378,160), with the projection for 2021 being 381,657.

# NARRATIVE STATEMENT TO THE ACCOUNTS

Projections summarised in chart 6 show the population of Dorset’s residents with an estimated 25% being between 65 years of age and 84 years of age, and 4% being over 85 years of age in 2020. These numbers are steadily growing, with an estimated 33% being between 65 years of age and 84 years of age and 8% over 85 years of age by 2043.

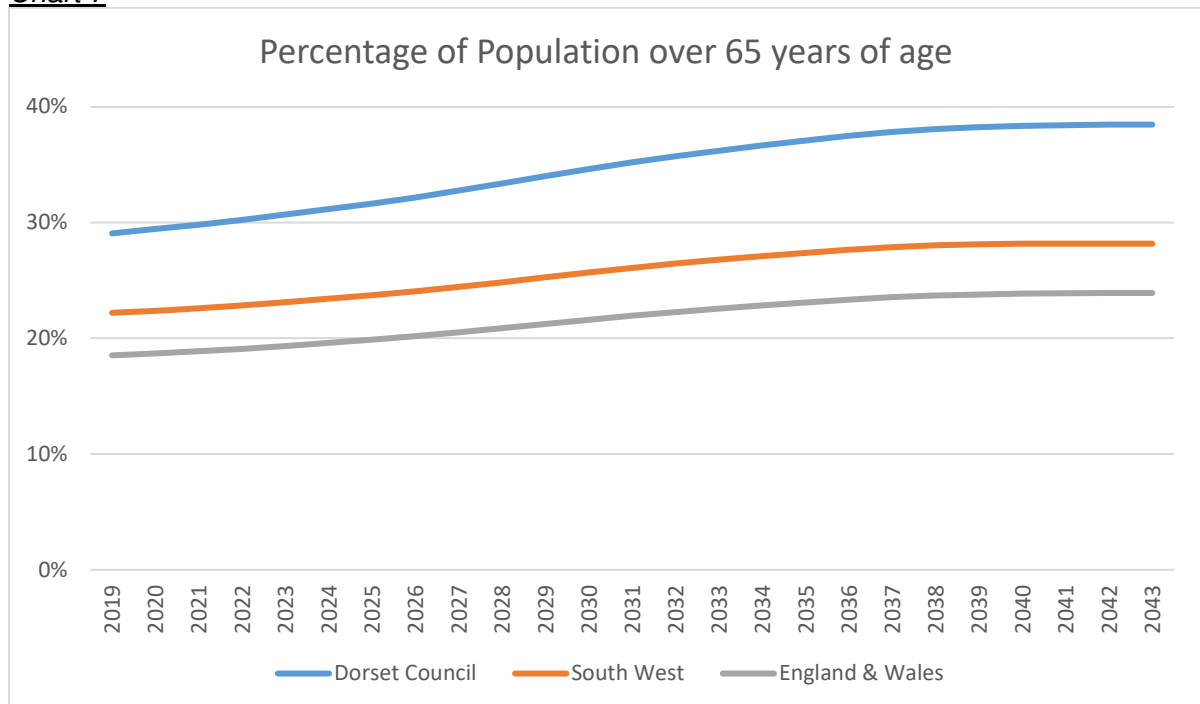
**Chart 6**



Source: 2018 Population Projections, Office for National Statistics (ONS)

The percentage of the population over 65 between 2019 and 2043 in the area served by Dorset Council is shown in chart 7. Compared with the South West as well as England & Wales, a larger proportion of the population served by Dorset Council is older.

**Chart 7**



Source: 2018 Population Projections, Office for National Statistics (ONS)



# NARRATIVE STATEMENT TO THE ACCOUNTS

The average, full-time earnings for the area served by the Council is shown in chart 8, below, compared with the South West and with England & Wales. The full-time earnings for Dorset are lower than for the South West, and lower than for England & Wales.

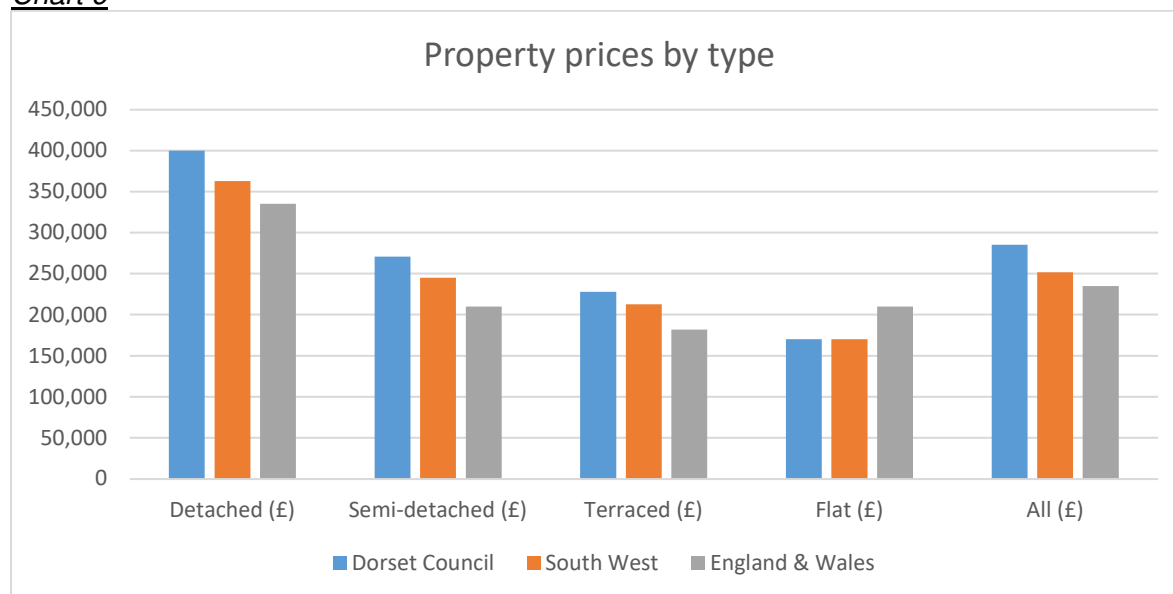
**Chart 8**



Source: Annual Survey of Hours and Earnings 2019, Office for National Statistics.

The average price of properties in the area served by the Council is shown below, in chart 9, compared with the South West and with England & Wales. The average price of properties is higher than the South West region, and higher than for England & Wales, except for flats.

**Chart 9**



Source: House Price Index 2019, Land Registry

## Reserves and balances

A full analysis of the Council's reserves is provided in the financial statements and in the notes to the accounts.

The level of usable reserves (those which the Council can use to deliver services) closed the year at £167.1m after releasing £5m to the general fund as noted earlier in this report. At first, this amount seems significant – and indeed it is – however, the majority is already earmarked for specific purposes or can only be used for certain types of expenditure and is

# NARRATIVE STATEMENT TO THE ACCOUNTS

therefore not available for general repurposing. It would also not be sustainable for the Council to include use of reserves as part of its general balancing of the budget.

The level of the Council's general balances (usable reserves which have not been specifically earmarked for a particular purpose) is set out in the notes and amounts to £28.2m.

## **Provisions, contingencies and contingent assets**

Movements in provisions, contingent and other long-term liabilities are disclosed in the notes to the financial statements. There have been no material changes to policy or to amounts during the Council's first year of operation.

## **Changes in statutory functions**

There were no changes in statutory functions that require disclosure during the year but reference is made to the Council being established on 1 April 2019 as a result of reorganisation of local government in Dorset.

## **Group financial statements**

Having considered the relationships that exist between the Council and partners with whom it operates jointly/together, it has concluded there is no material requirement to prepare consolidated financial statements. Further disclosures on the nature and value of relationships with partners are provided in the notes to the financial statements.

## **Events after the balance sheet date**

There were no significant events between the balance sheet date and the approval of these financial statements which would require disclosure or adjustment of the statements but reference is made to the earlier note on the Covid-19 pandemic.

## **Pension Fund**

Dorset Council is the local administering authority for the Local Government Pension Scheme (LGPS), a contributory, defined-benefit pension scheme that provides pensions and other benefits for employees of Dorset Council, other councils and a range of other bodies within Dorset.

Benefits for scheme members are calculated based on factors such as age, length of membership and salary, and are funded by contributions from scheme members and their employers and from returns on contributions invested prior to benefits becoming payable.

Contribution levels for scheme members are set nationally, and contribution levels for scheme employers are set locally by actuaries engaged by administering authorities.

Administering authorities are required to maintain a pension fund for the payment of benefits, and the Council publishes annual accounts for the pension fund separately from these financial statements.

The Council is the scheme's largest employer in Dorset with 6,500 current employees contributing to the scheme and 9,000 former employees of the Council or its predecessor authorities receiving pensions.

As at 31 March 2020, the pension fund's assets were valued at £2.7 billion in total, with Dorset Council's 'share' available to fund benefits estimated by the actuary to be approximately £1 billion.

Every three years, the actuary undertakes a full assessment of the funding position for all scheme employers to set their contribution rates for the next three years. The last such actuarial valuation was based on assets and liabilities as at 31 March 2019 and estimated

# NARRATIVE STATEMENT TO THE ACCOUNTS

Dorset Council's deficit (the difference between assets and liabilities) to be approximately £115m, recoverable through employer contributions over 19 years.

In addition, the actuary is required, every year, to undertake an indicative assessment of the funding position for disclosure in the accounts of scheme employers. Accounting standards require this assessment to assume that the return on the pension fund's investments is equal to the expected return from high quality corporate bonds which is significantly lower than the expected returns from the pension fund's actual portfolio of investments. This means that the deficit reported in the accounts is significantly higher than the triennial valuation used to set contribution rates and the Council's accounting deficit was estimated at £762m as at 31 March 2020.

## **Basis of preparation**

The accounts for 2019/20 are prepared in accordance with:

- the Accounts and Audit Regulations 2015 (as amended)\*
- the CIPFA Code of Practice on Local Authority Accounting 2019/20

This narrative statement provides context for the financial performance of the Council for the financial year and its financial position as at 31 March 2020. This includes an interpretation of the financial statements, providing information on the major influences affecting the Council's income and expenditure and cash flow, and on the financial needs and resources of the Council.

\* The Regulations have been amended for 2019/20 only, so that the accounts must be approved by the Council or a committee with delegated responsibility (the Audit & Governance Committee) by 30 November rather than by 31 July.

Dorset Council's primary financial statements comprise:

### i) Comprehensive income and expenditure statement

This statement summarises the Council's total income and expenditure for the year, providing a segmental analysis to report performance on the basis that the Council is structured and how it operates, monitors and manages financial performance. This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices (GAAP), rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the expenditure and funding analysis and the movement in reserves statement. The difference between the accounting cost and costs chargeable to taxation are adjusted through the movement in reserves statement.

### ii) Balance sheet (statement of financial position)

The balance sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. The first category is usable reserves, i.e. those that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the unapplied capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the movement in reserves statement line *adjustments between accounting basis and funding basis under regulations*.

# NARRATIVE STATEMENT TO THE ACCOUNTS

## iii) Movement in reserves statement

This statement shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into usable reserves and unusable reserves. The movement in reserves statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The net increase/decrease line shows the movements in the general fund in the year following those adjustments.

## iv) Cash flow statement

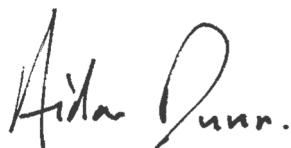
The cash flow statement shows the changes in the Council's cash and cash equivalents in the year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

## v) Notes to the financial statements

These give further information and explanations of the figures in the primary financial statements.

## vi) Collection fund

The collection fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate collection fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.



**Aidan Dunn**  
**Executive Director, Corporate Development**  
**Chief Financial Officer**  
**21 June 2021**



**Councillor Matthew Hall**  
**Chair, Audit and Governance Committee**  
**21 June 2021**



## STATEMENT OF RESPONSIBILITIES

The following statement describes the respective responsibilities of the Council and the Chief Financial Officer for the Financial Statements.

### **The Authority's responsibilities**

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers (the Chief Financial Officer) has responsibility for the administration of those affairs;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Statement of Accounts.

Further information about policies, procedures, publications and contact details for the Council and other relevant local authorities can be found on the [dorsetforyou.com](http://dorsetforyou.com) or [dorsetcouncil.gov.uk](http://dorsetcouncil.gov.uk) web site.

### **The Chief Financial Officer's responsibilities**

The Chief Financial Officer is responsible for the preparation of the Statement of Accounts (which includes the financial statements) in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code;
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- assessed the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future; and
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at 31 March 2020 and of its income and expenditure for the year then ended.



Aidan Dunn  
**Executive Director (Corporate Development)**  
**(Chief Financial Officer)**

For the year ended 31 March 2020					
2019/20					
	Note	Gross Spending	Income	Specific Grants	Net Spending
Gross Spending, Gross Income, Grants & Net Expenditure on		£'000	£'000	£'000	£'000
<b>Continuing Operations</b>					
Adult Care Service User Related		140,001	34,007	2,733	103,261
Adult Care Operations		18,691	4,548	107	14,036
Commissioning		13,368	3,333	3,798	6,237
Director's Office		3,908	1,260	-	2,648
Housing		8,281	1,767	1,785	4,729
<b>People - Adults and Housing</b>		<b>184,249</b>	<b>44,915</b>	<b>8,423</b>	<b>130,911</b>
Financial and Commercial		101,162	5,425	79,637	16,100
Human Resources		4,171	1,337	-	2,834
Digital & Change		1,667	1	-	1,666
ICT Operations		12,191	880	-	11,311
Director's Office		3,666	(4)	-	3,670
Business Intelligence and Performance		1,941	170	-	1,771
Communications and Engagement		1,561	112	-	1,449
Superfast Broadband		2,341	29	120	2,192
<b>Corporate Development</b>		<b>128,700</b>	<b>7,950</b>	<b>79,757</b>	<b>40,993</b>
Assets and Property		27,089	7,552	372	19,165
Highways		47,187	22,880	2,643	21,664
Planning		7,789	4,010	64	3,715
Dorset Travel		15,365	157	587	14,621
Business Support		716	2	-	714
Environment and Wellbeing		20,450	10,776	2,068	7,606
Environmental Protection & Public Health		8,394	3,992	-	4,402
Waste Services		40,096	10,158	-	29,938
Customer Services		9,124	1,185	356	7,583
Growth & Economic Regeneration		1,741	610	91	1,040
Director's Office		1,372	16	-	1,356
<b>Place</b>		<b>179,323</b>	<b>61,338</b>	<b>6,181</b>	<b>111,804</b>
Care & Protection		49,666	508	802	48,356
Commissioning & Partnerships		10,386	641	1,748	7,997
Education & Learning		18,029	1,513	1,950	14,566
Director's Services		6,605	1,140	616	4,849
Dedicated Support Grant (DSG) Services		190,190	11,390	164,049	14,751
<b>People - Children</b>		<b>274,876</b>	<b>15,192</b>	<b>169,165</b>	<b>90,519</b>
Assurance		3,788	156	-	3,632
Democratic & Electoral Services		4,534	1,290	-	3,244
Land Charges		343	803	-	(460)
Legal Services		2,557	121	-	2,436
<b>Legal &amp; Democratic Services</b>		<b>11,222</b>	<b>2,370</b>	<b>-</b>	<b>8,852</b>
Public Health		28,950	15,446	12,555	949
<b>Partnerships</b>		<b>28,950</b>	<b>15,446</b>	<b>12,555</b>	<b>949</b>
<b>Centrally Managed Costs</b>		<b>17,215</b>	<b>47</b>	<b>-</b>	<b>17,168</b>
<b>Deficit on Provision of Services</b>		<b>824,535</b>	<b>147,258</b>	<b>276,081</b>	<b>401,196</b>
<b>Other Operating Income &amp; Expenditure</b>					
Net loss/(gain) on disposal of non-current assets		49,994	-	-	49,994
Net loss on disposal of Academies		15,202	-	-	15,202
Levies and Precepts		732	-	112	620
<b>Financing &amp; Investment Income &amp; Expenditure</b>					
Interest Payable	21	7,432	-	-	7,432
Interest and Investment Income	21	-	3,563	-	(3,563)
Unrealised (gains)/losses on Investments	21	8,791	-	-	8,791
Premium on early repayment of Borrowing		9,336	-	-	9,336
Pensions Interest Cost & Expected Return on Assets	24	19,127	-	-	19,127
<b>Net Operating Expenditure</b>		<b>935,149</b>	<b>150,821</b>	<b>276,193</b>	<b>508,135</b>
<b>Taxation &amp; Non-Specific Grant Income</b>					
Non-Domestic Rates					(39,753)
Non-Domestic Rates top-up receipts from Central Government					(10,376)
Council Tax					(240,914)
Other Central Grants					(31,494)
Capital Grants					(43,112)
<b>Total Finance</b>					<b>(365,649)</b>
<b>Deficit for the Year</b>					<b>142,486</b>
(Surplus) on the revaluation of Property, Plant & Equipment					(64,207)
Actuarial loss/(gain) on Pension Fund Assets & Liabilities					(52,533)
<b>Net Comprehensive (Income)/Expenditure</b>					<b>25,746</b>

This statement reports performance on the basis that the Council is structured and how it operates, monitors and manages financial performance.



As at 1 April 2019 DC Single Entity			As at 31 March 2020 DC Single Entity	
£'000	£'000	Note	£'000	£'000
6,850			5,897	
442,980			458,084	
29,835			27,741	
412,320			425,498	
11,602			11,722	
20,793			29,295	
19,052			16,956	
	943,432	22		975,193
	-			-
	3,325			3,307
18,330		32		20,467
11,788		33		10,346
976,875				1,009,313
1,367		34	1,376	
89,532		35	67,858	
107,831		32	55,582	
6,489		22, 37	8,530	
20,646		38	31,537	
225,865			164,883	
31,317		39	37,196	
112,446		40	101,102	
19,096		41	21,997	
162,858			160,295	
	63,006			4,588
1,039,881				1,013,901
(200,956)		39	(180,033)	
(25,643)		11	(23,961)	
(232)			(57)	
(6,506)		12	(2,993)	
(780,925)		24	(761,904)	
(1,014,262)			(968,948)	
25,619				44,953
14,972		52, 53	30,771	
105,049		51	85,415	
12,975		50	(325)	
49,622		46	51,193	
182,618			167,054	
4,857		61	(915)	
139,847		47	183,125	
(780,924)		24	(761,904)	
484,500		44	480,758	
(4,748)		45	(4,891)	
1,140			1,140	
3,116		48	(5,629)	
(4,786)		49	(13,785)	
(156,999)			(122,101)	
25,619			44,953	

The Balance Sheet is a record of the financial position of the Council at 31 March 2020. Figures relating to the Dorset County Pension Fund are excluded, except amounts specific to the Council, e.g. the Pensions Liability and Pensions Reserve. The summarised Pension Fund Accounts are set out in separate statements in a separate document. Detailed notes supporting the Balance Sheet are shown later in this document.

## STATEMENT OF MOVEMENT IN RESERVES

For the year ended 31 March 2020.	General Fund Balance	Earmarked GF Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Change in Total Usable Reserves	Change in Total Unusable Reserves	Change in Total Reserves
	£000	£000	£000	£000	£000	£000	£000
Note	52, 53	51	50	46			
<b>Balance as at 01 April 2019</b>	14,972	105,049	12,975	49,622	182,618	(156,999)	25,619
<b>Movement in reserves during 2019/20</b>							
<b>Surplus/(Deficit) for the year</b>	(142,486)				(142,486)	-	(142,486)
<b>Total Comprehensive Income/(Expenditure)</b>	(142,486)	-	-	-	(142,486)	116,740	(25,746)
<b>Adjustments between accounting basis and funding basis under regulations</b>							
<b>Total Adjustments</b>	175,338	-	(13,300)	-	162,038	(116,959)	45,079
<b>Transfers to/(from) specific reserves</b>							
<b>Total transfers</b>	(17,053)	(19,634)	-	1,571	(35,116)	35,116	-
<b>Balance as at 31 March 2020</b>	<u>30,771</u>	<u>85,415</u>	<u>(325)</u>	<u>51,193</u>	<u>167,054</u>	<u>(122,102)</u>	<u>44,952</u>
<b>Revenue &amp; Capital Reserves Analysis as at 31 March 2020</b>							
Revenue	30,771	85,415	-	-	116,186	(785,984)	(669,798)
Capital	-	-	(325)	51,193	50,868	663,882	714,750
	<u>30,771</u>	<u>85,415</u>	<u>(325)</u>	<u>51,193</u>	<u>167,054</u>	<u>(122,102)</u>	<u>44,952</u>

CASH FLOW STATEMENT

For the year ended 31 March 2020		2019/20	
		DC Single Entity	
	Note	£'000	£'000
<b>Operating Activities</b>			
Expenditure			
Cash Paid to or on behalf of employees		(243,567)	
Other operating costs		(422,614)	
Interest paid		(7,432)	
			(673,613)
Income			
Precept - Council Tax		240,914	
National Non Domestic Rates		50,129	
Other Government Grants	14	315,636	
Cash Received for goods and services		73,632	
Interest received		3,563	
			683,874
<b>Net cash (outflow) / inflow from operating activities</b>			<b>10,261</b>
<b>Investing Activities</b>			
Expenditure			
Purchase of fixed assets/capital repayments	26	(57,206)	
Income			
Sale of fixed assets/(application of capital receipts)		(13,300)	
Capital grants and contributions received		41,437	
<b>Net cash (outflow) / inflow from investing activities</b>			<b>(29,069)</b>
<b>Net cash (outflow) / inflow before financing</b>			<b>(18,808)</b>
<b>Management of Liquid Resources</b>			
Short term lending			
Short term lending repaid		52,249	
<b>Financing</b>			
New Short-Term borrowing			
Short-Term borrowing repaid		(35,108)	
Movement in PFI liabilities		(1,682)	
Movement in finance lease liabilities		(3,513)	
Movement in Long-Term Investments		(175)	
Movement in Long-Term Borrowing		64	
<b>Net cash (outflow) / inflow from financing activities</b>			<b>29,699</b>
<b>Net increase / (decrease) in cash &amp; cash equivalents</b>			<b>10,891</b>
<b>Cash &amp; cash equivalents at the beginning of the period</b>			<b>20,646</b>
<b>Cash &amp; cash equivalents at the end of the period</b>			<b>31,537</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting standards that have been issued but not yet adopted

Appendix C of the CIPFA Code of Practice requires Local Authorities to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year. Standards that fall into this category are:

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures**
- Annual Improvements to IFRS Standards 2015–2017 Cycle**
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement**

All of these standards will be incorporated into the Code from 2020/21 and will be complied with by the Authority. However, none have a material impact for the Council and none warrant specific disclosure in these accounts.

Deferral of implementation of IFRS 16 to the 2021/22 Code has meant that the 2020/21 Code has not yet completed its full due process. Annually, Appendix C of the Code confirms the requirements of accounting standards that have been issued and not yet adopted and the 2020/21 Code will confirm these for the 2019/20 financial year. Appendix C of the 2020/21 Code only includes standards adopted in the Code and therefore for 2019/20 local authorities are not required to include IFRS 16 in their consideration of accounting standards that have been issued but not yet adopted, although this is subject to approval of the 2020/21 Code.

## 2. Related party transactions

### Central Government

Central Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides a significant proportion of its funding in the form of grants, and prescribes the terms of many of the transactions that the Council has with other parties.

Significant grants are received from the Department for Education, the Ministry for Housing, Communities & Local Government and the Department for Health and Social Care. Other Government Departments provide smaller levels of grant.

Specific Grants are set out in the Comprehensive Income and Expenditure Statement and Note 14.

### Other Local Authorities and Bodies levying demands on the council tax

Levies paid to other bodies during 2019/20 included the following material transactions: -

	2019/20 £'000
Environment Agency	528
Southern Sea Fisheries Committee	204

Dorset Council administers the Dorset County Pension Fund on behalf of its employees and those of other local authorities in the county and other admitted bodies (charities or former local authority bodies such as Housing Associations). Employers' Contributions to the Fund are shown in the pension fund accounts.

Dorset Council is involved in the Stour Valley and Poole Partnership (SVPP), a function that is hosted by Bournemouth Christchurch and Poole Council which administers council tax, business rates and housing benefit on behalf of two of the predecessor council areas of Dorset Council. During 2019/20, Dorset Council charged £1,616k to the 2019/20 accounts for services from SVPP.

Transactions with Bournemouth, Christchurch and Poole Council, Primary Care and Hospital NHS Trusts in respect of the pooled budget scheme are detailed in Note 25.

On 1 April 2016 Dorset Fire Authority merged with Wiltshire Fire Authority to become Dorset & Wiltshire Fire and Rescue Authority. The Corporate Director Legal & Democratic is now the Clerk to Dorset & Wiltshire Fire and Rescue Authority. The Council supplied services to related parties as detailed in the following table.

	2019/20 £'000
Dorset & Wiltshire Fire and Rescue Authority	42

At the end of the financial year, amounts owed by related parties were as follows: -

	2019/20 £'000
Dorset & Wiltshire Fire and Rescue Authority	32

### Elected Members, Staff and close families

All Councillors, Senior Officers and purchasing staff have been informed of the requirements and the need for disclosure. Some Councillors and Senior Officers have a role or are appointed by the Council to boards of voluntary bodies or charities in receipt of support from the Council.

Councillor Mark Roberts is a director of Daley Homecare Ltd. which has a contractual relationship with the Council to provide adult social and health care services. Daley Homecare Ltd was paid £143k by the Council during 2019/20.

## 3. Disclosure of nature and extent of risk arising from financial instruments

The Council's activities expose it to a variety of financial risks; the key risks are:

Credit risk – the possibility that other parties might fail to pay amounts due to the Council;

Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;

Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;

Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

# NOTES TO THE FINANCIAL STATEMENTS

## Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways: -

by formally adopting the requirements of the Code of Practice;

by approving annually in advance prudential indicators for the following three years limiting:

The Council's overall borrowing;

Its maximum and minimum exposures to fixed and variable rates;

Its maximum exposure to the maturity structure of its debt in any one time period;

Its maximum annual exposures to investments maturing beyond a year;

by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. An annual review of actual performance and a mid-year update are also reported to Councillors.

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed periodically.

## Credit risk

Credit risk arises from deposits with financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Ratings Services. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The Council initiates a legal charge on property where, for instance, clients require the assistance of social services but cannot afford to pay immediately. The total collateral as at 31 March 2020 was £13.4m.

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council. Loss allowances on treasury investments have been calculated by reference to historic default data published by credit rating agencies, multiplied by 365% to adjust for current and forecast economic conditions. A two-year delay in cash flows is assumed to arise in the event of default. Investments are determined to have suffered a significant increase in credit risk where they have been downgraded by three or more credit rating notches or equivalent since initial recognition, unless they retain an investment grade credit rating. They are determined to be credit-impaired when awarded a "D" credit rating or equivalent. At 31 March 2020, £nil (2019: £nil) of loss allowances related to treasury investments.

## Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the Money Markets to cover any day-to-day cash flow need, and whilst the PWLB provides access to longer-term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

## Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer-term financial liabilities and longer-term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council-approved treasury and investment strategies address the main risks and the central treasury team addresses the operational risks within the approved parameters. This includes:

monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and

monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day-to-day cash flow needs, and the spread of longer-term investments to provide stability of maturities and returns in relation to the longer-term cash flow needs.

## NOTES TO THE FINANCIAL STATEMENTS

### Market risk

Interest rate risk - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrows at variable rates – the interest expense charged to the Income and Expenditure Account will rise;
- borrows at fixed rates – the fair value of the borrowing will fall;
- investments at variable rates – the interest income credited to the Income and Expenditure Account will rise;
- investments at fixed rates – the fair value of the assets will fall.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long-term returns.

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and affect the General Fund Balance. Movements in the value of investments that have a quoted market price will be treated as fair value through profit or loss (FVTPL), unless the investments have been designated as fair value through other comprehensive income (FVOCI).



**4. Disclosure of nature and extent of risk arising from financial instruments**

IFRS 9 Financial Instruments was incorporated into the CIPFA Code with effect from 1 April 2018. It specifies how an entity should classify and measure financial assets, financial liabilities and some contracts to buy or sell non-financial items. It requires an entity to recognise a financial asset or a financial liability in its Balance Sheet when it becomes party to the contractual provisions of the instrument.

Under IFRS 9 financial instruments are accounted for at either amortised cost, fair value through profit and loss (FVTPL), or fair value through other comprehensive income (FVOCI).

**Assets Held for Sale**

All of the Council's assets held for sale are non-current, physical assets rather than equity assets. These have been valued in accordance with the appropriate accounting policies and are shown in note 22 to the Accounts.

**Investments in Joint Ventures**

Investments in joint ventures are not relevant for IFRS 9 and are accounted for using the equity method of consolidation in accordance with IFRS11 and IFRS12.

**Financial Instrument Balances**

The financial assets and liabilities at 31 March include the following categories of financial instruments:

<b><u>Financial Assets</u></b>	2019/20	
	Long-Term £'000	Current £'000
Investments in pooled funds	20,467	55,582
Debtors	10,346	67,858
Cash and Cash Equivalents	-	31,537
<b>Total Financial Assets</b>	<b>30,813</b>	<b>154,977</b>

<b><u>Financial Liabilities</u></b>	2019/20	
	Long-Term £'000	Current £'000
<b>Borrowing</b>		
Public Works Loan Board (PWLB)	(63,933)	(21,054)
Other lenders	(116,100)	(16,142)
	<b>(180,033)</b>	<b>(37,196)</b>
<b>Other Liabilities</b>		
PFI Liability	(23,961)	-
Other Long Term Liabilities	(57)	-
Obligations Under Finance Leases	(2,993)	-
	<b>(27,011)</b>	<b>-</b>
<b>Creditors (payable within 12 months)</b>	<b>-</b>	<b>(101,102)</b>
	<b>-</b>	<b>(101,102)</b>
<b>Total Financial Liabilities</b>	<b>(207,044)</b>	<b>(138,298)</b>

## NOTES TO THE FINANCIAL STATEMENTS

The following table analyses the financial instruments into input levels for measurement techniques:

Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.

Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 inputs – unobservable inputs for the asset.

(The fair values of short-term financial instruments held at amortised cost are assumed to approximate to the carrying amount and are excluded from this table.)

<b><u>Financial Assets</u></b>	<b>2019/20</b>		
	<b>Level 1</b> <b>£'000</b>	<b>Level 2</b> <b>£'000</b>	<b>Level 3</b> <b>£'000</b>
<b>Investments in pooled funds</b>	<b>55,582</b>	<b>20,467</b>	<b>-</b>
<b>Long Term Debtors</b>	<b>-</b>	<b>10,346</b>	<b>-</b>

<b><u>Financial Liabilities</u></b>	<b>2019/20</b>		
	<b>Level 1</b> <b>£'000</b>	<b>Level 2</b> <b>£'000</b>	<b>Level 3</b> <b>£'000</b>
<b>Borrowing</b>			
Public Works Loan Board (PWLB)	<b>(63,933)</b>	<b>-</b>	<b>-</b>
Other lenders	<b>(116,100)</b>	<b>-</b>	<b>-</b>
	<b>(180,033)</b>	<b>-</b>	<b>-</b>
<b>Other Liabilities</b>			
PFI Liability	<b>-</b>	<b>(23,961)</b>	<b>-</b>
Other Long Term Liabilities	<b>-</b>	<b>(57)</b>	<b>-</b>
Obligations Under Finance Leases	<b>-</b>	<b>(2,993)</b>	<b>-</b>
	<b>-</b>	<b>(27,011)</b>	<b>-</b>

The amount owed to the Council by sundry debtors can be analysed by age as follows:

	<b>2019/20</b> <b>£'000</b>
Less than 30 days	<b>16,306</b>
Between 30 and 180 days	<b>7,150</b>
Between 181 and 365 days	<b>4,631</b>
Over 1 year	<b>3,104</b>
	<b>31,191</b>
Provision for bad debts - impairment	<b>4,076</b>

**5. Events after the Balance Sheet date**

There were no material events after the balance sheet date that require disclosure in these financial statements. The narrative statement provides a separate update on the impact of the outbreak of the coronavirus, Covid-19.

**6. Local Government reorganisations**

Section 2.5 of the Code sets out the accounting requirements for local government reorganisation and other business combinations. In essence, public sector bodies are deemed to be under common control and any reorganisations are generally timed to start on 1 April. Such reorganisations are generally reflected in the accounts by restating the opening balance sheet for the current year. Transfers are not reflected in the Comprehensive Income and Expenditure Statement, but are instead disclosed in the Movement In Reserves Statement. The notes to the Financial Statements disclose the impact of the transfers rather than restate comparative year figures.

Dorset Council was established on 1 April 2019 as part of the reorganisation of local government in Dorset, effected by the Bournemouth, Dorset and Poole (Structural Changes) Order 2018 No 648. On that date, Dorset Council assumed the assets, liabilities, benefits and obligations of its five predecessor, district and borough councils, and that part of the former County Council that related to the geographical area represented by those five district councils. The County Council's balance sheet at 31 March 2019 was disaggregated between Dorset Council and Bournemouth Christchurch and Poole Council according to methods agreed between the two councils and overseen by the Local Government Association.

Because Dorset Council is a new organisation it is not possible to restate the previous year's figures for comparison. Instead, the opening position for the new council, as at 1 April 2019 is shown in the balance sheet and in supplementary statements and notes to the accounts.

**Academies**

During the year ended 31 March 2020, the following Schools were established as Academies under the Academies Act 2010. The amounts in the table below are included in the Comprehensive Income and Expenditure Statement on account of each school.

2018/19				2019/20		
Schools Delegated Budgets £'000	Schools - Council Expenditure £'000	Dedicated Schools Grant £'000	Conversion Date	Schools Delegated Budgets £'000	Schools - Council Expenditure £'000	Dedicated Schools Grant £'000
760	39	726	01/06/2019 St Mary the Virgin CE VA School, Gillingham	147	-	122
4,322	95	4,326	01/06/2019 All Saints CE School, Weymouth	472	6	718
449	27	462	01/07/2019 Shillingstone CE VA Primary School	164	-	108
256	5	237	01/07/2019 Okeford Fitzpaine CE VA School	61	-	64
1,272	175	1,171	01/07/2019 Bovington Primary School	372	32	307
7,298	152	6,220	01/09/2019 Budmouth Technology College	1,936	37	2,577
1,649	2,453	1,537	01/11/2019 Damers First School	1,162	78	887
526	98	343	01/11/2019 Sherborne Learning Centre (now Harbour Vale School)	18	38	201
602	75	594	01/02/2020 Henbury View First School	534	47	480
<b>17,134</b>	<b>3,119</b>	<b>15,616</b>		<b>4,866</b>	<b>238</b>	<b>5,464</b>

The Authority also received notification from the following Schools, that they intend to become Academies under the Academies Act 2010. The amounts shown are the values of the schools balances in the Authority's General Fund as at 31 March 2020.

School	Actual/Advised Date (if known)	School Balance at 31 March 2020 Surplus/(deficit) £
Pamphill VC CE First School	Advised 01/06/20	(79,109)
St Mary's Primary School, Thorncombe	Unknown	(7,656)
Wool CE Primary	Unknown	(115,570)
Ferndown First School	Advised 01/09/20	62,987
Ferndown Middle School	Advised 01/09/20	189,401
Parley First School	Advised 01/09/20	400,828
Cranborne CE VA First School	Unknown	66,004
Wimborne St Giles CE First School	Unknown	(6,303)
Trinity CE VA First School	Unknown	54,597
St James CE VC First School (Gaunts Common)	Unknown	45,990

When a school achieves academy status, it ceases as a local authority school and is immediately re-established as a separate legal entity. When an academy is established, it is funded directly by the Government, through distribution of General Annual Grant from the Education Funding Agency. A calculation to determine the value of any school balances in the local authority's accounts must be completed within four months of the transfer date. The academy then has one month in which to appeal to the Secretary of State for a review if it disagrees with the calculated balance. The Secretary of State has three months in which to make a determination of the actual balance. The local authority must pay over any surplus balance to the academy within one month of the academy agreeing the surplus balance (or failing to apply for a review by the statutory date) or the determination of the surplus by the Secretary of State.

Where the transferring converter school has a deficit balance, the Government reimburses the local authority for this. For sponsored academies, any deficit remains with the local authority.

**Tricuro - Local Authority Trading Company (LATC)**

On 1 July 2015, in partnership with Bournemouth Borough Council and the Borough of Poole, Dorset County Council launched Tricuro. Reorganisation of local government in Dorset meant the shares in the company passed to the new councils but reorganisations also affected the shareholders' agreement governing how Tricuro is managed and the relative share of risk and reward between the two councils.

**7. Prior period adjustments**

There are no prior year adjustments. Dorset Council was established on 1 April 2019.

## NOTES TO THE FINANCIAL STATEMENTS

### 8. Expenditure and Income analysed by Nature and Segmental Income

The Code requires local authorities to report segmentally on their income and expenditure in accordance with IFRS 8. The Code requires this to be presented in a format which is similar to the internal management accounts used by the authority and for this to be reconciled to the surplus/deficit on provision of services figure in the Comprehensive Income and Expenditure Statement.

2019/20										
	People Services, Adults & Housing	Corporate Development	Place	People Services, Children	Legal & Democratic	Public Health	Centrally Managed Costs	Total	Final Budget Estimate	Variance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Internal Charges/Trading	(684)	(2,085)	(1,741)	4,823	(842)	668	(90)	49	7,412	7,363
Authority (Democratic) Costs	-	-	-	-	1,554	-	-	1,554	1,641	87
Pay Related Costs	20,961	32,813	54,397	146,254	4,261	2,806	7,103	268,595	279,300	10,705
Premises Related Costs	2,244	31	11,814	9,801	1	51	2,501	26,443	29,650	3,207
Transport Related Costs	636	34	10,880	9,527	2,140	47	1	23,265	21,389	(1,876)
Supplies and Service	38,751	10,241	18,523	80,226	3,526	1,979	3,509	156,755	134,880	(21,875)
Transfer Payments	34,837	79,776	8	1,053	-	-	-	115,674	135,631	19,957
Levies & Precepts	-	84	-	-	-	-	-	84	-	(84)
Third Party Payments	81,892	1,551	33,892	14,101	346	23,267	3	155,052	134,396	(20,656)
Net Schools Budget adjs	-	-	-	1,193	-	-	-	1,193	2,493	1,300
Cost Centre Balances	(18)	-	-	(1,585)	-	-	61	(1,542)	(8,204)	(6,662)
Government Grants	(8,423)	(79,757)	(6,180)	(169,163)	-	(12,555)	-	(276,078)	(301,538)	(25,460)
Reimbursements and Contributions	(19,872)	(3,423)	(15,480)	(11,116)	(376)	(15,432)	-	(65,699)	(54,168)	11,531
Fees and Charges	(25,043)	(4,528)	(45,859)	(4,073)	(1,995)	(13)	(47)	(81,558)	(82,804)	(1,246)
Corporate Income & Expenditure	(15)	-	-	(154)	-	-	-	(169)	(1,344)	(1,175)
Funding	-	-	-	-	-	-	-	-	-	-
Transfers to/(from) Reserves	-	-	(200)	(58)	-	-	344	86	1,455	1,369
<b>Reported in Management Accounts</b>	<b>125,267</b>	<b>34,737</b>	<b>60,054</b>	<b>80,829</b>	<b>8,615</b>	<b>818</b>	<b>13,385</b>	<b>323,704</b>	<b>300,189</b>	<b>(23,515)</b>
IAS 19 Pension Adjustment	1,201	1,345	3,136	4,212	235	132	3,782	14,043	14,042	(1)
Capital Charges	4,441	4,912	48,612	5,478	2	-	-	63,445	63,446	1
<b>Deficit on Provision of Services</b>	<b>130,909</b>	<b>40,994</b>	<b>111,802</b>	<b>90,519</b>	<b>8,852</b>	<b>950</b>	<b>17,167</b>	<b>401,192</b>	<b>377,677</b>	<b>(23,515)</b>
Recharges (SERCOP)	12,566	(23,217)	(4,120)	22,413	(4,816)	-	(2,822)	4	-	(4)
<b>Deficit on Provision of Services</b>	<b>143,475</b>	<b>17,777</b>	<b>107,682</b>	<b>112,932</b>	<b>4,036</b>	<b>950</b>	<b>14,345</b>	<b>401,196</b>	<b>377,677</b>	<b>(23,519)</b>

The table above shows the deficit on provision of services, the same as reported on the corresponding line in the Comprehensive Income and Expenditure Statement. The line marked *reported in management accounts* reflects the figures that the County's Leadership Team reviews on a monthly basis to monitor the Authority's financial performance.

NOTES TO THE FINANCIAL STATEMENTS

9. Expenditure and Funding Analysis

	2019/20		Net Expenditure in the Comprehensive Income and Expenditure Statement	Original Estimate	Final Estimate	Variance ( ) = over
	Net Expenditure Chargeable to the General Fund Balance	Adjustments between Funding and Accounting Basis				
	£'000	£'000	£'000	£'000	£'000	£'000
People - Adults and Housing	125,133	5,778	130,911	112,773	119,830	(11,081)
Corporate Development	36,633	4,360	40,993	27,993	41,456	463
Place	60,912	50,892	111,804	70,619	110,473	(1,331)
People - Children	82,648	7,871	90,519	63,023	81,787	(8,732)
Legal & Democratic	8,563	289	8,852	8,095	9,068	216
Partnerships (DCC Leads)	807	142	949	-	949	-
Centrally Managed Costs	(9,444)	26,612	17,168	(3,954)	14,114	(3,054)
<b>Deficit on Provision of Services</b>	<b>305,252</b>	<b>95,944</b>	<b>401,196</b>	<b>278,549</b>	<b>377,677</b>	<b>(23,519)</b>
<b>Other Operating Income &amp; Expenditure</b>						
Net loss/(gain) on disposal of non-current assets	29	49,965	49,994	-	50,229	235
Net loss on disposal of Academies	-	15,202	15,202	-	15,202	-
Levies and Precepts	620	-	620	626	626	6
<b>Financing &amp; Investment Income &amp; Expenditure</b>						
Interest Payable	7,432	-	7,432	9,029	10,256	2,824
Interest and Investment Income	(3,438)	(125)	(3,563)	(2,355)	4,436	7,999
Unrealised (gains)/ losses on investments	8,791	-	8,791	-	-	(8,791)
Premium on early repayment of Loan	9,336	-	9,336	-	9,336	-
Pensions Interest Cost & Expected Return on Assets	-	19,127	19,127	-	19,127	-
CERA/MRP	21,564	(21,564)	-	-	-	-
Movements to/from reserves	(26,113)	26,113	-	-	-	-
<b>Taxation &amp; Non-Specific Grant Income</b>						
Non-Domestic Rates	(37,970)	(1,783)	(39,753)	(9,778)	(38,710)	1,043
Non-Domestic Rates top-up receipts from Central Government	(10,376)	-	(10,376)	(37,524)	(10,376)	-
Council Tax	(248,469)	7,555	(240,914)	(241,345)	(233,790)	7,124
Other Central Grants	(31,494)	-	(31,494)	(18,152)	(32,066)	(572)
Capital Grants	(10,963)	(32,149)	(43,112)	-	-	43,112
<b>Total Other Income and Expenditure</b>	<b>(321,051)</b>	<b>62,341</b>	<b>(258,710)</b>	<b>(299,499)</b>	<b>(205,730)</b>	<b>52,980</b>
<b>Deficit for the Year</b>	<b>(15,799)</b>	<b>158,285</b>	<b>142,486</b>	<b>(20,950)</b>	<b>171,947</b>	<b>29,461</b>
Opening General Fund Balance as at 1 April 2019	(14,972)					
Less Deficit on General Fund Balance	(15,799)					
<b>Closing General Fund Balance as at 31 March 2020</b>	<b>(30,771)</b>					

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Notes to the Expenditure and Funding Analysis: Adjustments between Funding and Accounting Basis

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	2019/20			Total Adjustments
	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	
	£'000	£'000	£'000	£'000
People - Adults and Housing	4,458	1,201	119	5,778
Corporate Development	2,866	1,345	149	4,360
Place	46,946	3,421	525	50,892
People - Children	3,638	4,270	(37)	7,871
Legal & Democratic	2	235	52	289
Partnerships (DCC Leads)	-	132	10	142
Centrally Managed Costs	5,762	3,782	17,068	26,612
<b>Deficit on Provision of Services</b>	<b>63,672</b>	<b>14,386</b>	<b>17,886</b>	<b>95,944</b>
<b>Other Income and Expenditure from the Funding Analysis</b>	<b>11,329</b>	<b>19,127</b>	<b>31,885</b>	<b>62,341</b>
<b>Difference Between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit</b>	<b>75,001</b>	<b>33,513</b>	<b>49,771</b>	<b>158,285</b>

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax payers how the funding available to the Council (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The statement also shows how this expenditure is allocated for decision making purposes between the Council's directorates, services or departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.



# NOTES TO THE FINANCIAL STATEMENTS

## 11. Long-term contracts (Private Finance Initiative)

In 1997 a contract was entered into for the replacement of Colfox School, Bridport, using the Government's Private Finance Initiative (PFI). The contract provides for fully serviced accommodation for the school including buildings, grounds maintenance, catering, caretaking, security, waste disposal, energy, utilities, IT equipment and renewal of furniture and equipment. Payments under the contract commenced in 1999 and continue for a 30-year period. The school became an Academy on 1 April 2015 but despite the change in status, the PFI arrangement will continue to be the responsibility of the Council.

In 2009, the Council entered into a PFI scheme for the provision and replacement of street lighting. This arrangement deals with a backlog of replacements and maintenance over 25 years.

Payments made and PFI Grants receivable to support the schemes were as follows:

	Payments 2019/20 £'000	Grants Rcvd 2019/20 £'000
Street lighting (provider)	6,188	(2,546)
Street lighting (energy)	1,539	-
Colfox School (provider)	2,784	(1,559)

Repayments to be made (to the end of the contracts) under PFI arrangements are analysed as follows:

	Street lighting £'000	Colfox School £'000
Capital repayment	52,876	13,258
Interest charges	3,384	5,774
Service charges	38,169	15,675
	<b>94,429</b>	<b>34,707</b>

Movements of PFI asset and liability balances are analysed as follows:

Assets	Street lighting £'000	Colfox School £'000
Opening balance	39,126	23,670
Additions/developments/lifecycle	3,061	-
Revaluations	-	520
Impairments	-	-
Depreciation	(1,883)	(482)
Closing balance	<b>40,304</b>	<b>23,708</b>

Liabilities	Street lighting £'000	Colfox School £'000
Opening balance	(16,150)	(9,493)
Additions/developments/lifecycle	(3,061)	(949)
Repayments	4,233	1,459
Closing balance	<b>(14,978)</b>	<b>(8,983)</b>

Future PFI liabilities fall due as analysed in the table below.

	Payments due within one year £'000	Payments due between one and five years £'000	Payments due after five years £'000	Total future payments £'000
Street lighting	1,081	4,537	9,360	14,978
Colfox School	590	3,079	5,314	8,983
Total future payments	<b>1,671</b>	<b>7,616</b>	<b>14,674</b>	<b>23,961</b>

## 12. Leases

Dorset Council accounts for leases in accordance with the accounting policies set out in this document.

Specific information for leases is as follows:

### Carrying amount of assets held under finance leases

	Plant, equipment, vehicles £'000	Buildings £'000
Carrying amount as at 01/04/2019	1,219	4,097
New finance leases	-	-
Depreciation charge	(532)	(2,727)
Carrying amount as at 31/03/2020	<b>687</b>	<b>1,370</b>

# NOTES TO THE FINANCIAL STATEMENTS

## Carrying amount of liabilities held under finance leases

	Plant, equipment, vehicles £'000	Buildings £'000
Carrying amount as at 01/04/2019	(1,549)	(4,957)
Liabilities added	-	-
Capital repayment	593	2,920
<b>Carrying amount as at 31/03/2020</b>	<b>(956)</b>	<b>(2,037)</b>

## The following amounts were paid/are payable under lease agreements:

	2019/20 £'000	Leases expiring within one year £'000	Leases expiring after one year but less than five years £'000	Leases expiring after more than five years £'000
Finance leases - property	534	274	1,096	4,340
Finance leases - plant, equipment, vehicles	822	495	670	45
All finance leases	1,356	769	1,766	4,385
Operating leases - property	1,005	865	2,740	7,405
Operating leases - plant, equipment, vehicles	651	393	532	36
All operating leases	1,656	1,258	3,272	7,441
<b>All leases</b>	<b>3,012</b>	<b>2,027</b>	<b>5,038</b>	<b>11,826</b>

## Total future minimum lease payments (MLP) are as follows:

	MLP £'000	Net Present Value MLP £'000
Finance leases	6,874	4,107
Operating leases	11,971	7,675

## Debtor representing interest in finance leases

	£'000
Opening balance 01/04/2019	3,033
Payments received	(12)
New finance leases	-
<b>Closing balance 31/03/2020</b>	<b>3,021</b>

## Future receipts from leases

	Leases expiring within one year £'000	Leases expiring after one year but less than five years £'000	Leases expiring after more than five years £'000
Finance leases - property	80	321	5,843
Operating leases - property	4,297	11,606	57,067

## Operating leases above include the following arrangements with Tricuro:

	Leases expiring within one year £'000	Leases expiring after one year but less than five years £'000	Leases expiring after more than five years £'000
Operating leases - property	593	0	-

## Total future minimum lease receipts (MLR) are as follows:

	MLR £'000	Net Present Value MLR £'000
Finance leases - property	6,244	1,973
Operating leases - property	72,971	45,305

# NOTES TO THE FINANCIAL STATEMENTS

## 13. Revenue from Contracts with Service Recipients

IFRS 15 Revenue from Contracts with Customers was incorporated into the CIPFA Code with effect from 1 April 2018. IFRS 15 established the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. Applying IFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Included in the Council's income as shown on the Comprehensive Income and Expenditure Statement are the following amounts from contracts with customers as defined by IFRS 15. The Council has contract receivables, but no contract assets or contract liabilities. It has been concluded that revenue will be recognised in the correct financial year by following the year-end processes for accruals.

	2019/20			Revenue recognised for the year £'000
	Income from contracts with customers	Other Income	Specific grants	
	£'000	£'000	£'000	
People - Adults and Housing	33,277	11,638	8,423	53,338
Corporate Development; Legal and Democratic; and Centrally Managed	4,843	5,524	79,757	90,124
People - Children	1,121	14,071	169,165	184,357
Place	19,150	42,188	6,181	67,519
Partnerships	15,054	392	12,555	28,001
<b>Total</b>	<b>73,445</b>	<b>73,813</b>	<b>276,081</b>	<b>423,339</b>

## 14. Analysis of Government Grants

This table gives details of the specific grants received from central Government Departments.

	2019/20 £'000
Education	163,253
Communities & Local Government	48,075
Health	17,560
Transport	965
Environment, Food & Rural Affairs	830
Culture, Media & Sport	120
Work & Pensions	77,615
Business, Innovation & Skills	288
Ministry of Justice	13
European Union	23
Home Office	1,081
Other	1,942
	<b>311,765</b>

## 15. Deployment of Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the Schools Finance and Early Years (England) Regulations 2017. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school. Details of the deployment of DSG receivable for 2019/20 are as follows: -

	Central Expenditure £'000	Individual Schools Budget (ISB) £'000	Total 2019/20 £'000
Final DSG for 2019/20 before Academy recoupment			247,388
Academy figure recouped for 2018/19			(104,477)
Final DSG for 2019/20 after Academy recoupment			142,911
Plus: Brought forward from 2018/19			(14,768)
Agreed initial budgeted distribution in 2018/19	35,911	92,232	128,143
In year adjustments	1,727		1,727
Final budgeted distribution in 2019/20	37,638	92,232	129,870
Less: Actual central expenditure	60,213		60,213
Less: Actual ISB deployed to schools		92,232	92,232
Local Authority contribution for 2019/20	772		772
Carry forward to 2020/21	(21,803)	-	(21,803)

# NOTES TO THE FINANCIAL STATEMENTS

## 16. Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Total capital expenditure reported by the Council includes expenditure referred to as Revenue Expenditure Funded from Capital Under Statute (REFCUS). This is principally capital expenditure on assets which the Council does not own and which are not included on its asset register or Balance Sheet. This expenditure is charged in the Comprehensive Income and Expenditure Statement with the necessary appropriations in the Statement of Movement in Reserves between the General Fund and the Capital Adjustment Account to reflect that although financing is from a capital source, it funds revenue expenditure in the Authority's accounts.

	<b>2019/20</b>
	<b>£'000</b>
Expenditure in Service Budgets funded from Capital Adjustment Account	<b>5,762</b>

## 17. Members' allowances

The total amount of Members' allowances paid in the year is shown in the following table.

	<b>2019/20</b>
	<b>£'000</b>
Members' allowances	<b>1,465</b>

## 18. Remuneration of senior staff

The Accounts & Audit Regulations 2015 cover the requirement to disclose remuneration of senior employees. The requirement includes the duty to disclose details of the numbers of staff with remuneration and benefits, including redundancy, in excess of £50,000 per annum. Although not required by the Regulations, this list includes pension contributions, as well as senior officers disclosed in the subsequent table. Missing bands have no staff in them for either year (e.g. £155,000 to £160,000).

Non-schools	2018/19			Group	2019/20		
	LEA Schools	VA/VC Schools			Non-schools	LEA Schools	VA/VC Schools
	116	58		£50,000 to £55,000	152	108	59
	45	42		£55,000 to £60,000	78	63	26
	18	20		£60,000 to £65,000	55	39	36
	16	10		£65,000 to £70,000	33	9	15
	11	9		£70,000 to £75,000	21	12	6
	9	4		£75,000 to £80,000	18	7	7
	7	5		£80,000 to £85,000	6	4	2
	6	1		£85,000 to £90,000	10	5	1
	4	2		£90,000 to £95,000	2	5	5
	-	-		£95,000 to £100,000	8	4	3
	1	-		£100,000 to £105,000	3	1	-
	2	-		£105,000 to £110,000	-	1	-
	-	1		£110,000 to £115,000	1	1	-
	-	-		£115,000 to £120,000	2	1	-
	1	1		£120,000 to £125,000	1	1	1
	-	-		£125,000 to £130,000	2	-	-
	-	-		£135,000 to £140,000	1	-	1
	-	-		£140,000 to £145,000	1	-	-
	1	-		£160,000 to £165,000	4	-	-
	-	-		£165,000 to £170,000	1	-	-
	-	-		£225,000 to £230,000	1	-	-
-	237	153			404	261	162

## NOTES TO THE FINANCIAL STATEMENTS

Dorset Council follows Local Government salary scales and conditions of service, negotiated and agreed at national level. The Accounts & Audit Regulations 2015 require the disclosure of remuneration of senior officers whose salary was £150,000 or more per annum. In line with the Council's published pay policy, information on certain other senior posts is also disclosed.

Post Holder Information	Name	Salary (can include Redundancy) £'000	Additional Emoluments (inc Elections Payments) £'000	Pension Contributions £'000	Total including Pension Contributions £'000
<b>Chief Executive</b>					
Current Postholder	Matt Prosser	168	32	27	227
<b>Executive Director People - Adults and Housing</b>					
Current Postholder		138	2	22	162
Temporary cover		84		13	97
		222	2	35	259
<b>Executive Director of Place</b>					
Current Postholder		138	-	22	160
<b>Executive Director People, Children's</b>					
Current Postholder (Started Jan 2020)		34	-	5	39
Previous Postholder		147	-	16	163
		181	-	21	202
<b>Executive Director Corporate Development</b>					
Current Postholder		138	-	22	160
<b>Director of Public Health*</b>					
Current Postholder		124	-	20	144
<b>Corporate Director Legal &amp; Democratic Services</b>					
Current Postholder		107	7	17	131
<b>Head of Business Insight &amp; Corp. Comms</b>					
Current Postholder		72	1	11	84
		<b>1,150</b>	<b>42</b>	<b>175</b>	<b>1,367</b>

\* - post(s) jointly funded by Dorset Council and Bournemouth, Christchurch and Poole Council as part of a jointly funded arrangement for which Dorset Council is the accountable body.

# NOTES TO THE FINANCIAL STATEMENTS

## 19. Exit packages and termination benefits

The revised Code requires the Authority to disclose details of the number and value of exit packages agreed in the bandings shown below in the table and to distinguish these by compulsory redundancies and other departures. Voluntary early retirement under the scheme rules is not a termination benefit and does not require disclosure.

Value of exit package	Compulsory redundancies 2019/20	Other 2019/20	Total cost £ 2019/20
<b>Non-Schools</b>			
Up to £20,000	35	11	490,955
£20,000 to £40,000	18	7	719,219
£40,000 to £60,000	13	6	925,752
£60,000 to £80,000	10	4	1,003,234
£80,000 to £100,000	8	1	783,658
£100,000 to £120,000	4	-	428,101
£120,000 to £140,000	4	1	644,379
£140,000 to £160,000	3	-	439,946
£160,000 to £180,000	5	1	1,022,161
£180,000 to £200,000	3	-	569,800
£200,000 to £220,000	1	-	206,377
£220,000 to £240,000	4	2	1,394,437
£240,000 to £260,000	4	-	992,229
£280,000 to £300,000	1	1	574,211
£320,000 to £340,000	-	1	336,181
£340,000 to £360,000	1	-	353,016
£360,000 to £380,000	-	1	375,482
£460,000 to £480,000	-	2	938,579
£980,000 to £1,000,000	-	1	986,354
	114	39	13,184,071
<b>Schools</b>			
Up to £20,000	11	14	123,882
£20,000 to £40,000	-	1	20,100
	11	15	143,982
<b>Total</b>	125	54	13,328,053

As at 31 March, the following exit packages (with estimated costs) had been approved but not yet paid by the Authority. No provision is made for these amounts in the 2019/20 accounts as the costs fall to the contingency budget in the year in which they are incurred.

Value of exit package	Redundancies	Total cost £000 2019/20
Up to £20,000	1	11,013
£20,000 to £40,000	2	62,497
£40,000 to £60,000	1	46,797
£60,000 to £80,000	1	64,658
£100,000 to £120,000	1	114,817
	6	299,782

## 20. Audit fees

Fees payable by the Council relating to external audit and inspection are summarised in the table below.

	2019/20 £'000
Deloitte for external audit services as appointed auditor for the year	180
Deloitte for Teachers Pensions Audit	4
Grant Thornton for Housing Benefit audit	47
	231

## 21. Interest and investment income

Interest payable and receivable by the Authority is analysed as follows:

	2019/20 £'000
Interest payable on borrowings (as per I&E)	7,432
Interest receivable and investing income (as per I&E)	(3,563)
Unrealised (gains) / losses on investments (as per I&E)	8,791
Interest payable on service concessions (PFI schemes)	1,505
Interest payable on finance leases (property)	166
Interest payable on finance leases (plant & equipment)	229
Interest receivable on finance leases (property)	(99)
	14,461

Interest payable and receivable on service concessions and finance leases is included within the appropriate lines of costs of services in the Comprehensive Income and Expenditure Statement.



NOTES TO THE FINANCIAL STATEMENTS

**22. Property, plant and equipment**

The following table shows the overall movements in property, plant and equipment during the year. Infrastructure assets include, for example, highways, and community assets include country parks. Intangible assets are computer software licences which have a useful economic life of more than one financial year. The table also shows the cost of assets under construction not yet in operational use, and those declared surplus awaiting disposal plans. Surplus assets continue to be depreciated but once a surplus property is being actively sold, it is transferred to the class referred to as assets held for sale. These assets are not depreciated.

	Land & Buildings £'000	Vehicles, plant, furniture & equipment £'000	Infrastructure assets £'000	Community assets £'000	Total operational assets £'000	Intangible assets £'000	Assets under construction £'000	Heritage assets £'000	Surplus assets £'000	Assets held for sale £'000	Total property, plant & equipment £'000
Net book value as at 01 April 2019	442,978	29,835	412,321	11,602	896,736	6,850	20,793	3,325	19,052	6,488	953,244
Additions	6,714	5,630	22,053	43	34,440	80	16,791	38	96	-	51,445
REFCUS Transfers to Revenue	-	-	-	-	-	-	(5)	-	-	-	(5)
Disposals	(32,315)	(1,808)	(5,913)	-	(40,036)	-	-	-	(6,457)	(330)	(46,823)
Revaluations	(20,698)	-	-	-	(20,698)	-	-	-	4,793	307	(15,598)
Transfers	(1,439)	87	6,002	77	4,727	162	(8,284)	-	1,125	2,270	-
Depreciation	54,645	(7,706)	(20,781)	-	26,158	(1,195)	-	(56)	(6,601)	-	18,306
Depreciation on assets sold	13,674	1,703	11,816	-	27,193	-	-	-	5,146	-	32,339
Impairment (fall in market value) and reversals	(5,475)	-	-	-	(5,475)	-	-	-	(198)	(205)	(5,878)
<b>Net book value as at 31 March 2020</b>	<b>458,084</b>	<b>27,741</b>	<b>425,498</b>	<b>11,722</b>	<b>923,045</b>	<b>5,897</b>	<b>29,295</b>	<b>3,307</b>	<b>16,956</b>	<b>8,530</b>	<b>987,030</b>
<b>Asset Financing</b>											
Owned	433,006	27,054	385,194	11,722	856,976	5,897	29,295	3,307	16,956	8,530	920,961
Leased	1,370	687	-	-	2,057	-	-	-	-	-	2,057
PFI	23,708	-	40,304	-	64,012	-	-	-	-	-	64,012
	<b>458,084</b>	<b>27,741</b>	<b>425,498</b>	<b>11,722</b>	<b>923,045</b>	<b>5,897</b>	<b>29,295</b>	<b>3,307</b>	<b>16,956</b>	<b>8,530</b>	<b>987,030</b>

	Other land and buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total property, plant & equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>							
Net book value as at 01 April 2019	563,878	89,320	634,873	11,602	27,849	20,793	1,348,315
Additions	6,714	5,630	22,053	43	96	16,791	51,327
Revaluation increases/(decreases) recognised in the revaluation reserve	(20,698)	-	-	-	4,793	-	(15,905)
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(5,475)	-	-	-	(198)	-	(5,673)
Derecognition - disposals	(32,315)	(1,808)	(5,913)	-	(6,457)	-	(46,493)
Derecognition - other							-
Assets reclassified (to)/from held for sale	(2,285)	-	-	-	571	-	(1,714)
Other movements in cost or valuation	264	87	6,002	77	553	(8,289)	(1,306)
<b>Net book value as at 31 March 2020</b>	<b>510,083</b>	<b>93,229</b>	<b>657,015</b>	<b>11,722</b>	<b>27,207</b>	<b>29,295</b>	<b>1,328,551</b>
<b>Accumulated depreciation and impairment</b>							
As at 1st April 2019	(120,900)	(59,485)	(222,552)	-	(8,797)	-	(411,734)
Depreciation charge	(15,232)	(7,706)	(20,781)	-	(6,829)	-	(50,548)
Depreciation written out to the revaluation reserve	69,878	-	-	-	229	-	70,107
Depreciation written out to the surplus/deficit on the provision of services	13,674	1,703	11,816	-	5,146	-	32,339
Impairment losses/(reversals) recognised in the surplus/deficit on the provision of services	-	-	-	-	-	-	-
Derecognition - disposals	-	-	-	-	-	-	-
Derecognition - other	-	-	-	-	-	-	-
Other movements in depreciation and impairment	581	-	-	-	-	-	581
<b>As at 31st March 2020</b>	<b>(51,999)</b>	<b>(65,488)</b>	<b>(231,517)</b>	<b>-</b>	<b>(10,251)</b>	<b>-</b>	<b>(359,255)</b>
<b>Net book value</b>							
<b>As at 31st March 2020</b>	<b>458,084</b>	<b>27,741</b>	<b>425,498</b>	<b>11,722</b>	<b>16,956</b>	<b>29,295</b>	<b>969,296</b>
As at 1 April 2019	442,978	29,835	412,321	11,602	19,052	20,793	936,581

## NOTES TO THE FINANCIAL STATEMENTS

### 23. Minimum Revenue Provision

This is a memorandum account, operated in accordance with the Local Government Act 2003 and the policy agreed by Members at the budget setting meeting, which requires an annual Minimum Revenue Provision of the previous year's Underlying Borrowing Requirement to be set aside. This summary of transactions within the Capital Adjustment Account is shown for information.

	2019/20 £'000
Owned Assets	10,923
PFI Schemes	5,692
Finance Leases	3,513
<b>Total</b>	<b>20,128</b>

### 24. Retirement benefits

Dorset Council participates in four different pension schemes that meet the needs of employees in particular services. Three are defined benefit schemes providing members with benefits related to pay and length of service, and one is a defined contribution scheme providing members with benefits related to the investment returns on contributions. The schemes are as follows: -

(i) The Local Government Pension Scheme for employees other than teachers is administered by the Council. This is a funded scheme, meaning that the Council and the employees pay contributions into a fund, calculated at a level intended to balance over time the pension liabilities with investment assets.

The cost of retirement benefits is recognised in the Net Cost of Services when they are earned by employees, rather than when they are eventually paid as pensions. However, the charge against council tax has to be based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Statement of Movement in Reserves (General Fund Balance).

Service costs are included within the 'Net Cost of Services'. The net interest on the defined liability and administration expenses is included in 'Net Operating Expenditure' in the Comprehensive Income and Expenditure Statement. Remeasurement gains and losses arising are recognised in the Statement of Movement in Reserves. The independent actuary has determined these amounts in accordance with IFRS and Government regulations.

Further to information in note 57v in relation to Covid-19 valuation uncertainties, the Covid-19 pandemic has introduced material uncertainty into the valuation of pension assets.

	2019/20 £'000
Service Cost	53,994
Net interest on the defined liability/(asset)	18,247
Administration expenses	880
Movement on Pensions Reserve	(33,513)
<b>Actual amount charged against council tax for pensions in the year</b>	
Unfunded Pension Payments	(3,416)
Employer's contributions payable	(36,192)

The costs of 'added years' awarded to ex-staff are charged centrally as non-distributed costs.

The underlying assets and liabilities for retirement benefits attributable to the Council as at 31 March are shown in the following table, which also shows the distribution of assets by proportion of the total and the expected long-term return. The assets are valued at fair value, principally market value for investments, and consist of the following categories: -

	% Assets	2019/20 £'000
Equities	50%	505,493
Gilts	11%	115,467
Cash	2%	21,151
Other Bonds	8%	83,022
Diversified Growth Fund	6%	57,497
Property	12%	116,658
Infrastructure	7%	70,114
Multi Asset Credit	4%	45,311
Estimated Assets in Council Fund		<b>1,014,713</b>
Present value of scheme liabilities		<b>1,750,296</b>
Present value of unfunded liabilities		<b>26,321</b>
Total value of liabilities		<b>1,776,617</b>
Net Pensions Asset/(Liability)		<b>(761,904)</b>

Liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Estimates are based on the latest full valuation of the scheme as at 31 March 2019, as updated for changes in numbers of staff and pensioners. The next full valuation will be carried out by the Actuary as at 31 March 2022.

The main assumptions used in their calculations are: -

	2019/20	
	% p.a.	Real
RPI inflation	2.70%	0.0%
CPI inflation	1.90%	-0.8%
Rate of increase in salaries	2.90%	0.2%
Rate of increase in pensions	1.90%	-0.8%
Rate for discounting scheme liabilities	2.35%	-0.4%

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have assumed that 50% of employees retiring after 6 April 2006 will take advantage of this change to the pension scheme.

## NOTES TO THE FINANCIAL STATEMENTS

The assumed life expectations from age 65 are as follows: -

Years	2019/20	
	Male	Female
Retiring today	23.3	24.7
Retiring in 20 years	24.7	26.2

The Authority is required to provide the reconciliation of opening and closing balances of the present value of the defined benefit obligation:

	2019/20 £'000
Opening defined benefit obligation	1,913,721
Current service cost	53,474
Interest cost	45,322
Change in financial assumptions	(175,528)
Change in demographic assumptions	(31,165)
Experience loss/(gain) on defined benefit obligation	18,059
Liabilities assumed/(extinguished) on settlements	(10,530)
Estimated benefits paid (net of transfers in)	(52,006)
Past service costs including curtailments	8,234
Contributions by scheme participants	10,452
Unfunded pension payments	(3,416)
Closing defined benefit obligation	<u>1,776,617</u>

The Authority is also required to provide a reconciliation between the opening and closing balances of the fair value of the scheme assets:

	2019/20 £'000
Opening fair value of scheme assets	1,132,797
Interest on assets	27,075
Return on assets less interest	(139,019)
Other actuarial gains/(losses)	2,918
Administration expenses	(880)
Contributions by employer (including unfunded)	39,608
Contributions by scheme participants	10,452
Estimated benefits paid (net of transfers in and including unfunded)	(55,422)
Settlement prices received/(paid)	(2,816)
Fair value of scheme assets at end of period	<u>1,014,713</u>

Analysis of the attributable movements in the surplus / (deficit) in the scheme during the year:

	2019/20 £'000
Surplus / (Deficit) brought forward	(780,924)
Service Cost	(53,994)
Employer contributions	39,608
Administration expenses	(880)
Net interest on the defined liability/(asset)	(18,247)
Actuarial Gain/(Loss)	52,533
Surplus/(Deficit) as at 31 March	<u>(761,904)</u>

The estimated employer contribution to the scheme for the period 1 April 2020 to 31 March 2021 is £30.091m. This excludes the capitalised cost of any early retirements or augmentations which may occur after 31 March 2020.

(ii) Teachers are members of the Teachers' Pension Scheme, administered by the Teachers' Pension Agency (TPA). The Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2019/20 the Council paid £11.42m to the TPA, being £7.42m at 23.68% of pensionable pay and £4.0m at 16.48% of pensionable pay. The figures for 2018/19 were £11.7m (16.48% of pensionable pay). The cost of added years payments to ex-staff was £1.5m (£1.5m in 2018/19). There were no contributions remaining payable at the year-end.

The Teachers' Pension Scheme is a defined benefit scheme, which is unfunded. The Teachers' Pension Agency uses a notional fund as the basis for calculating the employers' contribution rate paid by Local Authorities. It is not possible for the Authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted for on the same basis as a defined contribution scheme.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the Teachers' scheme. The benefits are fully accrued in the pensions liability detailed above.

(iii) Public Health professionals who have transferred employment from the National Health Service (NHS) to Local Authorities may retain membership of the NHS Pension Scheme (NHSPS). The NHSPS is a defined benefit scheme, which is unfunded. Local Authorities contribute towards the costs by making contributions based on a percentage of members' pensionable salaries. The NHSPS uses a notional fund as the basis for calculating the employers' contribution rate paid by Local Authorities. It is not possible for a Local Authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. In 2019/20 the Council paid contributions of £110k to the NHSPS, being 14.38% of pensionable pay.

(iv) Employees can also opt to become members of the National Employment Savings Trust (NEST), the pension scheme set up by the government and run by its trustee, NEST Corporation. NEST is a defined contribution scheme. Local Authorities contribute by making contributions based on a percentage of members' pensionable salaries. In 2019/20 the Council paid contributions of £10.7k to NEST, being £10k at 3.0% of pensionable pay and £0.7k at 2.0% of pensionable pay.

## NOTES TO THE FINANCIAL STATEMENTS

### 25. Better Care Fund - Pooled Budgets for Health and Social Care

The Better Care Fund (BCF) is the biggest ever financial incentive for the integration of health and social care. It requires Clinical Commissioning Groups and local authorities in every area of England to pool or align budgets and to agree an integrated spending plan for how they will use their Better Care Fund allocation.

The Council is a partner in the pan-Dorset Better Care Fund which is owned by two Health and Wellbeing Boards:

- West
- East

Other partners are:

- NHS Dorset Clinical Commissioning Group
- Bournemouth, Christchurch & Poole Council

The Council's contribution to the BCF was £73.734m.

Within the BCF, the Council is in a partnership scheme with NHS Dorset CCG and Bournemouth Christchurch & Poole Council under Section 75 of the Health Service Act 2006. The partnership commenced on 1 April 2015 and BCP hosts the arrangement. The aim of the partnership is to provide a responsive equipment service including the support of intermediate care and reablement services. Details are shown in the table below.

	2019/20 £'000
Expenditure	1,248
Income	-
Net DC Contribution	<u>1,248</u>

### 26. Summary of capital expenditure and financing

	2019/20	
	£'000	£'000
<b>Adult &amp; Community Services</b>		
New Construction & Improvements (including REFCUS)	3,247	
Capital Repairs & Maintenance	-	
ICT	-	
		<u>3,247</u>
<b>Cabinet/Whole Authority</b>		
New Construction & Improvements (including REFCUS)	3,570	
Capital Repairs & Maintenance	104	
Corporate Fleet Vehicle Replacements	695	
ICT	1,194	
		<u>5,563</u>
<b>Children's Services</b>		
New Construction & Improvements (including REFCUS)	7,903	
Capital Repairs & Maintenance	2,865	
ICT	204	
		<u>10,972</u>
<b>Place</b>		
Infrastructure Improvements (including REFCUS)	31,608	
Capital Repairs & Maintenance	766	
ICT	56	
		<u>32,430</u>
<b>Dorset Waste Partnership</b>		
Infrastructure Improvements (including REFCUS)	1,452	
Plant & Vehicles	3,523	
ICT	19	
		<u>4,994</u>
<b>Total Capital Expenditure</b>		<u><u>57,206</u></u>
<b>Sources of Finance</b>		
Borrowing (internal & external)	12,246	
Grants	35,167	
Other Contributions	-	
PFI and leases	3,061	
RCCO	228	
Use of Capital Receipts	6,504	
Use of Reserves and Balances	-	
<b>Total Financing</b>		<u><u>57,206</u></u>

This table gives details of capital spending by service, and how that spending was financed. The analysis above includes expenditure referred to as Revenue Expenditure Funded from Capital Under Statute (REFCUS) set out in note 16.

Legislation requires REFCUS expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried in the Balance Sheet as a non-current asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on Council Tax Payers. These items are generally expenditure on property not owned by the Authority. The capital financing requirement note below includes provision for this expenditure.

## NOTES TO THE FINANCIAL STATEMENTS

### 27. Capital financing requirement

The total amount of capital expenditure incurred during the year is shown in note 26, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed

	2019/20 £000s
Property, Plant & Equipment	975,193
Assets held for sale	8,530
Total Assets to be funded	<u>983,723</u>
Revaluation Reserve	(183,125)
Capital Adjustment Reserve	(480,758)
<b>Capital Financing Requirement 31 March</b>	<u><b>319,840</b></u>
Less Long Term PFI Liability	(23,961)
Less Obligations under Finance Leases	(2,993)
<b>Underlying Borrowing Requirement 31 March</b>	<u><u><b>292,886</b></u></u>

	2019/20 £'000
Effect on the underlying need to borrow	(539)
	<u><u>(539)</u></u>

### 28. Future capital commitments

The Council has entered into contracts for a number of capital projects in 2019/20 and earlier years, which were not completed by 31 March 2020. Details of further expenditure on such major schemes which will be incurred in later years are set out below.

Figures quoted for the previous year are the commitments on incomplete schemes as at that Balance Sheet date and not an analysis of cumulative expenditure against those projects at that date.

	2019/20 £'000
<b>Children's Services</b>	
Pimperne Primary School replacement	344
Twynham Primary new 2FE	858
St Osmunds extend to 6FE	145
Sherborne Abbey extension to 2FE	30
Wimborne First	1,254
Beaucroft Special School	146
Swanage St Mary's	150
<b>Adult &amp; Community Services</b>	
Weymouth Library (Living & Learning)	25
Modular Housing (Wareham)	642
<b>Whole Authority</b>	
Superfast Phase 3 & 4 Broadband	2,421
Ultrafast Broadband	3,900
<b>Place</b>	
Weymouth Relief Road	1,198
Weymouth Beach Office	522
Bridport Highways Depot	368

## NOTES TO THE FINANCIAL STATEMENTS

### 29. Asset register

The following table analyses the numbers and values of major non-current assets owned by the Authority.

	No	2019/20	
		£'000	£'000
<b>Intangible Assets</b>	<b>47</b>	<b>5,897</b>	<b>5,897</b>
<b>Operational Assets</b>			
Land	535	142,812	
Buildings	374	273,880	
Farms - Land	46	9,286	
Farms - Buildings	41	7,028	
Leased buildings	2	1,370	
PFI Land	1	5,380	
PFI buildings	1	18,328	
			458,084
Vehicles	626	16,116	
Leased vehicles	17	522	
Plant	18	123	
Furniture & Fittings	218	723	
Equipment	166	10,257	
			27,741
<b>Infrastructure Assets</b>	<b>29</b>		<b>425,498</b>
<b>Community Assets</b>	<b>33</b>		<b>11,722</b>
<b>Heritage Assets</b>	<b>1</b>		<b>3,307</b>
<b>Non-Operational Assets</b>			
Assets under construction	299	29,295	
Surplus Assets	60	16,956	
Assets held for sale (current assets)	11	8,530	
			54,781
	<b>2,525</b>		<b>987,030</b>

The Balance Sheet does not include schools where ownership rests with the Diocese, or Foundation Schools and other schools that have subsequently transferred to Foundation status, as the premises remain under the control of each Foundation. Academy schools are not on the Balance Sheet, but the land remains the property of the Council.

In addition to the above, the Council owns a number of sites which are held pending development or disposal. It is also responsible for the following infrastructure assets. Unclassified Roads do not include unpaved roads or green lanes.

	2019/20 Km
Principal Roads	368
Classified Roads	1,494
Unclassified Roads	1,934
	<b>3,796</b>

### 30. Components

As noted elsewhere in this document, component accounting has been applied prospectively from 1 April 2010. A policy for assessing the Authority's assets for componentisation was developed with the Valuations & Estates Team in 2010/11. This looked at componentising over a six-year period.

The depreciation included in the Comprehensive Income and Expenditure Statement on account of these components is £1,857k. Had these components not been created, the depreciation charge on the non-componentised assets would have been £589k (2018/19 = £2,138k compared with £658k).

### 31. Heritage Assets

Dorset History Centre (DHC) is the home of the Joint Archives Service for Bournemouth, Christchurch & Poole Council and Dorset Council. The building is owned and maintained by Dorset Council but the revenue costs for the service are shared.

DHC holds the corporate archives of the two authorities along with a wide range of other public bodies and private institutions and individuals. Collection size varies from single items like a letter or title deed to several thousand boxes. In total we estimate the holdings to amount to over 1,070 cubic metres. Ownership of the collections is split between DC (its own archive but also all 'gifted' collections) and a wide range of corporate bodies and individuals.

The archive collections housed within the repository date back to 965, number over 9,700, and are made up of millions of individual items of paper, parchment, photographic (and other) images, maps, plans, volumes, digital and magnetic storage devices. The vast majority of material held by DHC is unique, i.e. no other copy exists and is therefore irreplaceable.

The three repositories in which the collections are stored meet the requirements of the standard PD5454 (Storage and Exhibition of Archival Material). Temperature and humidity are regulated to tight parameters and a gas-based fire suppressant is installed. The repositories are secured with electronic swipe-card access. Only JAS staff and limited numbers of Registration staff can access them.

Placing a value on the collections is very difficult. In financial terms there are certainly items held here which would fetch many thousands, if not hundreds of thousands of pounds. However, the informational value and legal proof of millions of transactions is also huge, e.g. DC's corporate memory. Quantifying a monetary value would be extremely hard to do (and would come at a significant cost to the Authority).

There is no insurance held for the archive collections. This is quite standard for archive services where the security and integrity of the building itself, is the de facto insurance. Our Terms of Deposit state that the DHC does not insure collections and that insurance is the responsibility, if desired, of the owner of the records.



## NOTES TO THE FINANCIAL STATEMENTS

The Council also has the Old Crown Court and Cells, which are contained within the former Council's main office building in Dorchester, Stratton House. These are held in support of the primary objective of increasing the knowledge, understanding and appreciation of the Council's history and local area. The Council does not consider that reliable cost or valuation information can be obtained for the historic fittings within the courtroom. This is because of the diverse nature of the assets held and the lack of comparable market values.

### 32. Investments

The Council has adopted the Code of Practice for Treasury Management in Local Authorities which guides policy the way in which surplus cash is invested. The total amount of investments with individual institutions and sectors is strictly controlled and regularly reviewed.

The Council holds units in a number of pooled investment vehicles such as property funds, equity funds, corporate bonds funds and multi-asset funds.

### 33. Long-term debtors

An analysis of amounts due to the Council at 31 March 2020, repayable over a period of more than 12 months, is shown below. The amount for Other Local Authorities relates to the Home Office system of capital financing for Police expenditure prior to 1990, and is repayable by Dorset Police in annual instalments. The majority of the remainder relates to similar capital financing arrangement for colleges, deferred debt for residents in care homes and private street works.

	2019/20 £'000
Other Local Authorities	557
Interest in Finance Leases	5,086
Interest in Operating Leases	289
Other	4,414
	<u>10,346</u>

### 34. Inventories

The Council holds a number of stocks and stores. Stock levels are regularly reviewed to ensure that only necessary stocks are held. Equipment for disabled people issued under the pooled budget arrangement (detailed in Note 25 earlier in this document) has been included.

	2019/20 £'000
<b>Stocks</b>	
Highways and Transportation	644
Fuel Scheme	70
DWP Inventories	130
Community Equipment Store	423
Moors Valley Country Park	64
Leisure Services	8
Bridport Harbour Shop	20
Tourist Information Centres	14
Misc small stock items	3
	<u>1,376</u>

### 35. Debtors and payments in advance

An analysis of amounts due to the Council or paid in advance at 31 March 2020 is shown below.

	2019/20	
	Debtors	Payments in advance
	£'000	£'000
Central Government Departments	19,993	-
Other Local Authorities	4,792	305
Health	2,769	-
Collection Fund	6,668	-
Other	22,600	10,731
	<u>56,822</u>	<u>11,036</u>

Following the introduction of IFRS 15 as from 1 April 2018, amounts included in debtors for contract receivables are as follows:

	2019/20 £'000
<b>Adult &amp; Community Services</b>	152
<b>Chief Executive's, Cabinet &amp; Corporate Place</b>	2,199
<b>Children's Services</b>	1,868
<b>Legal &amp; Democratic</b>	850
<b>Total</b>	<u>205</u>
	<u>5,274</u>

### 36. Contingent Assets

In addition to the amounts included above, further sums estimated to amount to £92m may fall due to Dorset Council in respect of Section 106 (of the Town and Country Planning Act 1990) planning agreements.

These amounts are not due, yet, but will accrue in future in line with the progress made on the developments covered by individual agreements.

## NOTES TO THE FINANCIAL STATEMENTS

### 37. Assets held for sale

As set out in the Accounting Policies section of this document, assets that meet the criteria are required to be accounted for and reported as being held for sale. Dorset Council had the following properties which met these criteria at the Balance Sheet date:

Property	Use/Business Segment	2019/20 £'000
Christchurch Adult Learning Centre	Adult & Community Services	2,600
Bridport Local Office & St Andrews Pre School	Surplus	-
Pippins Staff Training Centre	Surplus	-
Gillingham Adult Learning Centre	Surplus	330
Lulworth & Winfrith VC First Playing Field	Surplus	-
Mountjoy School	Surplus	860
Access Road & Licences for 139-189 Chickerell Road	Surplus	90
9 High Street, Fortuneswell	Surplus	28
Land adj to Beverley Road & Pemberton Close	Surplus	350
Land at Chafeys Roundabout and adjacent first sect	Surplus	250
Bridport Social and Education Centre - Land	Surplus	1,650
Fairfield Day Centre	Surplus	145
Nordon Offices	Surplus	2,227
		<b>8,530</b>

### 38. Cash and cash equivalents

Cash and cash equivalents include balances held in same-day notice interest-earning accounts and money market funds as alternatives to temporary investments. The actual current account bank balance is managed on a daily basis and kept to very modest limits, usually less than £100k.

### 39. Borrowing

An analysis of the Council's outstanding debt as at 31 March 2020 is shown below, analysed between the government's Public Works Loans Board (PWLB) and other lenders.

Analysis of Loans by maturity	2019/20	
	PWLB £'000	Other £'000
<b>Short Term Borrowing</b> (less than 1 year)	<b>21,054</b>	<b>16,142</b>
Between 1 and 2 years	1,034	-
Between 2 and 5 years	11,083	-
Between 5 and 10 years	10,000	-
Between 10 and 15 years	-	19,500
Between 30 and 35 years	41,816	-
Between 35 and 40 years	-	15,000
More than 45 years	-	81,600
<b>Long Term Borrowing</b>	<b>63,933</b>	<b>116,100</b>
<b>Fair Value of Borrowing</b>	<b>109,002</b>	<b>210,642</b>
Average rate of interest	3.95%	3.41%

Actual borrowing shown here is less than the Capital Financing Requirement because of unfinanced capital expenditure carried forward, shown in Note 26, or decisions when to take out borrowing to finance the capital programme. These decisions are taken in consultation with advisers, taking into account interest rate movements and other factors.

Financial liabilities and financial assets represented by loans and receivables are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments. For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures.

### 40. Creditors and receipts in advance

An analysis of amounts owed by the Council or received in advance at 31 March 2020 is shown below. Receipts in advance do not include grants or contributions held in respect of future spending where conditions attached to the grant have been met.

	2019/20	
	Creditors £'000	Receipts in advance £'000
Central Government Departments	2,207	12,770
Other Local Authorities	5,032	255
Collection Fund	20,432	-
Other	49,522	10,884
	<b>77,193</b>	<b>23,909</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 41. Provisions

The Council self-insures most of its insurance claims, funding these internally. Interest is earned on the balances held until they are required. The insurance provision also covers potential liabilities arising from the performance of building and civil engineering contracts in excess of £750k. Balances for specific provisions at 31 March 2020 are as follows:

	Balance 1 April 2019 £'000	Income £'000	Payments and / or Transfers £'000	Balance 31 March 2020 £'000
Misc Provisions	114	216	221	109
NNDR backdated appeals provision	13,105	22,501	20,287	15,319
Schools Reorganisations	2,953	-	572	2,381
CRC permits	-	-	-	-
General Insurance Provision	2,924	1,631	368	4,188
	<b>19,096</b>	<b>24,348</b>	<b>21,448</b>	<b>21,997</b>

### Triggering of the Scheme of Arrangement for MMI

Municipal Mutual Insurance (MMI) is an insurance company limited by guarantee and not having a share capital, which was established by a group of local authorities and incorporated under the Companies Acts 1862 to 1900 on 13 March 1903. The Company suffered substantial losses between 1990 and 1992. These losses reduced MMI's net assets to a level below the minimum regulatory solvency requirement. In September 1992 MMI ceased to write new, or to renew, general insurance business.

Since going into run-off in September 1992 numerous business and corporate disposals have taken place including the right to seek renewal of the larger part of MMI's direct personal and commercial lines insurance business to Zurich Insurance Company along with a number of MMI's assets and many members of its staff.

The Company is subject to a contingent Scheme of Arrangement under section 425 of the Companies Act 1985 (now 899 of the Companies Act 2006) which became effective on 21 January 1994. On 13 November 2012, the directors of the Company concluded that the terms of the Scheme of Arrangement should be triggered and served notice on the Scheme Administrator and the Company to that effect. As a result, the Scheme of Arrangement was triggered and the Scheme Administrator, Gareth Hughes, has taken over the management of the business of the Company. Any queries in relation to the Scheme of Arrangement should be referred in the first instance to the Company at its registered office.

Following the triggering of the scheme, the Scheme Administrator conducted a financial review of the Company and concluded that a 15% levy would be necessary. For Dorset Council, this was around £405k. Dorset Council has met the initial levy request of £405k. In May 2016 notification was received that the levy has been raised to 25% and a further demand of £272k was received. The levy currently remains at 25%.

Following the updated Levy of 25% imposed on Scheme Creditors from 1 April 2016 in accordance with the Levy Notices, the Company will continue to pay claims at 75% of the agreed settlement amount for affected Scheme Creditors, and pay claims at 100% for non-Scheme Creditor policyholders. It is anticipated that the current Balance Sheet deficit of £1.4 million will be eliminated by the end of the run-off period.

Solvency II came into force on 1 January 2016. The directors are confident that the Company will continue to meet its regulatory requirements in the future. On an annual basis the group will publish quantitative and qualitative information on Solvency II in a Solvency and Financial Condition Report (SFCR).

On 1 April 2019 as a result of LGR Dorset Council found itself liable for the liabilities held by the District and Borough Councils and this resulted in an additional payment of £56,188 to the MMI scheme. Dorset Council currently has nine historic claims with MMI holding a combined reserve of £296,218. The reserve has decreased from £430,000 as at 31 March 2019 due to a number of historic abuse claims being settled or repudiated during 2019/20.

The Insurance fund has a reserve in respect of a potential claw-back by MMI and further claims totalling £2.0 m.

### NNDR Appeals Provision

When the new arrangements for the retention of business rates came into effect on 1 April 2013, local authorities assumed the liability for refunding rate payers who have successfully appealed against the rateable value of their properties on the rating list.

### 42. Contingent Liabilities

Provision has been made in the accounts for known claims against the Council at the level of the Council's own estimation. There are potential claims against the Council, which are at this stage unquantifiable and no provision has been made for these. There are various other minor claims against the Council, where the validity is disputed, and the Council has made no provision for these in the accounts.

### 43. Trust funds and bequests

The Council administers a number of funds which have been established by gift or bequest. The bequests are for the benefit of certain Social Care or Library service users. These funds are held by the Council as trustees and are summarised below.

	Balance 1 April 2019 £'000	Income £'000	Expenditure £'000	Balance 31 March 2020 £'000	Capital 31 March 2020 £'000
B Norwood Bequest	2	-	-	2	63
T Elliott Bequest	1	-	-	1	55
M Dorling Bequest	1	-	-	1	67
	<b>4</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>185</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 44. Capital Adjustment Account

This account provides a balancing mechanism between the different rates at which assets are depreciated and are financed through the capital control system.

	2019/20 £'000
Balance brought forward	484,500
Depreciation & Impairment	(4,549)
REFCUS	(5,762)
Net gains/(losses) on disposal of non-current assets	(43,282)
Net gains/(losses) on disposal of Academy assets	(13,334)
Minimum Revenue Provision	21,337
Capital Expenditure Charged to the General Fund	228
Release of Government Grant	35,116
Use of Capital Receipts	6,504
Transfer from revenue to fund capital expenditure	-
Balance carried forward	<u>480,758</u>

### 45. Accumulated Absences Account

The IFRS-based Code requires Local Authorities to account for benefits payable during employment in accordance with IAS 19 (Employee Benefits). One aspect of this is that accruals must be made at 31 March for any "accumulating, compensated absences", or untaken leave, time-off-in-lieu etc.

The balance on this account at the end of the year is mirrored by a creditor in the Balance Sheet. As with other changes in creditors, the change in the balance between the start and the end of the year is charged in the Comprehensive Income and Expenditure Statement within individual costs of services.

	2019/20 £'000
Opening balance	(4,748)
Reverse previous year provision	4,748
Current year provision	(4,891)
(Charge)/credit to I&E	(143)
Closing balance	<u>(4,891)</u>

### 46. Capital Grants Unapplied Account

Where the acquisition of a non-current asset is financed wholly or partly by a capital grant or other contribution, the amount of the grant is credited initially to a capital grants unapplied account. Once the appropriate expenditure has been incurred, the funding is transferred from the capital grant unapplied account to the Capital Adjustment Account.

	2019/20 £'000
Balance brought forward	49,622
Receipts	43,040
Notional Interest	125
Transferred to Capital Adjustment Account	(35,116)
Adjusted to revenue reserves	(6,478)
Balance carried forward	<u>51,193</u>

### 47. Revaluation Reserve

This account records the net gain (if any) from revaluations made after 1 April 2007 from holding non-current assets.

	2019/20 £'000
Balance brought forward	139,847
Revaluation gains on property, plant & equipment	64,207
Charges for depreciation & Impairment of non-current assets	(8,281)
Net (gains)/losses on disposal of non-current assets	(10,780)
Net (gains)/losses on disposal of Academies	(1,868)
Balance carried forward	<u>183,125</u>

### 48. Pooled Funds Adjustment Account

The Pooled Funds Adjustment Account comprises the accumulated unrealised gains or losses made by the Council arising from changes in the fair value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments.

The balance is increased when investments are revalued upwards, and the balance is reduced when investments are revalued downwards, or disposed of and the gains are realised.

	2019/20 £'000
Balance brought forward	3,116
Transfer from Available for Sale Financial Instruments Reserve	46
Gains/(Losses) on revaluation of investments	(8,791)
Balance carried forward	<u>(5,629)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 49. Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

	2019/20 £'000
Balance brought forward	(4,786)
Deferred premia on early repayment of debt	(9,336)
Release of deferred premia to CIES	322
Charge to CIES for LGR disaggregation	17
Soft Loan Interest Adjustment	(2)
Balance carried forward	<u>(13,785)</u>

### 50. Usable Capital Receipts Reserve

Capital Receipts from the sale of surplus assets are used to finance the capital expenditure programme. The credit balance reflects 2018/19 receipts being used to finance the programme.

	2019/20 £'000
Balance brought forward	12,975
Net (gains)/losses on disposal of non-current assets	4,097
Usable Capital Receipts funding revenue income from finance leases	(12)
Use of Capital Receipts to finance new capital expenditure	(6,504)
Flexible use of capital receipts	(10,881)
Reclassifications between balances and Reserves	-
Balance carried forward	<u>(325)</u>

### 51. Earmarked Reserves

The Council has established a number of reserves, earmarked for capital and revenue purposes as follows: -

	Balance 1 April 2019 £'000	Income and / or Transfers £'000	Payments and / or Transfers £'000	Balance 31 March 2020 £'000
<b>For revenue purposes</b>				
(a) PFI Reserves	6,660	288	(1,113)	5,835
(b) Financial strategy	13,040	34,467	(16,496)	31,011
(c) Insurance Reserve	9,372	1,012	(4,341)	6,043
(d) Trading Account Reserves	185	69	(21)	233
(e) Transformation Fund	2,363	3,988	(1,396)	4,955
(f) Other Reserves	33,541	68,029	(69,141)	32,429
(g) Repairs & maintenance	1,163	(118)	(929)	116
(h) Collection Fund	5,953	(3,577)	(2,572)	(196)
(i) Unused Grant Funds	25,208	8,347	(15,200)	18,355
(j) Infrastructure related	3,026	5,845	(2,475)	6,396
(k) Innovation	2,587	82	(1,674)	995
(l) Public Health	1,951	181	(1,085)	1,047
(m) DSG deficit	-	-	(21,803)	(21,803)
<b>Total Revenue Reserves</b>	<u>105,049</u>	<u>118,613</u>	<u>(138,246)</u>	<u>85,416</u>

(1)

#### (a) PFI reserves

These reserves are sinking funds held for replacement furniture and equipment, and to cover additional costs of any future legislative changes.

#### (b) Financial strategy

This reserve provides support to balance the Council's financial strategy over the five-year planning period and underpins any risks of overspend in the current year caused by volatility of sensitive budget assumptions.

#### (c) Insurance reserve

This is in addition to the provision referred to above, to cater for any claims not covered by that sum.

#### (d) Trading Account reserves

The balance held in this reserve represents retained surpluses from traded services which are reinvested in future services.

#### (e) Transformation fund

This reserve was set up to fund investment expenditure that would generate reductions in revenue costs.

#### (f) Other reserves

Various reserves to cover partnership working, one-off activities or smooth future cost pressures or activities that may be required where a grant or budget may not be available. The reserve also covers the risks of cost overruns on projects, costs that are contingency upon project outcomes and potential conversion of schools to sponsored academies.

#### (g) Repairs & maintenance

This is a residual, predecessor councils' reserve that was established to provide short-term support for the revenue budget for repairs and maintenance. It is likely to be used completely within the next financial year.

#### (h) Collection fund

This reserve is used for collection fund accounting adjustments as required by the CIPFA code.

#### (i) Unused grant funds

Various reserves to fund future expenditure where the received grant for the work or service has not been fully utilised in year.

#### (j) Infrastructure

Various reserves to cover infrastructure development in the area.

#### (k) Innovation

Associated reserves linking to Enterprise Zone and related business park developments.

## NOTES TO THE FINANCIAL STATEMENTS

### (l) Public Health

Reserved underspends from the Public Health grant, to cover any future related Public Health activity or budget pressures that may arise.

### (m) DSG deficit

Reserve specific for the Dedicated Schools Grant. The deficit reserve was established in 2019/20 for the first time for Councils to reflect changes made to DSG accounting arrangements so they do not impact on general funds.

### 52. Movement in balances

Total balances increased by £15.8m during the year to £30.8m. There is more information on reserves and balances in the Narrative Statement.

	2019/20				
	General £'000	LMS* £'000	Retained Schools £'000	Capital £'000	Total £'000
Brought forward	25,924	2,088	(13,040)	-	14,972
Use in year	(2,063)	(2,088)	13,040	-	8,889
Additions/outturn	4,338	2,572	-	-	6,910
Carried Forward	28,199	2,572	-	-	30,771

\* LMS - balances held on behalf of schools under the scheme for Local Management of Schools.

### 53. Movement on the General Fund Balance

Amounts charged in the Comprehensive Income and Expenditure Statement now use essentially the same accounting conventions as private companies, i.e. International Financial Reporting Standards. The surplus or deficit on the Comprehensive Income and Expenditure Statement is the IFRS measure of a body's financial performance.

However, in determining a Local Authority's budget requirement and movement on the General Fund (and hence the level of Council Tax), there are other items which must be taken into account in accordance with statutory or non-statutory proper practices.

Amounts included in the Comprehensive Income and Expenditure Statement in accordance with IFRS, but which are excluded when determining the movement on the General Fund, are depreciation and impairment of non-current assets, deferred charges, the net gain or loss on the sale of non-current assets and adjustment to pensions costs in accordance with IAS19.

Amounts not included in the Comprehensive Income and Expenditure Statement, but which are required to be included when determining the movement on the General Fund, are the statutory provision for the repayment of debt, capital expenditure charged to the General Fund and any transfer to or from earmarked reserves. These additional amounts are included in the calculation of the Statement of Movement in Reserves, and summarised in the notes to the Expenditure and Funding Analysis.

### Notes to the Cash Flow Statement

#### 54. Movement in cash and cash equivalents

This table reconciles the net revenue account surplus or deficit to the net increase or decrease in cash.

	2019/20	
	£'000	£'000
<b>Net surplus/(deficit) to General Fund</b>		15,799
Movement in accruals items:-		
Long Term Debtors	1,443	
Stocks	(9)	
Debtors	21,674	
Creditors	(11,345)	
Provisions	2,901	
		14,664
Movement in non-cash items :-		
Collection Fund Adjustment Account	5,772	
Earmarked Reserves	(19,634)	
Capital Receipts Reserve	(13,300)	
Other non-cash items	(22,108)	
		(49,270)
Movement in financing items:-		
Short Term Borrowing	5,879	
Long Term Borrowing	(26,293)	
Short Term Lending	52,249	
Long Term Lending	(2,136)	
		29,699
<b>Increase/(Decrease) in Cash</b>		<b>10,892</b>

### 55. Movement in net funds

Net funds are cash and other liquid resources (e.g. temporary investments), less borrowings.

	Balance 2019/20 £'000
Cash in hand and at bank	31,537
Temporary investments and borrowing	18,386
Leases, PFIs & Other	(27,011)
Long Term Investments	20,467
Long Term Borrowing	(180,033)
	<b>(136,654)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 56. Movement in liquid resources

Liquid resources are current assets, other than cash and cash equivalents, that are readily convertible into known amounts of cash.

This is a result of the Council's treasury management strategy, driven by the continued gap between long-term borrowing costs and short-term investment returns, to use internal balances to avoid borrowing in advance of need where possible, which has led to a reduction in the level of balances available to invest in short-term investments.

	2019/20
	£'000
Temporary Investments as at 1 April	107,831
Transfer (to)/from long-term investments	-
Increase / (Decrease) in Loans in the Period	(52,249)
Temporary Investments as at 31 March	55,582

### 57. Critical accounting judgements

In applying the accounting policies set out in this document, the Council has made judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Financial Statement are:

#### (i) (a) Asset classifications, valuations and useful lives

The Council has made judgements on whether assets are classified as investment property, property, plant and equipment or assets held for sale. These judgements are based on the principal reason for the Council holding that asset. If the asset is used in the delivery of services or is occupied by third parties who are subsidised by the Council it is deemed to be property, plant and equipment. If there is no subsidy and/or full market rent is being charged, or the property is held purely for capital appreciation purposes, this would indicate that the asset is an investment property. Where assets are held only because they have not yet been sold, but an active disposal process is in place, the property is deemed to be an asset held for sale. The classification determines the valuation and depreciation method used and drives the useful economic life.

#### (i) (b) Covid-19 Material Valuation Uncertainty

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, it is recommend to keep the valuation of these properties under frequent review. These uncertainties extend across notes 22 and 24 in relation to land and buildings and pension assets.

#### (ii) Lease classifications

The accounting treatment for operating and finance leases is significantly different and could have a material effect on the accounts. The Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee.

The introduction of IFRS 16 (the international financial reporting standard for leases) means that the Council will be required to review and potentially change some of its current treatment of leases, so there is greater consistency between items that are currently deemed to be either finance leases or operating leases. In future, almost all leases lasting more than one year will need to be shown on the Balance Sheet. This could have a material impact on the value of assets reported on the Council's Balance Sheet when the new standard is incorporated into the Code in 2021/22..

#### (iii) Providing for potential liabilities

The Council has given consideration to and made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. This includes legal claims that could eventually result in the payment of compensation or other settlement. The judgements are based on the degree of certainty around the results of pending legal actions based on experience in previous years or in other local authorities.

The Council applies a series of tests, on an annual basis, to assess whether collaborative arrangements it is involved in give rise to a group accounting situation and the requirement to produce consolidated accounts. The Council has assessed its current portfolio of arrangements as immaterial for the purposes described and group accounts are therefore not produced. Information about joint venture arrangements and other related parties is disclosed elsewhere in this document.

#### (iv) Brexit

Whilst the United Kingdom has now officially left the EU, there is a transition period during which further work and negotiation is required on how the parties will transact business and interact after that. The outbreak of Covid-19 and the volume of Government capacity that has been absorbed by the response means that bandwidth for negotiations with the EU will be limited and it is impossible to say at this stage what will happen and in what time frame. Dorset Council continues to review the UK's evolving relationship with the EU through various forums and the corporate risk register is regularly updated to take account of new developments in the negotiations.

#### (v) Pension Fund Assets - Material Valuation Uncertainty

The independent valuation of the Dorset Pension Fund's investment property assets as at 31 March 2020 include a 'material valuation uncertainty' clause due to the potential impacts of COVID-19 on property values. These uncertainties extend across notes 22 and 24 in relation to land and buildings and pension assets.

### 58. Assumptions about future funding

2019/20 was the last year of funding covered by the Government's 2015 Spending Review. Although Government provided a funding guarantee for the four years to 31 March 2020, there were significant reductions in grants for Dorset Council's predecessors, and indeed for Dorset Council itself when it was established on 1 April 2019. Most significant of these was for Revenue Support Grant (RSG) which for predecessor Councils had been over £100m at its highest point. This grant is now nil - and could even turn negative if the concept of negative RSG is not addressed in the funding formula by the new Spending Review.

Until as recently as October 2020, the next Spending Review was expected to cover a three-year period. However, as set out in the narrative to these financial statements, the Chancellor has announced that there will be only a single-year settlement for 2021/22. The Government has reiterated its intention to return to multi-year settlements as soon as it is right to do so. A single-year settlement means that there is still considerable uncertainty around material income from grants which had not been incorporated formally into the Council's baseline - such as the Improved Better Care Fund. There is currently very little certainty around future funding. See below for Spending Review (SR20) headlines.

We do already know that the work on the Fair Funding Review and on further Business Rates Retention has stalled and will not be implemented before 2021/22. Quite how this would have impacted upon Dorset Council is unclear, as the work was not sufficiently advanced to be clear about individual councils' allocations when the work was stopped. However, it is possible that the new, more fundamental review of business rates could take an entirely different approach to how local government is funded if Government is persuaded by the school of thought that contests the link between spending "need" and funding available through business rates. It is also likely that business' own views will be sought around the continuing relevance of a property-based tax as the high street contracts and business transactions move online.



## NOTES TO THE FINANCIAL STATEMENTS

While the general fund balance and earmarked reserves can provide a small buffer and/or a fund for invest to save measures for a range of efficiency initiatives, there is still no guarantee that the Council's services can continue to be provided at their regular levels. The significant savings that were delivered by local government reorganisation prove that rationalisation was the right thing to do or the future would have looked even more daunting. The financial consequences of the local and national responses to Covid-19 are also still being felt and whilst additional funding is being provided by Government, the position is still volatile and the Council cannot yet be certain that the costs of response and lost income due to a sustained period of lockdown and resident uncertainty will be fully compensated by Government.

### Spending Review 2020 (SR20) headlines

The Chancellor of the Exchequer announced the results of the Government's Spending Review to Parliament on 25 November 2020. It was a spending review for a single year, rather than a multi-year deal.

The Chancellor announced that the existing arrangements for local referendum limits will continue for council tax – in that a proposal to increase council tax by 2% or more will trigger a local referendum. Dorset Council's planning assumption is for a general council tax increase just under 2%, which would raise just over £5m.

The Chancellor also announced that in addition to the general level of increase in council tax, councils can also levy a social care precept equivalent to a further 3% of council tax across the next two years. Dorset Council's planning assumption is that this full 3% will be levied in 2021/22. The council tax increase brought about by the social care precept must be used for adult social care and has therefore been incorporated into our financial plans accordingly.

Whilst the Council makes every attempt to deliver value for money and manage its cost base and income streams effectively, the ever-increasing need for services to residents and communities outpaces our ability to generate sufficient revenues to fund these costs. Dorset Council, and its predecessors were also badly impacted by the changes to revenue support grant (RSG) that were implemented following the 2015 spending review and it was estimated that the County Council alone, lost the equivalent of more than £77m in general funding, at 2010/11 prices, as a result.

Government recognises that councils continue to be at the forefront of the response to Covid-19 and has announced additional resources to support these efforts. There will be another £1.55bn of unringfenced grant for the pressures expected to emerge in the first few months of 2021/22. We understand that this position will be kept under review and that MHCLG will continue to gather data from the sector to assess the ongoing financial impact of the response and recovery compared with the funding being made available. It is not yet possible to assess how much of this grant will come to Dorset Council, but it is not included in our budget model yet.

SR20 set out that the sales, fees and charges support scheme will continue for Qtr1 of 2021/22. We had originally anticipated that the scheme would close at the end of the current financial year. Dorset Council claimed nearly £3.8m of lost income through the scheme in its first return for April to July 2020 and the next return is due at the end of December.

Government had previously announced that collection fund deficits could be spread over the next three years rather than councils having to fund them all in a single year, as required by the current Regulations. In an update to this arrangement, SR20 also announced that Government would be providing just under £0.8bn to support up to 75% of irrecoverable losses in the collection fund. Again, we await the detail to see how this affects Dorset Council, but the headline news is positive and will improve the financial performance in 2020/21.

Government has also announced £670m nationally, to support council tax payments for those least able to pay in 2021/22. Again, Dorset Council's share of this unringfenced grant is not yet clear but the funding is welcome support to Dorset residents in most need to support their council tax payments.

Spending Review 2019 (SR19) introduced the social care grant; effectively a consolidation of some previous grants along with some new money. £1bn nationally translated into just under £9m for Dorset Council. SR20 confirmed that this funding would continue but that an additional £300m would be added to the national pot, £150m of money recycled from other sources plus £150m of new money.

We are not yet clear how much of the additional funding will flow to Dorset Council. None of the new money is included in our current financial model but we had assumed the roll-over of the previous £9m, so confirmation of this funding is very welcome.

SR20 announced that with certain exceptions, there would be an expectation of a general pause on public sector pay increases. Technically, this announcement does not actually include local government as pay is negotiated outside of the arrangements which are within the scope of the Chancellor's announcement. Our financial model assumes no pay inflation for next year, though the cost of contractual increments is included in the budget.

The Government has also announced a £4bn levelling-up fund which the Council will be reviewing in due course to consider accessing the fund for key projects that align with our priorities and which meet official criteria. The fund will invest in local infrastructure that has a visible impact on people and their communities and will support economic recovery.

It is now clear that the Government will not be proceeding with the implementation of the review of relative needs and resources (formerly the fair funding review) or with 75% business rates retention in 2021/22. In order to provide further stability for the sector in these times, the reset of accumulated business rates growth will also be postponed beyond 2021/22. Government intends that these announcements will allow both Government and councils to focus on the immediate health challenges posed by the pandemic. We understand that further decisions on reform will be taken in the context of the next spending review. Government has stated its intention to return to multi-year financial settlements as soon as this proves possible, though the exact timing of this is yet to emerge. We will continue to lobby both directly with MHCLG and via Dorset's MPs for multi-year settlements in the future.

SR20 also included announcements on a raft of other policies and programmes that are relevant to Dorset Council, though we await the detail of what these national indicators will mean for us.

### 59. Sources of estimation uncertainty

The financial statements include some figures that are estimates, based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and best professional judgements of the future. However, amounts cannot be expressed with absolute certainty, so actual results could differ from these estimates.

There is one item in the Council's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year and that is the pension liability. Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

The effects on the net pension liability of changes in individual assumptions can be measured; however, the assumptions interact in complex ways and the Council therefore discloses information about the fund at various relevant points, throughout this document.



## NOTES TO THE FINANCIAL STATEMENTS

### 60. Business Improvement Districts

The Council acts as an agent, collecting Business Improvement District (BID) levy income on behalf of four BIDs and distributing this income to each of them when requested by the Board. The Council maintains separate accounts for the transactions relating to each BID and these are not included in the Council's Comprehensive Income and Expenditure Statement.

The balances as at 31 March 2020 relating to the BIDs are as shown below.

	Credits from previous years £'000	Levy Income raised £'000	Amounts paid to the BID £'000	Amounts written off £'000	Refunds £'000	Provision for bad debts £'000	Balance on the Account £'000
Wimborne	(6)	(112)	115	-	-	2	(1)
Ferndown & Uddens	(11)	(130)	128	-	-	6	(7)
Dorchester	(2)	(126)	122	-	-	1	(5)
Weymouth	(52)	(290)	312	5	-	(4)	(29)
<b>Total</b>	<b>(71)</b>	<b>(658)</b>	<b>677</b>	<b>5</b>	<b>8</b>	<b>(3)</b>	<b>(42)</b>

### 61. Collection Fund Adjustment Accounts

The Council Tax Collection Fund Adjustment Account holds the movement between the Council Tax income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund. This is included as a reconciling item in the Statement of Movement in Reserves. This is an unusable reserve for the Authority.

	2019/20 £'000
Balance brought forward	7,264
Movement in year	(7,555)
Balance carried forward	<u>(291)</u>

The Non-Domestic Rates (NDR) Collection Fund Adjustment Account holds the movement between the NDR income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund. This is included as a reconciling item in the Statement of Movement in Reserves. This is an unusable reserve for the Authority.

	2019/20 £'000
Balance brought forward	(2,407)
Movement in year	1,783
Balance carried forward	<u>(624)</u>

## COLLECTION FUND

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and Non-Domestic Rates (NDR).

	2018/19			2019/20		
	Council Tax £'000	NDR £'000	Total £'000	Council Tax £'000	NDR £'000	Total £'000
<b>INCOME</b>						
Council Tax	289,159	-	<b>289,159</b>	305,473		<b>305,473</b>
Non-Domestic Rates	-	102,087	<b>102,087</b>		99,203	<b>99,203</b>
<b>TOTAL INCOME</b>	<b>289,159</b>	<b>102,087</b>	<b>391,246</b>	<b>305,473</b>	<b>99,203</b>	<b>404,676</b>
<b>PRECEPTS / NDR DISTRIBUTION</b>						
Central Government	-	46,934	<b>46,934</b>	-	47,499	<b>47,499</b>
Dorset County Council	204,938	8,447	<b>213,385</b>	241,345	46,549	<b>287,894</b>
Dorset Police Authority	30,104	-	<b>30,104</b>	34,146	-	<b>34,146</b>
Dorset Fire Authority	10,594	940	<b>11,534</b>	11,087	950	<b>12,037</b>
Ex District Councils	29,725	37,545	<b>67,270</b>	-	-	<b>-</b>
All Parishes	8,585	-	<b>8,585</b>	15,162	-	<b>15,162</b>
<b>PREVIOUS YEAR COLLECTION FUND SURPLUS / (DEFICIT) REDISTRIBUTED</b>						
Central Government	-	(497)	<b>(497)</b>	-	26	<b>26</b>
Dorset County Council	3,863	(89)	<b>3,774</b>	7,122	25	<b>7,147</b>
Dorset Police Authority	567	-	<b>567</b>	922	-	<b>922</b>
Dorset Fire Authority	205	(10)	<b>195</b>	325	1	<b>326</b>
Ex District Councils	602	(398)	<b>204</b>	-	-	<b>-</b>
<b>ALLOWANCES TO CHARGING AUTHORITY</b>						
Non-Domestic Rate Cost Of Collection	-	614	<b>614</b>	-	617	<b>617</b>
Transitional Protection Payments	2	(1,848)	<b>(1,846)</b>	-	(1,264)	<b>(1,264)</b>
Renewable Energy Scheme	-	680	<b>680</b>	-	282	<b>282</b>
Enterprise Zones	-	91	<b>91</b>	-	25	<b>25</b>
<b>PROVISION FOR APPEALS</b>						
Increase/(Decrease) To Provision	-	8,620	<b>8,620</b>	-	(1,500)	<b>(1,500)</b>
<b>PROVISION FOR BAD DEBTS</b>						
Increase/(Decrease) To Provision	1,739	1,103	<b>2,842</b>	4,035	1,418	<b>5,453</b>
<b>TOTAL DEDUCTIONS</b>	<b>290,924</b>	<b>102,132</b>	<b>393,056</b>	<b>314,144</b>	<b>94,628</b>	<b>408,772</b>
Surplus / (Deficit) Arising In Year	(1,765)	(45)	<b>(1,810)</b>	(8,671)	4,575	<b>(4,096)</b>
Balance B/F 1st April	10,094	(4,958)	<b>5,136</b>	8,329	(5,003)	<b>3,326</b>
Balance C/F 31st March	<b>8,329</b>	<b>(5,003)</b>	<b>3,326</b>	<b>(342)</b>	<b>(428)</b>	<b>(770)</b>

## NOTES TO THE COLLECTION FUND

### 1. INCOME FROM COUNCIL TAX

The Council's Tax Base for 2019/20, i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply), converted to an equivalent number of Band D dwellings, was calculated as follows:

Band	Number of Taxable Dwellings After Discount	Ratio	Band D Equivalent Dwellings
A (Disabled Reduction)	16.0	5/9	9.0
A	11,387.8	6/9	7,591.8
B	21,804.0	7/9	16,958.8
C	33,080.3	8/9	29,404.8
D	30,778.6	9/9	30,778.6
E	24,704.5	11/9	30,194.4
F	14,092.7	13/9	20,355.9
G	7,279.9	15/9	12,133.3
H	595.8	18/9	1,191.5
	<b>143,739.6</b>		<b>148,618.1</b>
<b>Class O exempt dwellings</b>			736.5
<b>Council Tax Base for Revenue Support Grant Purposes</b>			<b>149,354.6</b>
<b>Reduction due to the Council Tax Reduction Scheme</b>			<b>(1,267.4)</b>
<b>Council Tax Base for Council Tax Setting Purposes</b>			<b>148,087.2</b>

### 2. INCOME FROM BUSINESS RATEPAYERS

The Council collects Business Rates on behalf of the Government based on local rateable values and National multipliers as follows:

	2018/19	2019/20
Rateable value at year-end	£286,950,603	£288,438,331
National Multiplier	49.3p	50.4p
Small Business Multiplier	48.0p	49.1p

### 3. ALLOCATION OF COLLECTION FUND SURPLUS

	COUNCIL TAX £'000	NDR £'000	TOTAL £'000
Central Government	-	(214)	(214)
Dorset Council	(291)	(210)	(501)
Dorset Police Authority	(39)	-	(39)
Dorset Fire Authority	(12)	(4)	(16)
North Dorset District Council		-	-
<b>Total Deficit As At 31 March 2020</b>	<b>(342)</b>	<b>(428)</b>	<b>(770)</b>

**Dorset Council Harmonised Accounting policy****1. GENERAL PRINCIPLES**

The Statement of Accounts summarises the authority's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices.

These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act as they apply to Local Authorities in England.

The financial information in this Statement, including the techniques used for estimation, has been prepared after taking into account its relevance, reliability, comparability, understandability and materiality. All material transactions have been disclosed and the accounts include relevant accruals.

Local authorities derive their powers from statute and their financial and accounting framework is closely controlled by primary and secondary legislation. Therefore, where specific legislative requirements and accounting principles conflict, legislative requirements are applied.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments, except where disclosed otherwise in accounting policies or notes, or where required by International Financial Reporting Standards (IFRS).

Areas where there is divergence from the historic cost convention typically include the revaluation of property, plant and equipment; inventories; and certain financial assets, liabilities and instruments.

The Financial Statements have been prepared with due regard to the pervasive accounting concepts of accruals, going concern and primacy of legislative requirements.

**2. ACCRUALS OF INCOME AND EXPENDITURE**

The revenue recognition principle is a cornerstone of accrual accounting and determines the accounting period in which revenues and expenses are recognised. The Council's policy is that revenues are recognised when they are realisable and are earned (usually when goods are transferred or services rendered), no matter when cash is received.

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Interest receivable on temporary investments is reported in the Comprehensive Income & Expenditure Statement in the period to which it relates. Interest payable on external borrowing is fully accrued in order that the period bears the full cost of interest relevant to actual borrowing. Other types of interest (eg for finance leases) are reported in service accounts. An analysis of all interest payable is disclosed in the notes to the Financial Statements.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### **3. CASH AND CASH EQUIVALENTS**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Councils cash management.

### **4. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

Prior period adjustments are accounted for by restating the comparative figures for each prior period presented in the primary statements and notes and adjusting the opening balances for the current period for the cumulative effect.

Changes in accounting estimates are accounted for prospectively, i.e in the current and future years affected by the change and do not give rise to a prior period adjustment.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting Financial Statements.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the authority's financial position or financial performance. Where a change is made, if the new pronouncement does not include specific transition provisions, then the change in accounting policy is applied retrospectively. Retrospective application means adjusting the opening balance of each affected component for the earliest prior period presented, along with other comparative amounts disclosed for each prior period presented, and restating them as if the new accounting policy had always been applied.

### **5. CHARGES TO REVENUE FOR NON-CURRENT ASSETS**

Services, support services, and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement calculated on a prudent basis determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision or the Statutory Repayment of Loans Fund Advances), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## 6. COUNCIL TAX AND NON-DOMESTIC RATES

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves.

Billing authorities are required by statute to maintain a separate fund (ie the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

For council tax, the Council is collecting precepts on behalf of Dorset Police and Crime Commissioner and Dorset and Wiltshire Fire and Rescue Authority as well as Dorset Council.

For NDR, this means that the Council is dealing with the collection of business rates on behalf of the Government and Dorset and Wiltshire Fire and Rescue Authority as well as Dorset Council.

### Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

## 7. EMPLOYEE BENEFITS

### Benefits Payable During Employment & Termination Benefits

Salaries, wages and employment-related payments and any termination benefits are recognised in the period in which the service is received from employees. Annual leave not taken at the end of the financial year is accrued for in the Surplus or Deficit on the Provision of Services, in accordance with International Accounting Standard 19 (IAS 19).

### Post-employment Benefits

The cost of pensions is accounted for in accordance with IAS 19.

The net total of the following amounts is recognised in the Surplus or Deficit on the Provision of Services except to the extent that the Code requires or permits their inclusion in the cost of an asset:

- a) current service cost
- b) interest cost
- c) the expected return on any plan assets and on any reimbursement right recognised as an asset
- d) past service cost
- e) the effect of any curtailments or settlements
- f) actuarial gains and losses.

### Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

The accounting treatment for employee benefits is in accordance with CIPFA Code guidance.

## **8. EVENTS AFTER THE BALANCE SHEET DATE**

These are defined as events, which could be favourable or unfavourable, that occur between the end of the reporting period and the date that the Financial Statements are authorised for issue.

An adjusting event is an event that provides evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole or part of the enterprise is not appropriate. An adjusting event is one where the Financial Statements are adjusted to reflect the event.

A non-adjusting event is an event that is indicative of a condition that arose after the end of the reporting period. The nature and estimated financial effect of non-adjusting events is disclosed in the Financial Statements if material and it is considered that non-disclosure would affect the ability of users to make proper evaluations and decisions, but the Financial Statements themselves are not adjusted to include the financial impact of it.

Events taking place after the date of authorisation for issue are not reflected in the Financial Statements.

## **9. FINANCIAL INSTRUMENTS**

### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

### **Short-term financial liabilities**

Short-term liabilities including short-term borrowing and trade payables are carried at fair value.

### **Long-term financial liabilities**

Borrowings are initially measured at fair value, net of transaction costs. PFI liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.



### Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics.

There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument).

### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

### Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

### Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value.

Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.

Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.



### Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – multiple valuation techniques including independent appraisal of company valuations.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date

Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly

Level 3 inputs – unobservable inputs for the asset.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

#### **10. FOREIGN CURRENCY TRANSLATION**

In accordance with IAS 21, income and expenditure arising from transactions in foreign currency are translated into sterling at the exchange rate in operation on the date on which the transaction occurred. Balances denominated in a foreign currency are translated at the prevailing exchange rate at the Balance Sheet date.

Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

#### **11. GOVERNMENT GRANTS AND CONTRIBUTIONS**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Unspent revenue grants are transferred to an earmarked revenue reserve. Once the expenditure is incurred the reserve is applied to fund that expenditure.

#### **Business Improvement Districts**

A Business Improvement District (BID) scheme applies across the whole of the Council.

A BID scheme has operated within Wimborne since 1st August 2011 and in Ferndown & Uddens since 1 September 2014. BIDs are funded through a levy paid by non-domestic ratepayers within the BID area. The Wimborne BID is delivered by Wimborne BID Limited and the Ferndown & Uddens BID is delivered by Ferndown & Uddens BID Limited, each with its own Board of Directors. The Council, in its capacity as the billing authority for the area, is acting as an agent for each BID by collecting the levy from ratepayers and distributing the levy income to the BID body. The income raised on behalf of each BID does not belong to the Council, and a separate BID Revenue Account is maintained for each BID to which all transactions relating to the BID are allocated. The transactions relating to the Wimborne and Ferndown & Uddens BIDs are not included in the Council's Comprehensive Income and Expenditure Account, but are dealt with as Balance Sheet items in terms of money owed from BID levy payers and money owed to the BID body. The transactions relating to the BID Revenue Accounts and balances relating to the Wimborne and Ferndown & Uddens BIDs are disclosed in notes to the Financial Statements.

Another BID scheme applies to the Dorchester Town Council area and is funded by a BID levy paid by non-domestic ratepayers. The Council acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

## 12. HERITAGE ASSETS

FRS 30 defines a heritage asset as one with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. The Code offers further interpretation of this definition: "heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the reporting entity in pursuit of its overall objectives in relation to the maintenance of heritage."

Dorset Council has interpreted this to mean that an asset is not classified as a heritage asset merely because it has certain qualities (eg a listed building). It is the intention to preserve the asset for future generations that is important, coupled with a demonstrable contribution to knowledge and culture.

Operational heritage assets have always been shown in the Balance Sheet under their appropriate classifications. These assets continue to be shown in this way and carried in accordance with the other asset accounting policies set out herein. FRS 30 and the Code (4.10.2.7) do not apply to such assets.

Heritage assets (other than operational heritage assets) are measured at a valuation in line with FRS 30. The standard states that the valuation may be made by any method that is appropriate and relevant. Buildings are valued at depreciated replacement cost. Other Heritage assets are not deemed to have a material value and the cost involved in valuing them would be disproportionate to the benefit received by the users of these Financial Statements.

Dorset also owns significant volumes of archive information and collections. These are not included in the Balance Sheet as the cost of valuation would not be commensurate with the benefits of the information and the valuations would not be readily ascertainable in many cases.

## 13. INTANGIBLE ASSETS

### i Recognition

Expenditure on the purchase of computer software licences is capitalised as intangible non-current assets. Internally developed intangible assets can only be capitalised where they satisfy the criteria set out in IAS 38; there are no such assets for Dorset Council.

### ii Measurement

Purchased intangible assets are capitalised at cost, and are unlikely to be revalued unless there is a readily ascertainable market value.

### iii Amortisation

Intangible assets are amortised on a straight line basis over their useful economic lives, with no residual value. Intangible assets are amortised over periods ranging up to five years.

### iv Charges to revenue

Capital charges to services are for depreciation or impairment. These charges are reversed in the Statement of Movement in Reserves (General Fund Balance) so the cost to the local taxpayer is unaffected by capital accounting requirements.

### v Impairment

Impairment of intangible assets is taken to the Revaluation Reserve in the first instance, and will only be charged to Surplus or Deficit on the Provision of Services once the balance on the reserve in relation to the intangible asset has been reduced to zero.

### vi Reversal of impairment

Intangible assets are reviewed annually to determine whether there is any indication that an impairment loss recognised in earlier periods for an asset may no longer exist or have decreased. If any such indication exists, the recoverable amount of that asset is estimated.

The reversal of an impairment loss of an asset (previously recognised in Surplus or Deficit on the Provision of Services) is only permitted to be recognised if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If there is an indication that the impairment loss recognised for an asset may no longer exist or may have decreased, this may indicate that the useful life, the depreciation method or the residual value need to be reviewed, even if no impairment loss is reversed for the asset.

The reversal of an impairment loss previously recognised in Surplus or Deficit on the Provision of Services shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. Any excess above the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years is treated as a revaluation gain and charged to the Revaluation Reserve.

#### **14. INTERESTS IN COMPANIES AND OTHER ENTITIES**

The Council reviews its interests in companies and other entities that have the nature of joint ventures and could require it to prepare group accounts. This position is reviewed and updated on an annual basis. In the authority's own single-entity accounts, the interests in companies and other entities would be recorded as financial assets at cost, less any provision for losses.

If applicable, Dorset Council Group Accounts would be produced using the Equity Method of consolidation. The Dorset Council Group position would be shown either in separate, or alongside the Authority only single-entity Financial Statements.

If consolidated group accounts were required, disclosure notes to the Accounts relate to the Authority single-entity only unless otherwise stated.

#### **15. INVENTORIES AND LONG-TERM CONTRACTS**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using either FIFO or the weighted average costing formula dependent on the item being valued.

Certain minor stocks are not valued (eg stationery) and are therefore excluded from the Balance Sheet. The requirement for stock is regularly reviewed.

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

#### **16. INVESTMENT PROPERTY**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

**17. JOINTLY CONTROLLED OPERATIONS AND JOINTLY CONTROLLED ASSETS**

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

**18. LEASES**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

**The Council as Lessee****Finance Leases**

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

**Statements**

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

**Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).



## The Council as Lessor

### Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of noncurrent assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

The accounting policy will be reviewed upon introduction of IFRS16 Leases for the 2021/22 accounts.

## 19. LEASE TYPE ARRANGEMENTS

IFRIC4 sets out the principle that in recent years, arrangements have developed that do not take the legal form of a lease, but which convey rights to use assets in return for a payment, or series of payments. Such arrangements are deemed to be leases where:

- (a) fulfilment of the arrangement depends on a specific asset
- (b) the arrangement conveys a right to control the use of the asset.

In such cases, the transaction is deemed to be a lease and is assessed as to whether it is an operating or finance lease and accounted for accordingly. The Council has no such arrangements in place.

**20. OVERHEADS AND SUPPORT SERVICES**

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

**21. PROPERTY, PLANT & EQUIPMENT****i Recognition**

The Code requires Authorities to maintain asset registers to record information on their capital assets. These assets are valued and revalued periodically by professional valuers, for inclusion in the Balance Sheet in accordance with IFRS 13 and IAS 16.

A de-minimis level of £25,000 has been applied to Land and Buildings. There is no de-minimis for other asset classes.

Property, plant and equipment is capitalised if:

- (a) it is held for use in delivering services or for administrative purposes
- (b) it is probable that future economic benefits will flow to, or service potential will be supplied to the Authority
- (c) it has a useful economic life of more than one year
- (d) the cost of the item can be measured reliably.

The valuations have been undertaken in accordance with RICS Valuation Global Standards – 2017 (The Red Book) and the RICS UK National Supplement 2018 (effective from January 2019) and the IFRS based Code of Practice on Local Authority Accounting 2016/17 (The Code).

Property, plant and equipment (PPE):

These assets form the majority of the Council's portfolio and are used in the delivery of services and/or the production of goods. These operational assets may be rented to others, but would not be held solely for that purpose or they would be re-classified as investment assets (INV).

PPE assets are tangible fixed assets that bring longer-term economic benefits or service potential to the authority

Property, plant and equipment - Surplus (PPES):

Surplus Assets are formerly PPE assets which have been declared surplus to service needs and the needs of the Council. These are non-operational assets which are yet to meet the criteria of asset held for sale (AHS).

Assets held for sale (AHS):

Assets held for sale is the next classification afforded to PPES assets which are being marketed for disposal. The asset must be immediately available for sale and the sale of the property must be highly probable and anticipated to be within a year. AHS should be measured at the lower of carrying amount and fair value less costs to sell.

**ii Measurement**

Assets will be valued to either Fair Value (FV) or Current Value (CV):

Fair Value (FV) - defined under IFRS as: 'The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Fair Value applies to the measurement of PPES and AHS categories of assets. For most practical purposes the figure to be reported as the Fair Value of an asset is likely to be conceptually the same as that which would be reported as market value and implies the highest and best use of that asset in the principal or most advantageous market.

Current Value (CV) – defined as: the amount that would be exchanged for the asset in its existing use. Several methods are identified as appropriate for arriving at a CV

Existing Use Value (EUV) - is used where a readily identifiable active market exists for the use and utilises comparable data and judgement to arrive at the current value. EUV is defined as: The estimated amount for which a property should exchange on valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had acted

knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the asset required by the business, and disregarding potential alternative uses and any other characteristics of the asset that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

Depreciated Replacement Cost (DRC) is a method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation. Where DRC is used as the valuation methodology the 'instant build' approach is used. This method of valuation is applied to assets for which there is a good degree of observable specialisation or for which there is no readily reliable or observable market data. It should be noted that the DRC method of valuation does not represent the figure that could be achieved if the asset were to be placed on the market for sale. It is a representation of the value of the asset to the authority while it is providing service potential.

Where insufficient market-based evidence of current value is available because an item of property, plant and equipment is specialised and/or rarely sold, the Code permits the use of depreciated replacement cost (DRC).

Assets are re-valued with sufficient regularity to ensure that the carrying amount (net book value) of an asset does not differ materially from that which would be determined at the end of the financial year in which the 2020 valuation report is prepared.

Comparable evidence, Building Cost Information Service (BCIS) build costs and Baseline build costs will be compiled and assessed and utilised as appropriate to provide the values for each asset. Dorset Property Buildings and Design services will be utilised to provide component details for each asset as required, including updates to previously componentised assets as required and where replacement of elements has occurred.

In respect of DRC valuations the Valuer will rely on projected BCIS data utilising the fourth quarter 2019 average prices index for the relevant class of asset. Due regard will be given to the Baseline cost directive where appropriate.

In respect of DRC calculations where multiple age buildings exist on one site, an average age and obsolescence factor will be applied, taking into account the age and type of structures and the anticipated replacement cycle of the asset as assessed by the service head/asset team.

Valuations of land may include calculations utilising a Residual Valuation approach to arrive at a Fair Value where there is limited suitable comparable data to available.

Section 2.10.2.29 of the Code iterates IFRS 13 in the provision of valuation hierarchy levels for assets classified as PPES and AHS to increase consistency and comparability in fair value measurements and related disclosures. These are categorised into three levels:

Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.

Level 2 Inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Inputs – unobservable inputs for the asset or liability.

The highest priority is given to quoted prices (unadjusted) in active markets for identical assets or liabilities and lowest priority to unobservable inputs. The assets valued in the 2020 valuation report are not identical and therefore hierarchy 1 reporting and disclosure is not possible. All assets held at PPES and AHS attract a hierarchy Level 2 unless specifically stated in the special assumptions of the 2020 valuation report.

Where the MV of an asset valued using the DRC method is:

- significantly lower than that attributed to the continued occupation and use by the Authority it will be noted in the notes section of the summary valuation.
- significantly higher for a readily identifiable use the value will also be given in the same notes section.



County Farms are categorised as Property Plant and Equipment (PPE) and have been valued on a EUV basis as tenanted farms to be re-let on a rolling and planned basis for the foreseeable future due to established Council policy drivers. There will be occasional rationalisation of farm units which may release additional value but which would not be appropriate to report against any of the assets due to the overriding principle of maintaining a County Farm asset base. The County Farms are valued using capitalised net income flows: this approach excludes any alternative use, FV basis or break-up value: if those policies were reversed all County Farms would display considerably higher FV figures

As part of the 2020 Report the Valuer undertook impairment and material economic change reviews to ensure that assets are carried at no more than their recoverable amount (ie the amount to be recovered through use or sale of the asset). This year end assessment is required to indicate if an asset might be impaired or had any material economic change to its value.

The valuation is produced by two external professional RICS Accredited Scheme Valuers, Avison Young and NPS Group, and reviewed in-house by one or more RICS Accredited Scheme Valuers within the Estates and Assets Service, with a valuation date of 1 January 2020, except County Farms which is 1 April 2019. Some property assets and County Farms were valued in-house.

Further to information in note 57 i(b) in relation to Covid-19 valuation uncertainties, the Covid-19 pandemic has introduced material uncertainty into the valuation of these assets.

### **iii Impairment**

Assets are reviewed annually for evidence of impairment. Impairment is the reduction in the recoverable amount of a non-current asset below the amount at which it is being carried in the Balance Sheet. It can be the result of physical damage, use, obsolescence or the passing of time. If any indication of impairment exists, the recoverable amount is estimated. Upward revaluation of an asset is matched by an increase to the Revaluation Reserve to reflect an unrealised gain. Where an asset is impaired (downward revaluation), the value of the asset is written down to the recoverable amount as soon as the impairment is recognised. Impairment losses on revalued assets are recognised in the Revaluation Reserve, up to the amount in the Reserve for each respective asset and thereafter charged to Surplus or Deficit on the Provision of Services.

### **iv Reversal of impairment**

Assets are reviewed annually to determine whether there is any indication that an impairment loss recognised in earlier periods for an asset may no longer exist or have decreased. If any such indication exists, the recoverable amount of that asset is estimated.

The reversal of an impairment loss of an asset (previously recognised in Surplus or Deficit on the Provision of Services) is only permitted to be recognised if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

If there is an indication that the impairment loss recognised for an asset may no longer exist or may have decreased, this may indicate that the useful life, the depreciation method or the residual value need to be reviewed, even if no impairment loss is reversed for the asset.

The reversal of an impairment loss previously recognised in Surplus or Deficit on the Provision of Services shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. Any excess above the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years, is treated as a revaluation gain and charged to the Revaluation Reserve.

### **v Disposals**

Capital receipts from the disposal of property and other assets owned by the Council, less up to 4% of the cost of the sale, are credited to the usable capital receipts reserve and used to finance new capital expenditure.

However, during 2015/16, Government issued guidance setting out new flexibilities for the use of capital receipts, which the Council has started to apply from 2016/17 onwards. The flexibility involved the use of capital receipts for transformation costs which would normally have fallen to the revenue budget.

**vi Gains and losses on disposal of assets**

A gain or loss arises when the proceeds from the sale of an asset differ from the net book value of that asset in the Balance Sheet. The gain or loss is shown in the Other Operating Income & Expenditure section of the Comprehensive Income & Expenditure Statement and reversed out in the Statement of Movement in Reserves (General Fund Balance).

**vii Depreciation**

Tangible non-current asset depreciation is charged in the Comprehensive Income & Expenditure Statement where the assets have a finite useful life. This includes buildings in accordance with the requirements of IFRS. As part of the annual valuation of assets, the Valuation and Estates Manager determines the estimated useful life of the properties.

The depreciation charge is based on equal annual instalments over the expected life of the asset with no allowance for residual value. Generally, vehicles and equipment are depreciated over periods of 2 to 10 years and buildings over periods of 20 to 60 years. No depreciation charge is made for land or community assets. Infrastructure assets are treated on a pooled basis and are depreciated on a reducing balance basis.

**viii Charges to revenue**

Capital charges to services are for depreciation and/or impairment only. These charges are reversed in the Statement of Movement in Reserves (General Fund Balance) in order that the cost to the local taxpayer is unaffected by capital accounting requirements.

**ix Subsequent expenditure**

Where subsequent expenditure enhances an asset beyond its original specification, the directly attributable cost is capitalised. Subsequent expenditure which does not add to the future economic benefits or service potential of the asset, is expensed in the Comprehensive Income and Expenditure Statement in the year in which it is incurred.

**x Componentisation**

Component accounting has applied (prospectively) since 1 April 2010. Component accounting is the separate recognition of two or more significant components of an asset for depreciation purposes (ie as if each component were a separate asset in its own right) where the useful life is substantially different.

Each part of an item of property, plant or equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Assets are reviewed for componentisation whenever they are acquired, revalued, or enhanced.

The annual valuation exercise that is carried out by the Authority revalues a proportion of the Council's assets each year. A policy for assessing these assets for componentisation was developed with the Valuations & Estates Team and approved by the Auditors in 2010/11. All assets that are above the materiality threshold have now been componentised.

**xi Component derecognition**

Where a component is replaced or restored, the carrying amount of the old component is derecognised to avoid double-counting and the new component reflected in the carrying amount, subject to the recognition principles set out in accounting policy 25(i) and 25(ix). This includes derecognition of parts of an asset not previously recognised as a separate component, the componentisation of which has been triggered by the replacement or restoration.

**xii Residual values**

The Council does not use residual values in its asset accounting or depreciation calculations. The accounting policy is to depreciate the full cost of the asset over the useful economic life.

**22. PRIVATE FINANCE INITIATIVE (PFI) SCHEMES**

The Council is party to two long-term contracts under the Private Finance Initiative (PFI); one for the provision of a replacement secondary school, the other for the provision of street lighting. The Council accounts for both of these schemes in accordance with IFRIC 12 (Service Concessions). Both schemes

are recorded as assets in the Council's Balance Sheet with corresponding liabilities which are discharged over the period of the contract.

### **23. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

#### Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council has an obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

The Council maintains external insurance only for major risks, self-funding the remaining significant elements of risk. A provision has been established to meet insurance liabilities not covered externally. Provisions are separately disclosed on the face of the Balance Sheet, classified as to current or non-current liabilities (all are deemed to be current liabilities).

#### Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

#### Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### **24. RESERVES**

A number of earmarked reserves have been established to meet future expenditure. These include reserves to finance particular capital projects and reserves to smooth irregular expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

### **25. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)**

Where capital expenditure does not result in the acquisition of a non-current asset, or is incurred on an asset not belonging to the Council (such as a Voluntary Aided school), the project expenditure is charged directly to the relevant service in the year it is completed, with the necessary appropriations from the Capital Adjustment Account shown in the Statement of Movement in Reserves.

**26. SCHOOLS**

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (ie those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

**27. VALUE ADDED TAX (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

**28. FAIR VALUE MEASUREMENT**

The Council measures some of its non-financial assets such as surplus assets, and investment properties, and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

**29. REDEMPTION OF DEBT**

The Council finances a proportion of its capital spending by borrowing and is required to charge a prudent percentage of the previous year's Capital Financing Requirement as a Minimum Revenue Provision (MRP). How funding available to the Council for the year has been used in providing services in comparison with those resources consumed or earned in accordance with generally accepted accounting practices, is reflected in the Statement of Movement in Reserves and disclosure notes to the accounts in relation to the Capital Adjustment Account and General Fund Balance. Details are shown in the notes to the Financial Statements.

**30. DONATED ASSETS**

Donated assets, transferred to the Council for nil consideration, are recognised immediately at fair value as assets on the Balance Sheet. The asset is recognised in the Comprehensive Income & Expenditure Statement as income unless the transfer has a condition that the Council has not satisfied. In which case the asset is credited to the Donated Assets Account and recognised in the Comprehensive Income & Expenditure Statement once the condition has been met. Donated assets are valued, depreciated and impaired in accordance with the accounting policies for other non-current assets.

**31. ACQUIRED AND DISCONTINUED OPERATIONS**

Activities are considered to be acquired only if they are acquired from outside the Public Sector. The Code does not include local government reorganisation since any 'machinery of government' changes are neither acquired nor discontinued operations. Similarly, activities are deemed to be discontinuing only if they are transferring outside of the Public Sector, or if they are ceasing completely.

Notwithstanding this, there is a disclosure note to the accounts which provides information about schools which achieve/plan to achieve Academy status in 2019/20 and 2020/21.

**32. EXCEPTIONAL ITEMS**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

	<h2>Annual Governance Statement 2019-2020</h2>
---	--



**Good Governance is about how the Council strives to do the right things, in the right way and for the benefit of the residents it serves.**

**PLEASE NOTE THAT MUCH OF THE DETAIL ON HOW YOUR COUNCIL OPERATES CAN BE FOUND IN THE LOCAL CODE OF CORPORATE GOVERNANCE THAT SUPPORTS THIS STATEMENT**

**Supported by:**  
**Appendix A – Local Code of Corporate Governance**  
**Appendix B – Summary of High Corporate - Service Risks**

<b>Contents</b>		
<b>Ref</b>	<b>Description</b>	<b>Page</b>
<b>1</b>	Introduction and Acknowledgement of Responsibility	<b>3</b>
<b>2</b>	The Principles of Good Governance	<b>3</b>
<b>3</b>	Key Elements of the Council's Governance Framework	<b>3</b>
<b>4</b>	Overview of the Councils Governance framework	<b>4</b>
<b>5</b>	Leadership	<b>4</b>
<b>6</b>	Our Behaviours	<b>8</b>
<b>7</b>	Review of Key Achievements 2019-2020	<b>10</b>
<b>8</b>	Review of Effectiveness	<b>11</b>
<b>9</b>	Assurance Statement	<b>12</b>
<b>10</b>	What actions have been taken in response to 2018-19 Annual Governance Statement	<b>12</b>
<b>11</b>	How can we IMPROVE?	<b>13</b>
<b>12</b>	Approval of the Annual Governance Statement 2019-20	<b>15</b>



## **1. Introduction and Acknowledgement of Responsibility**

Dorset Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It needs to ensure that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Accounts and Audit Regulations (2015) require the Council to conduct a review, at least once a year, on the effectiveness of its system of internal control and include an Annual Governance Statement reporting on the review with the Statement of Accounts. It should be noted that this document is the inaugural Annual Governance Statement for Dorset Council, following its inception on 1 April 2019.

## **2. The Principles of Good Governance**

The CIPFA/SOLACE Delivering Good Governance publication (2016) defines the various principles of good governance in the public sector. The document sets out seven core principles that underpin the governance framework and these are set out opposite.

## **3. Key Elements of the Council's Governance Framework**

Dorset Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to decide to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions. The Governance Framework is comprised of the systems and processes, and culture and values, by which the Council is directed, and its activities through which it is accountable to, engages with and leads the community. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The process of review and monitoring of governance arrangements across Dorset Council is an ongoing process with updates provided throughout the year to stakeholders. The outputs from this process have also been a primary source of information for the preparation of the Annual Governance Statement (AGS). This Statement explains how the Council has complied with The Code and meets the requirements of Accounts and Audit (England) Regulations 2015 regulation 6, in relation to conducting a review of the effectiveness of the system of internal control and the publication of an annual governance statement.

#### 4. Overview of Dorset Councils Governance framework

The sections below provide an overview of the Councils key governance arrangements. A more extensive schedule is contained within the Local Code of Corporate Governance, which accompanies this statement at Appendix A.

<p style="text-align: center;"><b>Council, Cabinet and Leader</b></p> <p>Provide leadership, approve the budget, develop and set policy</p> <p>Approve the Constitution which sets out how the council operates</p> <p>Agree Council Plan priorities, developed in consultation with residents and stakeholders</p>	<p style="text-align: center;"><b>Decision making</b></p> <p>All decisions made in compliance with law and council constitution</p> <p>All committee meetings are held in public, other than for exempt business</p> <p>Decisions are recorded on the council website</p>
<p style="text-align: center;"><b>Scrutiny and review</b></p> <p>Overview and scrutiny committees review council policy and can challenge decisions.</p> <p>The Audit and Governance Committee reviews governance and promotes and maintains high standards of conduct by councillors</p>	<p style="text-align: center;"><b>Risk Management</b></p> <p>A risk management policy and strategy set out a clear approach to management of risks</p> <p>Risk registers identify strategic, operational and project risks</p>

#### 5. Leadership

Senior Leadership Team - Head of Paid Service is the Chief Executive and is responsible for all council employees and serving an effective county organisation. Executive Director for Corporate Development is the Council's Section 151 Officer and is responsible for safeguarding the Council's financial position and ensuring value for money. The Corporate Director (Legal and Democratic Services Monitoring Officer) who is responsible for ensuring legality and promoting high standards of conduct in public life. Under Section 18(2) of the Children Act 2004, Local Authorities in England have a duty to appoint a Director of Children's Services. Section 6(1) of the Children Act 2004 requires Local Authorities in England to appoint a Director of Adult Services.

The Council's Constitution is updated throughout the year and sets out how the Council operates. It states what matters are reserved for decision by the whole Council, the responsibilities of the Cabinet and the matters reserved for collective and individual decision, and the powers delegated to panels, committees and partners. Decision making powers not reserved for councillors are delegated to chief officers and heads of service. Elected members scrutinise decisions made by the Cabinet, and those delegated to officers, and review services provided by the Council and its partners.

The Council's committee structure as set out in the Constitution was reviewed by Full Council on 18 February 2020 and replaced the four overview and scrutiny committees with two overview committees and two scrutiny committees. The Council's overall policy is represented through the council plan which was formally adopted by Full Council on 18 February 2020. The plan developed alongside the budget through consultation with residents and other stakeholders in the county, and which sets out how Dorset Council priorities will be delivered. We understand that effective performance management relies on close monitoring and assessment of a variety of measures from across the Council. These range from the highest-level strategic measures – the council's key performance indicators (KPIs), through to the multitude of lower level metrics and measures which support individual services and teams.

Strategic level outcomes associated with measuring the successful delivery of the council plan and oversight of the Council's overall performance. The strategic reporting consists of:

- **Quarterly reporting** on progress with the Dorset Council Plan to the Corporate Leadership Team and the Cabinet.
- **Balanced scorecard reporting** on service performance: monthly to Corporate Leadership Team; monthly to Performance Leadership Group (executive directors and portfolio holders); and quarterly to the Place and Resource Overview Committee and the People and Health Overview Committee.
- **Quarterly risk management and internal audit updates** to Audit and Governance Committee. The Committee has an assurance role on this overarching framework and will refer any areas of high-level concern to the appropriate overview committee.

Service level reporting required to make informed service level leadership and management decisions. The approach to service level reporting is in development but will provide monthly management information in a range of formats determined by the senior leadership teams of each of the Council's directorates: People – Adults and Housing; People – Children; Place; and Corporate Development.

Operational level reporting required to successfully oversee and manage the individual operations within services.

Statutory performance (including reporting to agencies & partners) – returns/reporting which need to be returned to central government as part of the statutory reporting process - this type of information is useful for benchmarking against other authorities operating in statistically similar/comparable populations. The framework makes use of a reporting by exception process whereby measures which are identified as off-track require detailed explanation from accountable managers. This will require:

- an explanation of why a target is being missed/an item is off-track
- an action plan identifying how this will be rectified
- a timeline for returning to within tolerance (path to green)
- an accountable officer

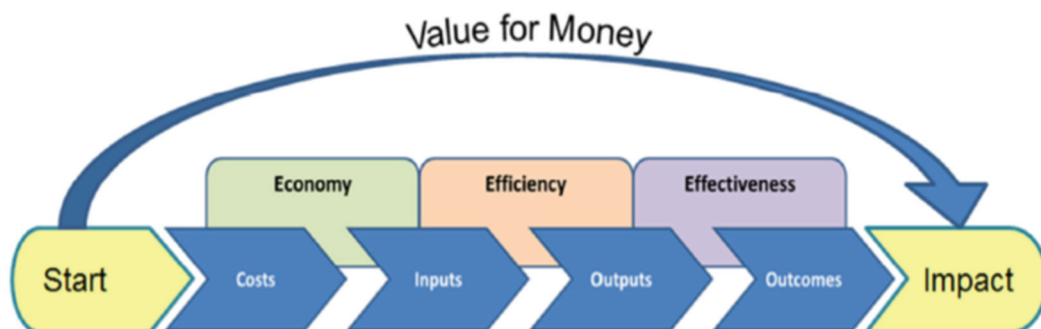
These actions are tracked through a dedicated action tracking process with regular status updates at subsequent performance meetings. New actions will be identified as part of the performance management meeting and added into the tracking process.

The Council has a whistleblowing policy, which encourages employees and other concerned parties to report any instances of suspected unlawful conduct, financial malpractice, or actions that are dangerous to the public or environment. The Council expects the highest standards of conduct and personal behaviour from councillors and employees. These standards are defined and communicated through codes of conduct, protocols and other documents.

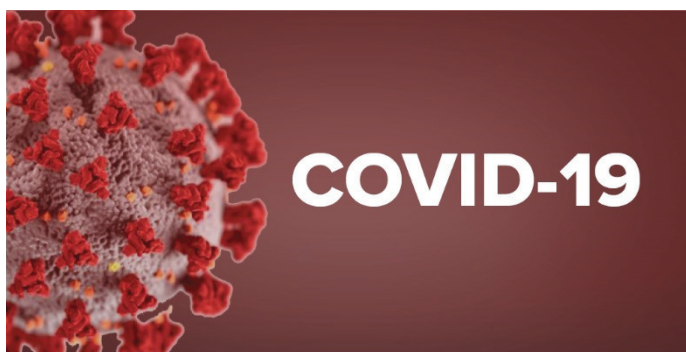
The Council's financial management arrangements conform with the governance requirements of the CIPFA "Statement on the Role of the Chief Financial Officer in Local Government" (2010) as set out in the "Application Note to Delivering Good Governance in Local Government: Framework". The Chief Financial Officer (performed by the Executive Director for Corporate Development) has statutory responsibility for the proper management of the Council's finances and is a key member of the leadership team. The Council's assurance arrangements conform with the governance requirements of the CIPFA "Statement on the Role of the Head of Internal Audit in Public Service Organisations" (2010).

When risks are identified, an agreement takes place on how they will be managed and mitigated and keep the Council's risk profile under review and satisfied that management's systems include appropriate controls, and that it has adequate sources of assurance. It is acknowledged that with such systems in place it will not eliminate all risks, but having systems, mitigations and controls will help to provide a robust process that considers any such risks. The council has appropriate arrangements in place to deal with fraud and corruption risks and is committed to maintaining its vigilance to tackle fraud. The council's legal services and procurement teams ensure that all are fit for purpose and the council's interests are protected.

One of the founding principles of the formation of Dorset Council from the six predecessor councils was to provide greater value for money for the local taxpayer. The activity to converge services has generated savings of over £10M in the first year, and there are further efficiencies are programmes to be achieved through bringing staff, systems, properties and other assets together.



The Council assures itself of value for money by routine benchmarking of services with other similar local authorities, looking at the costs, service outcomes and deliverables against the Dorset Plan. The system of performance monitoring against key performance indicators will continue to be refined throughout 2020-21. As part of their work External Audit review and report on the Council's financial statements (including the Annual Governance Statement) and provide an opinion on the accounts and use of resources including providing a value for money opinion.



During 2020 Dorset Council has had a significant role in responding to the Covid-19 outbreak, as a Category One responder under the Civil Contingencies Act. This has resulted in some temporary changes to governance arrangements, including postponement of some Committee meetings, and prioritisation of service delivery to cope with changing demand. Dorset Council is working with NHS partners to take all the necessary steps to contain and delay the virus and to ensure we are well prepared for any potential spread. The Council shared messages with the workforce and residents as to how they can help minimise the spread of germs and the Coronavirus in Dorset.

#### **What is Dorset Council doing to minimise risk?**

It is important to note that NHS services and Public Health are well prepared for outbreaks of infectious diseases such as COVID-19. Dorset Council is also well prepared.

An internal Incident Management Team (IMT) has been established and includes representatives from across Dorset Council. This IMT is set up to meet weekly and feeds into the weekly local resilience forum's Strategic Coordinating Group (SCG). The council are making sure that business continuity plans are up to date and ready to activate should we need them. Business continuity planning includes enabling employees to work flexibly.

The Emergency Response Plan and its supporting Command and Control structure was subject to scrutiny by the Resources Scrutiny Committee on 2 June 2020 and were assured of the effectiveness of response.

## 6. Our Behaviours

There are four behaviours we expect every employee to demonstrate, regardless of who they are and what they do for the Council. In how we work and communicate, whether internally or externally, we should be leading by example to encourage and inspire each other through these behaviours. By embodying these behaviours, we can work collaboratively together as One Team. The examples given against each behaviour describe the type of things that individuals might demonstrate. This framework has been designed to aid discussions across Dorset Council, to help us work towards a positive workplace culture.



**Responsibility** • **Respect** • **Recognition** • **Collaboration**

**Responsibility** We act with integrity. We are honest and we don't attribute blame when something goes wrong. We are all part of the solution.

**When responsibility is being demonstrated** We...

- give constructive feedback and seek out feedback on our own performance and behaviours
- deliver what we promise
- are open and transparent
- learn from mistakes
- take ownership
- standby and support difficult decisions

**When responsibility is not being demonstrated** We...

- blame others
- defer decision making without a good reason
- don't respect other people's work or deadlines
- avoid difficult conversations with colleagues, partners or customers

**Respect** We are aware of our impact on others. We treat people fairly and have high expectations of ourselves and others, and value differences in approaches and opinions. We instigate and lead through positive behaviour.

**When respect is being demonstrated** We...

- are welcoming and friendly
- adapt our approach to help build good working relationships
- recognise and value the differences between people, placing a positive value on those differences
- manage our reactions professionally and calmly
- keep promises
- demonstrate empathy and recognise alternative perspectives

**When respect is not being demonstrated** We...

- treat people differently based on their role / position
- are insensitive or unhelpful
- exclude people
- instigate or take part in gossip
- make excuses for poor behaviour or protect others' poor behaviour
- work on other tasks during meetings, instead of being responsive and contributing to the discussion

**Recognition** We appreciate and value the contribution of individuals and teams for work well done. We lead by taking time to provide feedback and share lessons learned and achievements to support the organisation's development. We celebrate commitment and success.

**When recognition is being demonstrated** We...

- give positive feedback
- acknowledge good behaviour and respectfully challenge poor behaviour
- value every contribution in success
- create a positive team spirit

**When recognition is not being demonstrated** We...

- take credit for another people's work
- instigate or encourage a blame culture
- undermine or act negatively when someone receives recognition
- use recognition for self-promotion

**One Team: Collaboration** We work with colleagues, residents and partners to achieve the best possible outcomes. We feel confident to share ideas, we listen and respect other points of view and set this example to each other. We value the power in combining our personal qualities, skills and experience to achieve a shared goal.



**When collaboration is being demonstrated We...**

- spend time building positive relationships
- are flexible in our attitude and approach
- share information and expertise without being asked to
- invite and support others to try new possibilities
- work through conflict to create conditions for successful working
- work to find the simplest way to do things
- work together, not in competition

**When collaboration is not being demonstrated We...**

- don't share information or are reluctant to contribute
- don't value or respect contributions from others
- avoid working across departments or teams
- are not flexible in our attitude and approach
- take credit for another people's work

## **7. Key Achievements during 2019-20**

During its inaugural year, the Council carried out significant transformation and restructuring as it began to harmonise the services inherited from the predecessor councils. These achievements included:

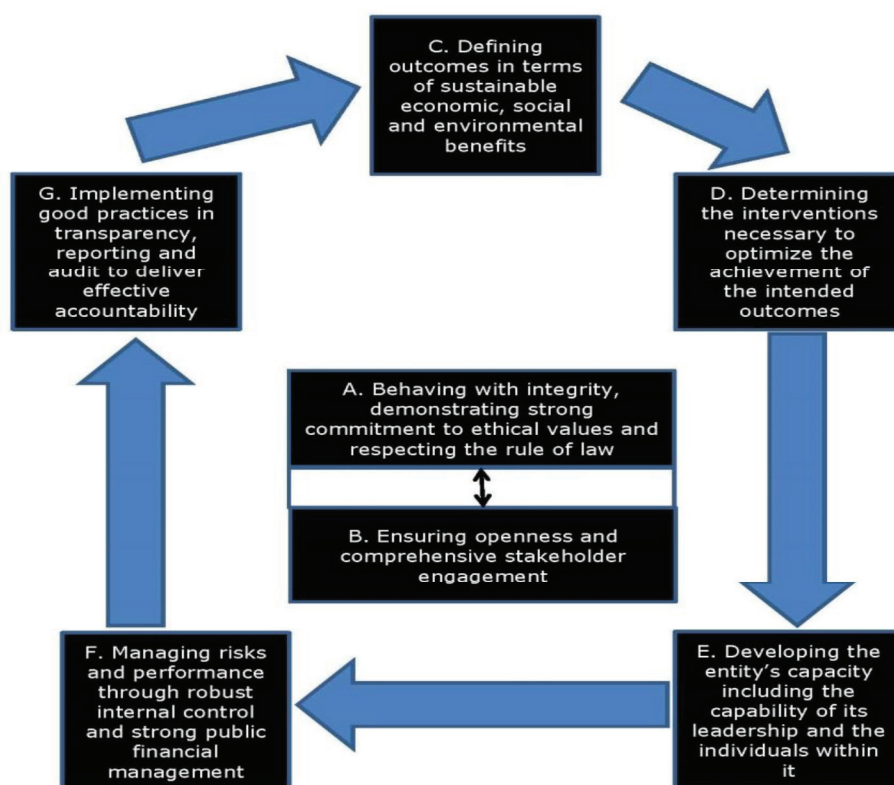
- Ensuring Dorset Council was safe and legal for day one
- Holding its first elections in May 2019
- Savings of £10m per annum following restructuring and convergence of corporate services
- Children's Services successfully implementing its Blueprint for Change
- The Council transforming service delivery within its Planning service
- Successfully launching behaviours, OD strategy and internal communications strategy
- Managing the general election in December 2019
- Responded to several critical incidents resulting from the storms in February and March 2020 and the Covid 19 crisis

In celebration of its first year, Dorset Council asked staff to let the senior leadership team to know what they were particularly proud of during the first year of business, and there were many responses. These thoughts and feelings can be found [HERE](#)

## 8. Review of Effectiveness

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for, and used economically and efficiently. It must ensure it has arrangements for the proper governance of its affairs the effective exercise of its functions. The governance framework comprises the rules, procedures, systems and processes by which the Council is controlled.

The quality of governance arrangements underpins the levels of trust in public services and is fundamental to the Council's statutory and democratic obligations. A framework of good governance allows the council to be clear about how it discharges its responsibilities and to show this for members, partners, stakeholders and residents. As mentioned above the council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The system of internal control is a significant part of the framework and is designed to ensure risks are managed within the Council's appetite. We cannot eliminate all risk of failure to achieve policies and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.



The effectiveness of the framework is monitored and assured through routine performance monitoring and by internal and external audit. The key elements of the review of effectiveness are:

- The Council's internal management processes, such as performance monitoring and reporting; the employees performance appraisal framework; internal surveys of awareness of corporate policies; monitoring of policies, such as the corporate complaints and health and safety policies; and the corporate budget challenge process
- The Local Code of Corporate Governance Self-Assessment, confirming that the Code of Conduct, Financial Regulations and other corporate governance processes have operated as intended within services throughout the year
- Corporate, Service and Project Risk Registers which identify significant exposures together with action plans intended to bring the level of risk down to an acceptable level. The work of the audit and governance committee which includes responsibility for monitoring the development and operation of corporate governance in the council
- Quarterly Audit Improvement monitoring reports, Annual Internal Audit Reports and External Audit (ISA260), reviews by external inspection regimes (such as Ofsted and optional peer challenges).
- In July 2018, Dorset County Council received the findings of an inspection by Ofsted, the Care Quality Commission (CQC), HMI Constabulary and Fire & Rescue Services (HMICFRS), and HMI Probation (HMIP) completed in May 2018 into the multi-agency response to child sexual exploitation, children associated with gangs and at risk of exploitation, and children missing from home, care, or education in Dorset, together with a follow up inspection in March 2019. The reports identified weaknesses in arrangements for planning, organising, and developing the workforce effectively to deliver strategic priorities and working with third parties effectively to deliver strategic priorities, which was acknowledged in the External Audit Value for Money qualification.

## **9. Assurance Statement**

Having reviewed the council arrangements the work, as detailed above, provides good overall assurance of the Council's system of internal control and that the arrangements are fit for purpose in accordance with the governance framework.

## **10. What actions have been taken in response to 2018-19 Annual Governance Statement**

As Dorset Council is a new unitary authority, it did not produce an Annual Governance Statement for 2018-19, however the predecessor councils were required to do so. Commitments made within these were:

- **We will continue to ensure that any significant risks identified by Dorset Council are recognised and responded to by the Leadership Team and Elected**

**Councillors.** *RESPONSE* – A new Dorset Council risk register has been developed, including service level risks. This process is still maturing and therefore remains an action within the 2019-20 statement.

- **We aim to be better at aligning our finances to the council Plan and performance framework.** *RESPONSE* - A new Dorset Council Plan has been approved.

## 11. How can we IMPROVE?

Specific opportunities for improvement in governance and internal controls identified as part of the assurance processes have been addressed or are included in action plans for the relevant managers. Focus will be placed on the following issues during 2020-21 as we continue the journey following the transition into Dorset Council.

<p>A - Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of the law</p>	<p>The mandatory e-learning module for General Data Protection Regulations needs to be further promoted and completion rates monitored.</p> <ul style="list-style-type: none"> <li>• <b>Action</b> – Service manager for Assurance</li> </ul> <p>Work is underway to ensure that there is greater visibility and promotion of whistleblowing arrangements.</p> <ul style="list-style-type: none"> <li>• <b>Action</b> – Service Manager for Assurance.</li> </ul> <p>The Council is establishing a policy and supporting training framework for Corporate Criminal Offence.</p> <ul style="list-style-type: none"> <li>• <b>Action</b> – Service Manager for (Finance) Policy and Compliance.</li> </ul>
<p>F - Managing risks and performance through robust internal control and strong public financial management</p>	<p>Improve maturity of the Dorset Council risk management arrangements, including reporting to officers and members and improved links with the performance management framework.</p> <ul style="list-style-type: none"> <li>• <b>Action</b> - Service Manager for Assurance</li> </ul> <p>Undertake a debrief/lessons learnt process in respect of the council’s response to Covid-19 and build this into future emergency planning arrangements, in conjunction with the Local Resilience Forum.</p> <ul style="list-style-type: none"> <li>• <b>Action</b> – Service Manager for Assurance.</li> </ul>

G - Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Monitoring of the Peer Review implementation plan.

- **Action** – Service Manager for Business Intelligence and Performance

$$\text{Effectiveness} = \frac{\text{Achieved}}{\text{Desired}}$$

## 12. Approval of the Annual Governance Statement 2019-20

The Council is satisfied that this statement provides a substantial level of assurance that good governance is in place in Dorset Council and that appropriate arrangements are in place to address improvements in our review of compliance.

Progress on these improvements and on addressing any mitigating the risks will be monitored through the year by senior officers and elected councillors of Dorset Council.



Matt Prosser  
Chief Executive  
Dorset Council

A handwritten signature in black ink on a white background, reading "Matt Prosser".

Cllr Spencer Flower  
Leader  
Dorset Council

A handwritten signature in white ink on a black background, reading "Spencer Flower".

**Supported by:**  
**Appendix A – Local Code of Corporate Governance**  
**Appendix B – Summary of High Corporate - Service Risks**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DORSET COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS OF DORSET COUNTY PENSION FUND**

### **Opinion**

In our opinion the Pension Fund financial statements of Dorset County Pension Fund (the 'Pension Fund'):

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2020 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We have audited the financial statements which comprise:

- the Fund Account;
- the Net Assets Statement; and
- the related notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of Dorset Council and the Pension Fund it administers in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

- the Chief Financial Officer's use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Pension Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

### **Other information**

The Chief Financial Officer responsible for the other information. The other information comprises the information included in the Dorset Council's statement of accounts, other than the financial



statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

### **Chief Financial Officer's responsibilities**

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting on the assumption that the functions of the pension fund will continue in operational existence for the foreseeable future.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the members of Dorset Council ('the Authority'), as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent

permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

I C Howse.

Ian Howse CPFA, CA (Appointed auditor)  
For and on behalf of Deloitte LLP  
Cardiff, UK  
05 January 2022

## DORSET COUNTY PENSION FUND ACCOUNTS

2018/19		FUND ACCOUNT			2019/20	
£'000	£'000		Note	£'000	£'000	
		<b>Dealings with members, employers and others directly involved in the Fund</b>				
	122,212	<b>Contributions</b>	7		136,769	
94,290		Employer contributions		108,553		
27,922		Member contributions		28,216		
	5,938	<b>Transfers in from other pension funds</b>	8		10,793	
	128,150	<b>Total additions from dealing with members etc.</b>			147,562	
	(120,112)	<b>Benefits</b>	9		(127,919)	
(98,737)		Pensions		(104,933)		
(17,771)		Commutations and retirement grants		(19,875)		
(3,604)		Death benefits		(3,111)		
	(5,700)	<b>Payments to and on account of leavers</b>	10		(35,202)	
(296)		Refunds of contributions		(347)		
(5,404)		Transfers to other pension funds		(34,855)		
	2,338	<b>Net additions/(withdrawals) from dealings with members and others</b>			(15,559)	
	(14,345)	<b>Management expenses</b>	11		(14,009)	
	(12,007)	<b>Net additions/(withdrawals) including Fund management expenses</b>			(29,568)	
	30,533	<b>Investment Income</b>	12		24,531	
18,693		Dividends from equities		10,799		
10,439		Rents from properties		12,025		
1,109		Income from property funds		1,176		
481		Interest on cash deposits		565		
71		Other investment income		101		
(260)		Taxes on income		(135)		
	143,208	<b>Profit/(loss) on disposal of investments and changes in the value of investments</b>			(311,314)	
	173,741	<b>Net return on investments</b>			(286,783)	
	161,734	<b>Net increase/(decrease) in assets available for benefits during the year</b>			(316,351)	
	2,868,218	<b>Opening net assets of the fund 1 April</b>			3,029,952	
	3,029,952	<b>Closing net assets of the fund 31 March</b>			2,713,601	

# DORSET COUNTY PENSION FUND ACCOUNTS

NET ASSETS STATEMENT				
31 March 2019			31 March 2020	
£'000	£'000	Note	£'000	£'000
	<b>395</b>	<b>Long term investments</b>		<b>427</b>
395		Brunel Pension Partnership Ltd	427	
	<b>3,025,386</b>	<b>Investment assets</b>		<b>2,698,426</b>
29,469		UK equities (quoted)	11,251	
421,913		Overseas equities (quoted)	160,536	
2,104,713		Pooled investment vehicles	2,115,368	
80,275		Private equity	98,085	
281,480		Property	264,665	
103,022		Cash & cash equivalents	54,925	
733		Derivative contracts	(9,757)	
3,781		Other investment assets	3,353	
	<b>(1,686)</b>	<b>Investment liabilities</b>		<b>(2,316)</b>
(1,686)		Other investment liabilities	(2,316)	
	<b>3,024,095</b>	<b>Total net investments</b>		<b>2,696,537</b>
	<b>1,930</b>	<b>Long term debtors</b>		<b>965</b>
1,930		Other long term debtors	965	
	<b>12,911</b>	<b>Current assets</b>		<b>22,803</b>
8,689		Contributions due from employers	17,612	
4,222		Other current assets	5,191	
	<b>(8,984)</b>	<b>Current liabilities</b>		<b>(6,704)</b>
(534)		Unpaid benefits	(787)	
(8,330)		Other current liabilities	(5,917)	
(120)		Deferred income	-	
	<b>3,029,952</b>	<b>Net assets available to fund benefits</b>		<b>2,713,601</b>

# DORSET COUNTY PENSION FUND ACCOUNTS

## NOTE 1. DESCRIPTION OF THE FUND

The Dorset County Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS) and is administered by Dorset Council ("the Council").

### a) General

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by the Council to provide pensions and other benefits for pensionable employees of the Council, other councils and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The fund is overseen by the Dorset County Pension Fund Committee, which is a committee of the Council.

### b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Fund include the following:

- **Scheduled bodies**, which are automatically entitled to be members of the Fund.
- **Admitted bodies**, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

Membership details are set out below:

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>309</b>	<b>Total Employers</b>	<b>317</b>
	<b>Employees</b>	
7,544	Administering Authority	6,492
18,323	Other Scheduled Bodies	17,660
502	Admitted Bodies	396
<b>26,369</b>	<b>Total Employees</b>	<b>24,548</b>
	<b>Pensioners</b>	
8,701	Administering Authority	8,986
12,322	Other Scheduled Bodies	12,967
1,347	Admitted Bodies	1,377
<b>22,370</b>	<b>Total Pensioners</b>	<b>23,330</b>
	<b>Deferred Pensioners</b>	
8,989	Administering Authority	8,629
14,345	Other Scheduled Bodies	14,541
1,238	Admitted Bodies	1,220
<b>24,572</b>	<b>Total Deferred Pensioners</b>	<b>24,390</b>
418	'Undecided' members	1,129
<b>73,729</b>	<b>Total Members</b>	<b>73,397</b>

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019 although contributions for 2019/20 were based on the valuation as at 31 March 2016. Currently, employer contribution rates range from 9.5% to 26.6% of pensionable pay.

### d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index. A range of other benefits are also provided including early retirement, disability pensions and death benefits.

# DORSET COUNTY PENSION FUND ACCOUNTS

## **NOTE 2. BASIS OF PREPARATION**

The statement of accounts summarise the Fund's transactions for the 2019/20 financial year and its financial position at 31 March 2020. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"), which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2019/20.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Fund has opted to disclose this information by appending an actuarial report.

The accounts have been prepared on a going concern basis.

## **NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Fund Account:**

#### **Contribution income**

Normal contributions are accounted for on an accruals basis as follows:

Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.

Employer contributions are set at the percentage rate recommended by the Fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the Fund actuary in the rates and adjustment certificate issued to the relevant employing body. Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

#### **Transfers to and from other schemes**

Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

#### **Investment income**

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Property-related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

#### **Benefits payable**

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, providing that payment has been approved.

#### **Taxation**

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

# DORSET COUNTY PENSION FUND ACCOUNTS

## **Management expenses**

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016). All items of expenditure are charged to the Fund on an accruals basis.

## **Net Assets Statement:**

### **Financial assets**

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 17). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

### **Freehold and leasehold properties**

Properties are valued annually as at the year-end date by independent external valuers on a fair value basis and in accordance with the Royal Institute of Chartered Surveyors' (RICS) Valuation Standards. See Note 17 for more details.

### **Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

### **Derivatives**

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

### **Cash and cash equivalents**

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 and that are subject to minimal risk of changes in value.

### **Loans and receivables**

Financial assets classed as amortised cost are carried in the net asset statement at amortised cost, i.e. the outstanding principal receivable as at the year-end date plus accrued interest.

### **Financial liabilities**

A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried at amortised cost ie the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

### **Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of an actuarial report appended to the accounts.

### **Additional voluntary contributions**

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in Note 21.

### **Contingent assets and contingent liabilities**

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.



## DORSET COUNTY PENSION FUND ACCOUNTS

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes (see Note 23).

### NOTE 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

#### **Pension fund liability**

The net Fund liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19. Actuarial re-valuations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

#### **Directly held property**

The Fund's property portfolio includes a number of directly owned properties which are leased commercially to various tenants. The Fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by IAS 7 and the Code, therefore the properties are retained on the net asset statement at fair value.

#### **Impact of the COVID-19 pandemic**

The ongoing impact of the COVID-19 pandemic has created uncertainty on the valuation of the Fund's assets at the reporting date, particularly its illiquid assets, such as the property and infrastructure investments.

Property fund valuations (£36.4m) at the reporting date have been issued with a material uncertainty clause to reflect the market uncertainty as a result of COVID-19. Additionally, all four pooled property funds had suspended trading as at 31 March 2020. Each of these funds have been classed within fair value hierarchy level 3 as at 31 March 2020. In September 2020, the Fund managers of these funds confirmed they had released their material uncertainty.

In respect of the Fund's directly held property portfolio, our property valuers BNP Paribas have reported their valuation on the basis of a 'material valuation uncertainty' due to the COVID-19 pandemic and its impact in causing extensive disruption to businesses and economic activities on a global level in all sectors. This does not mean that the valuation cannot be relied upon, but it does mean that less certainty, and a higher degree of caution, should be attached to the valuation of the property than would normally be the case.

In order to give a clearer picture of the impact on the Fund's results or financial position of potential changes in significant estimates and assumptions, a sensitivity to assess the impact of a change of 10% in the value of directly held properties determined that the valuation could change by £26.5 million. This sensitivity is based on assumptions and conditions prevailing at the year-end and should be used with caution. The effects provided are not necessarily indicative of the actual effects that would be experienced because the Fund's actual exposures are constantly changing.

### NOTE 5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made.

The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

#### **Actuarial present value of promised retirement benefits (Note 20)**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on Fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.

#### **Private equity investments (Note 17)**

Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Quarterly valuation statements for private equity investments are produced a significant length of time after the quarter end, and consequently 'lagged' valuations are included in the accounts. This had led to particular uncertainty in valuations this year following the market falls experienced in March 2020.

#### **Freehold, leasehold property and pooled property funds (Note 17)**

Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data but where this is not possible management uses the best available data.

The independent valuation of the Fund's investment property assets as at 31 March 2020 include a 'material valuation uncertainty' clause due to the potential impacts of COVID-19 on property values.

## DORSET COUNTY PENSION FUND ACCOUNTS

### **NOTE 6. EVENTS AFTER THE REPORTING DATE**

There are events, both favourable and unfavourable, that can occur between the end of the reporting period and the date when the financial statements are authorised for issue. There are events that provide additional information about conditions that existed at the end of the reporting period (adjusting events), and events that occur after the reporting period (non-adjusting events).

#### **Brexit**

Whilst the United Kingdom has now officially left the European Union (EU), there is a transition period during which further work and negotiation is required on how the parties will transact business and interact after that. The terms of future trading agreements are still to be agreed, but it is expected that these will have short and long term implications for the Fund's assets and liabilities.

#### **COVID-19**

Since 31 December 2019, the spread of COVID-19 has severely impacted many economies around the world. In many countries, organisations are being forced to cease or limit operations for long or indefinite periods of time. Governments and central banks have responded with fiscal and monetary interventions to support economic conditions, and global financial markets have experienced significant volatility. The duration and impact of the COVID-19 pandemic remains unclear at this time, and it is not possible to reliably estimate the impact on the financial position or performance of the Fund.

These are deemed to be non-adjusting events as it is not possible to reliably estimate the consequences on the financial position and/or performance of the Fund. Accordingly the financial statements for the year ended 31 March 2020 have not been adjusted.

# DORSET COUNTY PENSION FUND ACCOUNTS

## NOTE 7. CONTRIBUTIONS RECEIVABLE

By category:

2018/19		2019/20
£'000	Employer contributions	£'000
68,282	Contributions re future service costs	71,672
22,325	Contributions re past service costs (deficit recovery)	26,648
101	Voluntary additional contributions	1,138
3,575	Augmentation cost of early retirements	9,095
-	Exit payments from employers	-
7	Exit credits to employers	-
<b>94,290</b>	<b>Total employer contributions</b>	<b>108,553</b>
<b>27,922</b>	<b>Member contributions</b>	<b>28,216</b>
<b>122,212</b>	<b>Total contributions receivable</b>	<b>136,769</b>

By type of employer:

2018/19		2019/20
£'000		£'000
35,391	Administering authority	45,023
83,016	Other scheduled bodies	87,271
3,805	Admitted bodies	4,475
<b>122,212</b>	<b>Total contributions receivable</b>	<b>136,769</b>

## NOTE 8. TRANSFERS IN FROM OTHER PENSION FUNDS

All transfers in from other pension funds were individual transfers, there were no group transfers to the Fund in 2019-20.

## NOTE 9. BENEFITS PAYABLE

By type of employer:

2018/19		2019/20
£'000		£'000
40,151	Administering authority	44,791
72,131	Other scheduled bodies	75,227
7,830	Admitted bodies	7,901
<b>120,112</b>	<b>Total benefits payable</b>	<b>127,919</b>

## NOTE 10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

Transfers to other pension funds in 2019-20 included a group transfer of £25M to fund the liabilities for all LGPS members of the Dorset & Wiltshire Fire and Rescue Authority that have now transferred to the Wiltshire Pension Fund. All other transfers out to other pension funds were individual transfers.

## NOTE 11. MANAGEMENT EXPENSES

The table below shows a breakdown of the management expenses incurred during the year.

2018/19		2019/20
£'000		£'000
1,745	Administrative expenses	1,538
609	Oversight and governance costs	502
11,991	Investment management expenses	11,969
<b>14,345</b>	<b>Total management expenses</b>	<b>14,009</b>

Investment management expenses consisted of:

2018/19		2019/20
£'000		£'000
10,002	Investment management fees	9,525
282	Performance related fees	429
123	Custody fees	144
385	Transaction costs	245
386	Transition costs	677
813	Other fees and costs	949
<b>11,991</b>	<b>Total investment management expenses</b>	<b>11,969</b>

## DORSET COUNTY PENSION FUND ACCOUNTS

Transaction costs associated with pooled investment vehicles are taken into account in calculating the bid/offer spread of these investments and are therefore embedded within the purchase and sales costs and not separately identifiable. All other transaction costs have been charged to the fund account.

### NOTE 12. INVESTMENT INCOME

Rents from properties are shown net of operating expenses of £1,019k in 2019-20 (£1,152k in 2018-19).

Other investment income includes income from lending UK and overseas equity stock held by the Fund. All benefits as a stockholder are retained except for the voting rights. The income from stock lending was £39k (£71k in 2018/19) and there was no stock on loan as at 31 March 2020.

The absence of fixed interest income is a result of all of the Fund's holdings in this category of investment being held in Pooled Investment Vehicles. These vehicles retain income within their structure and consequently are not separately identified in the financial statements but are reflected in the valuation of the units in that pooled investment.

### NOTE 13. LONG TERM INVESTMENTS

In response to the requirements of the investment regulations for LGPS funds to pool investment assets, Brunel Pension Partnership Ltd (Brunel) has been formed to oversee the investment assets for the Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire LGPS funds.

Each of the ten funds own an equal share of Brunel, with share capital invested by each fund at a cost of £840k. The value of each fund's shareholding based on Brunel's most recently audited accounts was £427k (£395k at 31 March 2019).

### NOTE 14. INVESTMENTS

The following table summarises details of the market valuation of the Fund's investments as at the reporting date.

31 March 2019			31 March 2020	
Market Value	Description	Market Value		
%	£'000	£'000	%	
<b>0.00%</b>	<b>395</b>	<b>Long Term Investments</b>	<b>427</b>	<b>0.00%</b>
	395	Brunel Pensions Partnership	427	
<b>1.00%</b>	<b>29,469</b>	<b>UK Equities - Quoted</b>	<b>11,251</b>	<b>0.40%</b>
	14,932	Investec	-	
	14,537	Wellington	11,251	
<b>14.00%</b>	<b>421,913</b>	<b>Overseas Equities - Quoted</b>	<b>160,536</b>	<b>6.00%</b>
	200,402	Investec	39	
	221,511	Wellington	160,497	
<b>2.70%</b>	<b>80,275</b>	<b>Private Equity</b>	<b>98,085</b>	<b>3.60%</b>
	46,925	HarbourVest	55,016	
	32,091	Aberdeen Standard	34,001	
	1,259	Capital Dynamics Global Secondary Fund V	4,509	
	-	Neuberger Berman Private Equity Impact Fund	2,851	
	-	Neuberger Berman SCIOP IV	420	
	-	Ardian LBO Fund	1,288	
<b>9.30%</b>	<b>281,480</b>	<b>Property (directly owned)</b>	<b>264,665</b>	<b>9.80%</b>
	281,480	CBRE Global Investors	264,665	
		<b>Pooled Investment Vehicles:</b>		
<b>7.10%</b>	<b>214,353</b>	<b>Bonds</b>	<b>220,608</b>	<b>8.20%</b>
	214,353	RLAM Corporate Bond Fund	220,608	
<b>20.20%</b>	<b>613,642</b>	<b>UK Equities - Quoted</b>	<b>477,121</b>	<b>17.70%</b>
	52,033	Schroder UK Smaller Companies Equity Fund	41,864	
	374,013	LGIM UK Equity Index (passive)	304,674	
	187,596	Brunel UK Equities	130,583	
<b>12.50%</b>	<b>379,228</b>	<b>Global Equities - Quoted</b>	<b>606,013</b>	<b>22.50%</b>
	98,177	JP Morgan Emerging Markets Diversified Equity	-	
	281,051	LGIM Smart Beta Fund (passive)	241,856	
	-	LGIM World Developed Equities (passive)	168,225	
	-	Brunel Global High Alpha Equities	112,158	
	-	Brunel Emerging Markets Equities	83,774	
<b>4.60%</b>	<b>139,717</b>	<b>Multi Asset Credit (MAC)</b>	<b>120,399</b>	<b>4.50%</b>
	139,717	CQS Credit Multi Asset Fund	120,399	

## DORSET COUNTY PENSION FUND ACCOUNTS

31 March 2019			31 March 2020	
Market Value		Description	Market Value	
%	£'000		£'000	%
<b>1.40%</b>	<b>41,792</b>	<b>Property</b>	<b>36,350</b>	<b>1.30%</b>
	8,255	Lend Lease Retail Partnership	6,655	
	13,415	Standard Life UK Shopping Centre Trust	10,333	
	17,183	CBRE UK Long Income Property Fund	16,265	
	2,939	Aberdeen Standard Long Lease Property Fund	3,097	
<b>0.00%</b>	<b>-</b>	<b>Secured Income Funds</b>	<b>8,966</b>	<b>0.30%</b>
	-	Greencoats Secured Income Fund	8,966	
<b>5.80%</b>	<b>176,110</b>	<b>Diversified Growth Funds</b>	<b>152,783</b>	<b>5.70%</b>
	176,110	Barings Dynamic Asset Allocation Fund	152,783	
<b>4.60%</b>	<b>138,742</b>	<b>Infrastructure</b>	<b>186,305</b>	<b>6.90%</b>
	51,897	Hermes GPE Infrastructure Funds	81,835	
	86,845	IFM Global Infrastructure Fund	104,470	
<b>13.30%</b>	<b>401,129</b>	<b>Liability Driven Investment</b>	<b>306,823</b>	<b>11.50%</b>
	401,129	Insight LDI Fund	306,823	
<b>69.50%</b>	<b>2,104,713</b>	<b>Total - Pooled Investments</b>	<b>2,115,368</b>	<b>78.60%</b>
<b>3.40%</b>	<b>103,022</b>	<b>Cash &amp; Cash Equivalents</b>	<b>54,925</b>	<b>2.00%</b>
<b>0.00%</b>	<b>733</b>	<b>Derivatives</b>	<b>(9,757)</b>	<b>-0.40%</b>
<b>0.10%</b>	<b>2,095</b>	<b>Investment Receivables/(Payables)</b>	<b>1,037</b>	<b>0.00%</b>
<b>100.00%</b>	<b>3,024,095</b>	<b>Total Investments</b>	<b>2,696,537</b>	<b>100.00%</b>

Any single investments exceeding 5% of total net assets are in pooled investment vehicles made up of underlying investments each of which represent substantially less than 5% of total net assets.

Investment assets under the management of Brunel Pension Partnership are valued at £1,062M at 31 March 2020 (£847M at 31 March 2019).

### NOTE 15. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

The following table summarises details of purchases, sales and changes in the market valuation of investments in the fund during the financial year.

	Value 1 April 2019 £'000	Purch's & Derivative payments £'000	Sales & Derivative receipts £'000	Change in market value £'000	Value 31 March 2020 £'000
Equities - Unquoted	395	-	-	32	427
Equities - Quoted	451,382	229,848	(527,731)	18,288	171,787
Pooled Investment Vehicles	2,104,713	961,051	(622,210)	(328,186)	2,115,368
Private Equity	80,275	19,309	(21,249)	19,750	98,085
Property	281,480	2,716	(8,823)	(10,708)	264,665
<b>Total Securities</b>	<b>2,918,245</b>	<b>1,212,924</b>	<b>(1,180,013)</b>	<b>(300,824)</b>	<b>2,650,332</b>
Forward Foreign Exchange	733	-	-	(10,490)	(9,757)
<b>Total Securities and Derivatives</b>	<b>2,918,978</b>	<b>1,212,924</b>	<b>(1,180,013)</b>	<b>(311,314)</b>	<b>2,640,575</b>
<b>Other Investment Balances:</b>					
Cash & cash equivalents	103,022	-	-	(792)	54,925
Other investment assets	3,781	-	-	-	3,353
Other investment liabilities	(1,686)	-	-	-	(2,316)
<b>Net Investment Assets</b>	<b>3,024,095</b>	<b>1,212,924</b>	<b>(1,180,013)</b>	<b>(312,106)</b>	<b>2,696,537</b>

### NOTE 16. ANALYSIS OF DERIVATIVES

The Fund's holdings in derivatives are to hedge liabilities or exposures to reduce risk. To maintain appropriate diversification a significant proportion of the Fund's equity portfolio is in overseas stock. To reduce the volatility associated with fluctuating currency rates, the Fund hedges 50% of the US Dollar, Euro and Japanese Yen exposure within the portfolios managed by the Fund's global equities managers. As at 31 March 2020, the Fund held the following open forward currency contracts.

## DORSET COUNTY PENSION FUND ACCOUNTS

Settlement	Currency Bought	Local Value 000s	Currency Sold	Local Value 000s	Asset Value £'000	Liability Value £'000
1-6 months	GBP	163,770	USD	215,085	-	(9,458)
	GBP	28,150	EUR	32,222	-	(409)
	GBP	19,868	JPY	2,661,433	-	(52)
	USD	86,900	GBP	69,829	160	0
	JPY	947,427	GBP	7,093	-	(1)
	EUR	10,921	GBP	9,676	4	0
<b>Open Forward Currency Contracts at 31 March 2020</b>					<b>164</b>	<b>(9,920)</b>
<b>Net Forward Currency Contracts at 31 March 2020</b>						<b>(9,757)</b>

### NOTE 17. FAIR VALUE OF INVESTMENT ASSETS

All investment assets have been valued using fair value techniques which represent the highest and best price available at the reporting date. Asset valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values, as follows:

- Level 1:** where fair values are derived from unadjusted quoted prices in active markets for identical assets;
- Level 2:** where market prices are not available, for example, where an asset is traded in a market that is not considered to be active, but where valuation techniques are based significantly on observable market data;
- Level 3:** where at least one input that could have a significant effect on the valuation of the asset is not based on observable market data.

The following tables summarise the Fund's investment assets by class at 31 March 2020 and at 31 March 2019 measured at fair value according to the above fair value hierarchy.

31 March 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
UK Equities - Quoted	11,251	-	-	11,251
Overseas equities - Quoted	160,536	-	-	160,536
Pooled Investment Vehicles	-	1,883,747	231,621	2,115,368
Private Equity	-	-	98,085	98,085
Property	-	-	264,665	264,665
Cash & Cash Equivalents	46,027	8,898	-	54,925
Derivatives	-	(9,757)	-	(9,757)
Other investment assets	3,353	-	-	3,353
<b>Total</b>	<b>221,167</b>	<b>1,882,888</b>	<b>594,371</b>	<b>2,698,426</b>
31 March 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
UK Equities - Quoted	29,469	-	-	29,469
Overseas equities - Quoted	421,913	-	-	421,913
Pooled Investment Vehicles	-	1,927,120	177,593	2,104,713
Private Equity	-	-	80,275	80,275
Property	-	-	281,480	281,480
Cash & Cash Equivalents	90,674	12,348	-	103,022
Derivatives	-	733	-	733
Other investment assets	3,781	-	-	3,781
<b>Total</b>	<b>545,837</b>	<b>1,940,201</b>	<b>539,348</b>	<b>3,025,386</b>

During the year ended 31 March 2020 there were no transfers between levels 1, 2 or 3 of the fair value hierarchy .

# DORSET COUNTY PENSION FUND ACCOUNTS

The basis of the valuation of each class of investment asset is summarised below.

Description of Asset	Basis of Valuation	Key Inputs	Key Sensitivities
<b>Level 1:</b>			
Market quoted investments	Published bid market price ruling on the final day of the accounting period.	Not required.	Not required.
Exchange traded pooled investments	Published exchange prices at the reporting date.	Not required.	Not required.
<b>Level 2:</b>			
Pooled investments - unit trusts etc.	Closing bid price where bid and offer prices are published, or closing single price where single price only is published.	Net Asset Value (NAV) based pricing set on a forward pricing basis.	Not required.
<b>Level 3:</b>			
Freehold and leasehold properties	Valued at fair value at the reporting date by Peter Sudell FRICS of BNP Paribas Real Estate and Andrew Wells FRICS (the Derwent portfolio) of Allsop LLP, both acting as independent valuers and in accordance with current RICS Valuation Standards.	Existing lease terms and rentals, independent market research, nature of tenancies, covenant strength for existing tenants, assumed vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.
Unquoted equity	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012).	Earnings (EBITDA) and revenue multiples, discount for lack of marketability, control premium.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's reporting date, changes to expected cashflows, differences between audited and unaudited accounts.
Property funds	Underlying assets valued at fair value at the reporting date by each fund's valuers in accordance with current RICS Valuation Standards, taking account of other financial assets and liabilities within the fund structure.	Existing lease terms and rentals, independent market research, nature of tenancies, covenant strength for existing tenants, assumed vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.

## Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing values of investments held at 31 March 2020.

	Valuation range % (+/-)	Value at 31 March 2020 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled Investment Vehicles	15.00%	231,621	266,364	196,878
Private Equity	15.00%	98,085	112,798	83,372
Property	15.00%	264,665	304,365	224,965
<b>Total</b>		<b>594,371</b>	<b>683,527</b>	<b>505,215</b>



# DORSET COUNTY PENSION FUND ACCOUNTS

## NOTE 18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunities for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, interest rate risk and currency risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet its forecast cash flows.

Responsibility for the Fund's risk management strategy rests with the Committee. The Committee receives regular reports from each investment manager and from its Independent Adviser on the nature of the investments made and their associated risks.

### (a) Market Risk

Market risk is the risk of loss resulting from general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities, and by gaining exposure to different markets through different investment managers. Exposure to specific markets and asset classes is limited by applying strategic targets to asset allocation, which are agreed and monitored by the Committee.

### (a) (i) Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The Fund's investment managers mitigate this risk through diversification in line with their own investment strategies.

The following table demonstrates the change in the net assets available to pay benefits if the market price for each class of investment had increased or decreased by 15%, excluding temporary investments and cash deposits.

As at 31 March 2020	Value £'000	Change %	Increase £'000	Decrease £'000
UK equities - quoted	11,251	15.00%	1,688	(1,688)
Overseas equities - quoted	160,536	15.00%	24,080	(24,080)
Pooled Investment Vehicles	2,115,368	15.00%	317,305	(317,305)
Private Equity	98,085	15.00%	14,713	(14,713)
Property	264,665	15.00%	39,700	(39,700)
Cash & cash equivalents	54,925	0.00%	-	-
Derivatives	(9,757)	15.00%	(1,464)	1,464
Other investment assets	3,353	0.00%	-	-
<b>Total</b>	<b>2,698,426</b>	<b>14.68%</b>	<b>396,022</b>	<b>(396,022)</b>

As at 31 March 2019	Value £'000	Change %	Increase £'000	Decrease £'000
UK equities - Quoted	29,469	15.00%	4,420	(4,420)
Overseas equities - Quoted	421,913	15.00%	63,287	(63,287)
Pooled Investment Vehicles	2,104,713	15.00%	315,707	(315,707)
Private Equity	80,275	15.00%	12,041	(12,041)
Property	281,480	15.00%	42,222	(42,222)
Cash & cash equivalents	103,022	0.00%	-	-
Derivatives	733	15.00%	110	(110)
Other investment assets	3,781	0.00%	-	-
<b>Total</b>	<b>3,025,386</b>	<b>14.47%</b>	<b>437,787</b>	<b>(437,787)</b>

### (a) (ii) Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments on behalf of scheme members. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's exposure to interest rate movements on those investments at 31 March 2020 and 2019 are provided below, based on underlying financial assets at fair value.

Interest rates vary and can impact the value of the net assets available to pay benefits to scheme members. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2019.

An increase or decrease of 1% (100 basis points) in interest rates at the reporting date would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown below.

## DORSET COUNTY PENSION FUND ACCOUNTS

As at 31 March 2020	Market	Change in net assets	
	Value	+1%	-1%
	£'000	£'000	£'000
Cash & cash equivalents	54,925	549	(549)
Assets held in pooled investment vehicles:			
Bonds	220,608	2,206	(2,206)
Multi Asset Credit (MAC)	120,399	1,204	(1,204)
Liability Driven Investment (LDI)	306,823	3,068	(3,068)
<b>Total</b>	<b>702,755</b>	<b>7,028</b>	<b>(7,028)</b>

As at 31 March 2019	Market	Change in net assets	
	Value	+1%	-1%
	£'000	£'000	£'000
Cash & cash equivalents	103,022	1,030	(1,030)
Assets held in pooled investment vehicles:			
Bonds	214,353	2,144	(2,144)
Multi Asset Credit (MAC)	139,717	1,397	(1,397)
Liability Driven Investment (LDI)	401,129	4,011	(4,011)
<b>Total</b>	<b>858,221</b>	<b>8,582</b>	<b>(8,582)</b>

### (a) (iii) Currency Risk

Currency risk represents the risk that future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets that are not denominated in UK sterling.

To mitigate the effect of movements in foreign exchange rates against its overseas equities investments, the Fund has in place a 50% passive currency hedge against the three major currencies, the US Dollar, the Euro and the Japanese Yen, and 50% of its holdings in the LGIM Smart Beta fund are in hedged units.

Following analysis of historical data, the Fund considers the likely volatility associated with foreign exchange rates to be +/- 10% in total. The following summarises the Fund's exposure to currency exchange rate movements on its investments net of these hedges.

As at 31 March 2020	Total	Unhedged	Potential
	Exposure	Exposure	Movement
	£'000	£'000	£'000
Overseas equities - quoted	160,536	80,268	8,027
Pooled Investment Vehicles	983,665	722,546	72,255
Private Equity	98,085	98,085	9,809
<b>Total</b>	<b>1,242,286</b>	<b>900,899</b>	<b>90,090</b>

As at 31 March 2019	Total	Unhedged	Potential
	£'000	£'000	£'000
	Overseas equities - quoted	421,913	210,957
Pooled Investment Vehicles	781,900	641,375	64,137
Private Equity	80,275	80,275	8,028
<b>Total</b>	<b>1,284,088</b>	<b>932,606</b>	<b>93,261</b>

### (b) Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Pension Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur though the failure to settle transactions in a timely manner. The Fund's exposure to concentrations of credit risk to individual counterparties comprises of temporary investments and bonds held in pooled investment vehicles. The contractual credit risk is represented by the net payment or receipt that remains outstanding.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Fund also sets limits as to the maximum percentage of deposits placed with any one individual institution. In addition, to enable diversification, the Fund is able to invest in Money Market Funds, all of which have a AAA rating from the leading credit rating agencies.

## DORSET COUNTY PENSION FUND ACCOUNTS

The Fund's exposure to credit risk at 31 March 2020 is the carrying amount of the financial assets.

	31 March 2020	31 March 2019
<b>Investment</b>	<b>£'000</b>	<b>£'000</b>
Bank Account Deposits	35,225	44,572
Money Market Funds	19,700	58,450
Assets held in pooled investment vehicles:		
Bonds	220,608	214,353
Multi Asset Credit (MAC)	120,399	139,717
Liability Driven Investment (LDI)	306,823	401,129
<b>Total</b>	<b><u>702,755</u></b>	<b><u>858,221</u></b>

### (c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Such risks are mitigated by maintaining a detailed cashflow model and taking appropriate steps to ensure that there is adequate cash available to meet liabilities as they fall due.

The Fund has immediate access to its cash holdings and defines liquid assets as assets that can be converted to cash within three months notice, subject to normal market conditions. As at 31 March 2020, liquid assets were £2,173M representing 80% of total net assets (£2,486m at 31 March 2019 representing 82% of total net assets at that date).

### NOTE 19. FUNDING ARRANGEMENTS

In accordance with the LGPS Regulations, the Fund's actuary, Barnett Waddingham, undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The most recent such valuation took place as at 31 March 2019, setting employer contribution rates for the period 1 April 2020 to 31 March 2023.

Contribution rates for the year ending 31 March 2020 were set at the valuation calculated as at 31 March 2016. The common contribution rates set at the 2016 valuation for the three year period ending 31 March 2020 are as follows.

	2017/18	2018/19	2019/20
Future service contributions	15.60%	15.60%	15.60%
Deficit recovery contributions	4.40%	5.10%	5.80%
<b>Total employer contributions</b>	<b>20.00%</b>	<b>20.70%</b>	<b>21.40%</b>

The contribution rates paid by each employer, in addition to those paid by members of the scheme, are set to be sufficient to meet the liabilities that build up each year within the Fund in respect of the benefits earned by each employer's active members of the Fund during the year plus an amount to reflect each participating employer's share of the value of the Fund's assets compared with the liabilities that have already accrued at the valuation date. Each employer pays an individual rate of contributions to reflect its own particular circumstances and funding position within the Fund. The contribution rates were calculated using the projected unit method taking account of market conditions at the valuation date.

At the 2019 valuation, the Fund was assessed as 92% funded (83% at the 2016 valuation) with a deficit recovery period of no more than 19 years (22 years at the 2016 valuation). The key assumptions applied by the actuary for the 2019 and 2016 valuations are summarised below. To be consistent with the market value of assets, the liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date.

	Valuation 2019	Valuation 2016
Annual rate of return on investments	5.00%	5.40%
Annual rate of increases in pay (long term)	3.60%	3.90%
Annual rate of inflation (CPI)	2.60%	2.40%

### NOTE 20. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary, Barnett Waddingham, also undertakes a valuation of the Fund's liabilities, on an IAS 19 basis, using the same base data as the funding valuation rolled forward to the current financial year, taking account of membership numbers and updating assumptions to the current year. This annual valuation is not carried out on the same basis as that used for setting employer contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

This valuation as at 31 March 2020 is set out in Appendix D Pension Fund - IAS 26 Disclosures to these financial statements 2019/20.

## DORSET COUNTY PENSION FUND ACCOUNTS

### **NOTE 21. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)**

The Council administers an in-house AVC Scheme with two designated providers, Prudential and Utmost Life and Pensions Limited (formerly Equitable Life). The amounts contributed to AVC plans by employees who are members of the pension scheme do not form any part of, and are not included in, the Fund accounts.

Each employer in the Fund is responsible for collecting from their own employees and paying to the AVC provider those contributions due on AVC plans. Dorset Council, in its capacity as a scheme employer, deducted and paid to the AVC providers a total of £418k in 2019/20 (£352k in 2018/19).

### **NOTE 22. RELATED PARTY TRANSACTIONS**

Related party issues arise primarily from the fact that the Council is the administering authority for the Fund. The Council also has various operational, contractual and financial dealings with a number of scheduled and admitted bodies of the Fund, however, these activities do not relate to the Council's role as administering authority for the Fund.

The Council remits monthly contributions to the Fund in arrears, and March 2020 contributions of £2.4M were accrued as at 31 March 2020. Management and administration costs of £1.7M were incurred by the Council and recharged to the Fund in 2019/20. In addition at any given time there may be amounts which have been paid or received by both the Council or the Fund where indebtedness arises between the two. These can arise due to operational necessity or where single transactions have elements relating to both the Council and the Fund and are settled on a regular basis.

Senior officers of the Council are members of the Fund as employee contributors. As at 31 March 2020, one member of the Committee was a contributing member of the Fund and one member of the Committee was a deferred member of the Fund. The key management personnel of the Fund are the members of the Committee, the Council's Chief Financial Officer (who is the Fund Administrator) and the Deputy Chief Financial Officer. The £1.7M recharge from the Council includes a charge of £19,000 for the Deputy Chief Financial Officer's time spent working for the Fund.

### **NOTE 23. CONTINGENT ASSETS, LIABILITIES AND CONTRACTUAL COMMITMENTS**

#### **Recovery of withholding tax**

The Fund is continuing the process required to recover withholding tax from various EU investments following rulings requiring equal treatment for all EU investors. These claims will be retrospective and will cover a varying number of years depending on the domicile. Neither the amount nor the expected time of settlement are known so consequently the financial statements as at 31 March 2020 do not reflect any potential recovery of tax.

#### **Impact of the McCloud and Sargeant judgements**

The Local Government Pension Scheme (LGPS) introduced a new Career Average Revalued Earnings (CARE) benefit structure with effect from 1 April 2014. For members who were 10 years or less from Normal Retirement Age on 1 April 2012, an 'underpin' was provided based on the existing final salary scheme to provide transitional protection to those members.

In December 2018, the Court of Appeal found that transitional protections in the pension schemes for firefighters ("McCloud") and the judiciary ("Sargeant") resulted in unlawful age discrimination. The implications of the ruling are expected to apply to all public sector schemes including the LGPS. The Government sought permission to appeal this decision to the Supreme Court but that permission was denied on 27 June 2019. There remains considerable uncertainty about the eventual remedy that may be put in place for the LGPS.

The Government Actuary's Department's (GAD) estimated the potential impact to be between 0.1% and 3.2% of total LGPS active member liabilities, depending on a number of assumptions. Whilst this looks at the national picture, the impact on any given fund and its scheme employers could be significantly different. The Fund's actuary have calculated the estimated impact on liabilities for the main employers in the Fund based on the assumptions used by GAD. These results range from 0.4% to 0.8% of total liabilities for each employer.

# Dorset County Pension Fund

Pension accounting disclosure as at 31 March 2020

Prepared in accordance with IAS26

## Contents

Introduction.....	3
Valuation data .....	4
Data sources .....	4
Fund membership statistics.....	4
Early retirements .....	4
Assets .....	5
Unfunded benefits .....	5
Actuarial methods and assumptions .....	6
Valuation approach .....	6
Experience items allowed for since the previous accounting date .....	6
Guaranteed Minimum Pension (GMP) Equalisation.....	6
Impact of McCloud/Sargeant judgement .....	7
Demographic/Statistical assumptions.....	8
Financial assumptions.....	9
Curtailments .....	9
Results and disclosures.....	11
Appendix 1   Statement of financial position as at 31 March 2020.....	12
Appendix 2   Asset and benefit obligation reconciliation for the year to 31 March 2020 .....	13
Appendix 3   Sensitivity analysis.....	15

## Introduction

We have been instructed by Dorset Council, the administering authority to the Dorset County Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to members of the Fund as at 31 March 2020. We have taken account of current LGPS Regulations, as amended, as at the date of this report.

This report is addressed to the administering authority and its advisers; in particular, this report is likely to be of relevance to the Fund's auditor.

These figures are prepared in accordance with our understanding of IAS26. In calculating the disclosed numbers we have adopted methods and assumptions that are consistent with IAS19.

This advice complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100).

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings.

An allowance has been made for the recent Court of Appeal judgement in relation to the McCloud & Sargeant cases which relate to age discrimination within the Judicial & Fire Pension schemes respectively. On 27 June 2019 the Supreme Court denied the Government's request for an appeal, and on 15 July 2019 the Government released a statement to confirm that it expects to have to amend all public service schemes, including the LGPS.

We understand no similar allowance was made in the Fund's 2018/2019 annual accounts for the estimated impact.

The estimated impact on the total liabilities at 31 March 2020 has been allowed for as a past service cost and has resulted in a slight increase in the defined benefit obligation as at 31 March 2020. Please see the impact of the McCloud/Sargeant judgement section below and in the 31 March 2020 employer briefing note post-accounting date for further information.

It should be noted that this adjustment is an estimate of the potential impact on the Fund's defined benefit obligation based on analysis carried out by the Government Actuary's Department (GAD) and the Fund's liability profile. It is not yet clear how this judgement may affect LGPS members' past or future service benefits.

## Valuation data

### Data sources

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from Dorset Council:

- The results of the valuation as at 31 March 2019 which was carried out for funding purposes and the results of the 31 March 2019 IAS26 report which was prepared for accounting purposes (Version 2 dated 8 May 2019);
- Estimated whole Fund income and expenditure items for the period to 31 March 2020;
- Estimated Fund returns based on Fund asset statements provided (or estimated where necessary) as at 31 March 2019 and 31 March 2020; and
- Details of any new early retirements for the period to 31 March 2020 that have been paid out on an unreduced basis, which are not anticipated in the normal service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data. The data has been checked for reasonableness and we are happy that the data is sufficient for the purposes of this advice.

### Fund membership statistics

The table below summarises the membership data, as at 31 March 2019.

Member data summary	Number	Salaries/Pensions	Average age
		£000s	
Actives	24,516	427,351	46
Deferred pensioners	32,946	40,142	45
Pensioners	22,466	104,902	71

### Early retirements

We requested data on any early retirements in respect of the Fund from the administering authority for the year ending 31 March 2020.

We have been notified of 154 new early retirements during the year which were not allowed for at the previous accounting date. The total annual pension that came into payment was £1,953,100.



## Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2020 is estimated to be -10%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for Dorset County Pension Fund as at 31 March 2020 is as follows:

Asset breakdown	31 Mar 2020		31 Mar 2019	
	£000s	%	£000s	%
Equities	1,343,676	50%	1,525,656	50%
Liability Driven Investment	306,823	11%	401,129	13%
Cash	81,992	3%	111,507	4%
Other Bonds	220,608	8%	214,353	7%
Diversified Growth Fund	152,783	6%	176,110	6%
Property	301,015	11%	323,272	11%
Infrastructure	186,305	7%	138,742	5%
Multi Asset Credit	120,399	4%	139,717	5%
<b>Total</b>	<b>2,713,601</b>	<b>100%</b>	<b>3,030,486</b>	<b>100%</b>

We have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2020 may be different from that shown due to estimation techniques.

## Unfunded benefits

We have excluded any unfunded benefits as these are liabilities of employers rather than the Fund.

# Actuarial methods and assumptions

## Valuation approach

To assess the value of the Fund's liabilities at 31 March 2020, we have rolled forward the value of Fund's liabilities calculated for the funding valuation as at 31 March 2019, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2020 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2020 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

This has been updated since the last accounting date when the results were based on a continuation of the roll forward from the 31 March 2016 funding valuation.

## Experience items allowed for since the previous accounting date

Results are based on a roll forward of a full valuation of funded membership data at 31 March 2019. As a result of allowing for actual experience, which may be different from that assumed previously, an experience item may be observed in the reconciliation of liabilities to 31 March 2020. The effect of allowing for the actual experience is shown in Appendix 2.

## Guaranteed Minimum Pension (GMP) Equalisation

As a result of the High Court's recent Lloyds ruling on the equalisation of GMPs between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of pension liabilities. It is our understanding that HM Treasury have confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes". More information on the current method of equalisation of public service pension schemes can be found [here](#).

On 22 January 2018, the Government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. HM Treasury published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found [here](#).

Our valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that the Fund will be required to pay the entire inflationary increase. Therefore we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome.

## Impact of McCloud/Sargeant judgement

The Scheme Advisory Board, with consent of the Ministry of Housing, Communities and Local Government (MHCLG), commissioned GAD to report on the possible impact of the McCloud/Sargeant judgement on LGPS liabilities, and in particular, those liabilities to be included in local authorities' accounts as at 31 March 2019. This followed an April 2019 CIPFA briefing note which said that local authorities should consider the materiality of the impact. This analysis was to be carried out on a "worst-case" basis, (i.e. what potential remedy would incur the highest increase in costs/liabilities). The results of this analysis are set out in GAD's report dated 10 June 2019.

We have used this analysis provided by GAD to estimate the possible impact of the McCloud/Sargeant judgement for the Fund. The key assumption is the assumed rate of future salary increases which is set out in the Financial assumptions section of this disclosure. The average age of the Fund's membership can be found in the table on page 4.

We have included a summary of our impact assessment below.

GAD estimated the impact on past service liabilities to be 3.2% of active liabilities based on a salary increase assumption of CPI plus 1.5% p.a.

➔ Adjusting this to reflect the Fund's own salary increase assumption (which is that salaries will increase at 1.0% p.a. above CPI), gives an estimated impact of 2.1% of active liabilities.

➔ Adjusting this to allow for the additional accrual of liabilities since 31 March 2019 and an approximate adjustment to strip out members who joined the Scheme who are unlikely to be affected by the outcome of the judgement gives an estimated impact of 2.0% of active liabilities.

➔ **This is equivalent to 0.8% of the Fund's total liabilities at the accounting date** (i.e. active liabilities are estimated to be 37% of the Fund's total liabilities at the accounting date).

## Demographic/Statistical assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2019. The post retirement mortality tables adopted are the S3PA tables with a multiplier of 90% for males and 100% for females. These base tables are then projected using the CMI\_2018 Model, allowing for a long-term rate of improvement of 1.25% p.a, smoothing parameter of 7.5 and an initial addition to improvements of 0.5% p.a.

This has been updated since the last accounting date when the assumption adopted was based on those adopted for the Fund's 31 March 2016 valuation, updated to use the CMI\_2018 Model. The post retirement mortality tables adopted were the S2PA tables with a multiplier of 85%. These base tables were then projected using the CMI\_2018 Model, allowing for a long-term rate of improvement of 1.5% p.a, smoothing parameter of 7.0 and no initial addition to improvements.

The impact of updating the demographic assumptions is set out in the *Change in demographic assumptions* figure in Table 1 of Appendix 2.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)	31 Mar 2020	31 Mar 2019
Retiring today		
Males	23.3	22.9
Females	24.7	24.8
Retiring in 20 years		
Males	24.7	24.6
Females	26.2	26.6

We have also assumed that:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

## Financial assumptions

The financial assumptions used to calculate the results in the Appendices are as follows:

Assumptions as at	31 Mar 2020	31 Mar 2019	31 Mar 2018
	% p.a.	% p.a.	% p.a.
Discount rate	2.35%	2.40%	2.55%
Pension increases	1.90%	2.40%	2.30%
Salary increases	2.90%	3.90%	3.80%

These assumptions are set with reference to market conditions at 31 March 2020.

Our estimate of the Fund's past service liability duration is 21 years.

An estimate of the Fund's future cashflows is made using notional cashflows based on the estimated duration above. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). This is consistent with the approach used at the previous accounting date.

Similar to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. This is consistent with the approach used at the previous accounting date.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.80% p.a. below RPI i.e. 1.90% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods, recent independent forecasts and the duration of the Fund's liabilities. The difference between RPI and CPI is less than assumed at the previous accounting date. This reflects the movement in market implied RPI inflation that occurred following the UK Statistics Authority's proposal to change how RPI is calculated and subsequent announcements from the Chancellor on the issue.

Salaries are assumed to increase at 1.0% p.a. above CPI. This differs from the salary increase assumption at the previous accounting date and has been updated in line with the most recent funding valuation. At the last accounting date, salaries were assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale, allowing for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI.

## Curtailements

We have calculated the cost of curtailments arising as a result of the payment of unreduced pensions on early retirement. The cost assessed is only in relation to those that affect the pension liabilities in the Fund.

We calculate the cost of curtailments at the point of exit, with interest applied to the accounting date accounted for separately.

Over the year, we understand that 154 former employees became entitled to unreduced early retirement benefits. The capitalised cost of the additional benefits on IAS19 compliant assumptions is calculated at £11,552,000. This figure has been included within the service cost in the statement of profit and loss.

## Results and disclosures

We estimate that the net liability as at 31 March 2020 is a liability of £2,072,942,000.

The results of our calculations for the year ended 31 March 2020 are set out in the appendices below:

- Appendix 1 sets out the Statement of financial position as at 31 March 2020;
- Appendix 2 details a reconciliation of assets and liabilities during the year; and
- Appendix 3 shows a sensitivity analysis on the major assumptions.

The figures presented in this report are prepared only for the purposes of IAS19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

We would be pleased to answer any questions arising from this report.



**Louise Lau FFA**  
**Associate**

## Appendix 1 Statement of financial position as at 31 March 2020

Net pension asset as at	31 Mar 2020	31 Mar 2019	31 Mar 2018
	£000s	£000s	£000s
Present value of the defined benefit obligation	4,786,543	5,058,643	4,902,826
Fair value of Fund assets (bid value)	2,713,601	3,030,486	2,867,378
<b>Net liability in balance sheet</b>	<b>2,072,942</b>	<b>2,028,157</b>	<b>2,035,448</b>

\*Present value of funded obligation consists of £4,697,294,000 in respect of vested obligation and £89,249,000 in respect of non-vested obligation.



## Appendix 2 Asset and benefit obligation reconciliation for the year to 31 March 2020

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to	Year to
	31 Mar 2020	31 Mar 2019
	£000s	£000s
<b>Opening defined benefit obligation</b>	<b>5,058,643</b>	<b>4,902,826</b>
Current service cost	168,392	166,982
Interest cost	120,097	123,922
Change in financial assumptions	(508,903)	244,869
Change in demographic assumptions	(92,309)	(292,618)
Experience loss/(gain) on defined benefit obligation	116,048	-
Liabilities assumed / (extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(151,558)	(119,874)
Past service costs, including curtailments	48,074	4,614
Contributions by Scheme participants and other employers	28,059	27,922
Unfunded pension payments	-	-
<b>Closing defined benefit obligation</b>	<b>4,786,543</b>	<b>5,058,643</b>

We have allowed for the estimated impact of the recent McCloud judgement as a past service cost. We have estimated the impact on the total liabilities as at 31 March 2020 to be £36,522,000 (or 0.8% as a percent of total liabilities).

Reconciliation of opening & closing balances of the fair value of Fund assets	Year to	Year to
	31 Mar 2020	31 Mar 2019
	£000s	£000s
<b>Opening fair value of Fund assets</b>	<b>3,030,486</b>	<b>2,867,378</b>
Interest on assets	72,464	73,148
Return on assets less interest	(365,922)	89,976
Other actuarial gains/(losses)	1,387	-
Administration expenses	(2,354)	(2,354)
Contributions by employer including unfunded	101,039	94,290
Contributions by Scheme participants and other employers	28,059	27,922
Estimated benefits paid plus unfunded net of transfers in	(151,558)	(119,874)
Settlement prices received / (paid)	-	-
<b>Closing Fair value of Fund assets</b>	<b>2,713,601</b>	<b>3,030,486</b>

The total return on the Fund's assets for the year to 31 March 2020 is (£293,458,000).

## Appendix 3 Sensitivity analysis

Sensitivity analysis	£000s	£000s
Present value of total obligation	4,786,543	
<b>Sensitivity to</b>	<b>+0.1%</b>	<b>-0.1%</b>
Discount rate	4,689,545	4,885,645
Long term salary increase	4,795,892	4,777,273
Pension increases and deferred revaluation	4,876,641	4,698,296
<b>Sensitivity to</b>	<b>+1 Year</b>	<b>- 1 Year</b>
Life expectancy assumptions	4,975,652	4,605,076

<b>ACADEMY</b>	An academy is a school that is directly funded by central government (specifically, the Department for Education) and which is independent of control by a Local Authority.
<b>ACCOUNTING DATE</b>	The date to which an organisation makes up its Financial Statements. Like all Local Authorities, DC's accounting date is 31 March.
<b>ACCOUNTING PERIOD</b>	The period of time covered by the accounts, which for this Authority means a period of twelve months commencing on 1 April through to the following 31 March.
<b>ACCOUNTING POLICIES</b>	The principles, conventions, rules and practices that specify how the effects of transactions and other events are recognised, measured and presented in the financial statements.
<b>ACCRUAL</b>	Sums included in the final accounts to cover income and expenditure attributable to the accounting period but for which payment has not been made or received by 31 March.
<b>ACCUMULATED ABSENCES ACCOUNT</b>	This Account is an Unusable Reserve which absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward. It is permitted to have a negative balance.
<b>ACTUARIAL GAINS AND LOSSES</b>	For a defined benefit pension scheme, the changes in actuarial deficits or surpluses where events have not coincided with actuarial assumptions or actuarial assumptions have changed.
<b>ACTUARIAL VALUATION</b>	An independent report on the financial status of the Pension Fund, which determines its ability to meet future payments.
<b>AGENCY SERVICES</b>	The provision of services by one body (the agent) on behalf of and generally with reimbursement from the responsible body.
<b>AMORTISATION</b>	Amortisation is the equivalent of depreciation for intangible assets (see below).
<b>AMORTISED COST</b>	This is a mechanism that sees through the contractual terms of a Financial Instrument to measure the real cost or return to the Authority by using the effective interest rate method which incorporates the impact of premiums or discounts.
<b>AREA BASED GRANT (ABG)</b>	An Area Based Grant is a non-ring-fenced general grant on which there are no conditions imposed on its usage meaning that the Council has full local control on how the grant can be used.
<b>ASSET</b>	Something of worth that can be measured in monetary terms and which has an economic value that spans more than one financial year. Assets can be tangible (e.g. land and buildings) or intangible (e.g. computer software).
<b>ASSETS HELD FOR SALE</b>	Assets which are no longer intended for operational use in the Authority and which are being actively marketed with likely sale within 12 months.
<b>BALANCE SHEET</b>	A statement that summarises an authority's financial position at the accounting date each year. In its top half it contains the assets and liabilities that it holds or has accrued with other parties. The bottom half is comprised of reserves that show the disposition of an authority's net worth.
<b>BALANCES</b>	The accumulated surplus of income over expenditure.
<b>BUDGET</b>	A statement of the Council's plans expressed in financial terms.
<b>CALL TO ACCOUNT</b>	The Audit & Governance Committee may 'call to account' members of the Cabinet and senior officers to explain any particular decision they have made and, the extent to which actions taken implement Council policy and to account for their performance.
<b>CAPITAL CHARGE</b>	A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services. This equates to depreciation and impairment charges under the IFRS based Code.
<b>CAPITAL EXPENDITURE</b>	Expenditure on the acquisition, construction or enhancement of significant assets (e.g. land and buildings, vehicles and equipment) which have a long term value to the Authority (also referred to as capital spending or capital payments).
<b>CAPITAL RECEIPTS</b>	Income from the sale of capital assets (land, buildings, etc.).
<b>CARRYING AMOUNT</b>	The amount at which an asset or liability is shown in the balance sheet at a specified date; for example, the cost of a vehicle, less the accumulated depreciation.
<b>CASH FLOW STATEMENT</b>	This Statement summarises the flows of cash that have taken place into and out of the Authority's bank accounts over the financial year.

<b>CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)</b>	This is an accountancy body that produces standards and codes of practice for accounting and financial functions in the public sector. It is one of the bodies responsible for the two principal codes of practice that determine how the Council presents its accounts.
<b>CODES OF PRACTICE</b>	In addition to the BVACOP, the principal code of practice that governs the presentation of local authority accounts is the Code of Practice on Local Authority Accounting in the UK. This code is approved by the Financial Reporting Advisory Board and is recognised by statute as representing proper accounting practice.
<b>COLLECTION FUND</b>	A statutory fund maintained by the council for recording the collection and distribution of council tax receipts. Unitary, Town and Parish Councils; along with the Police and Fire authorities; and central government precepts are met from this fund. Surpluses or deficits are carried forward and included in the following year's council tax calculation.
<b>COLLECTION FUND ADJUSTMENT ACCOUNT</b>	This Account is an Unusable Reserve which manages the differences arising from the recognition of Council Tax income in the Comprehensive Income & Expenditure Statement as it falls due from Council Taxpayers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.
<b>COMMUNITY ASSETS</b>	Assets that an Authority holds, that have no determinable useful life and may have restrictions on their disposal. An example would be a country park.
<b>COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (CIES)</b>	This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.
<b>COMPONENT ACCOUNTING</b>	Component accounting is the separate recognition of two or more significant components of an asset for depreciation purposes (i.e. as if each component were a separate asset in its own right) where the useful life is substantially different.
<b>CONSISTENCY</b>	The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.
<b>CONTINGENCY</b>	A sum of money set aside to meet unforeseen expenditure.
<b>CONTINGENT LIABILITY</b>	A possible obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.
<b>CORPORATE &amp; DEMOCRATIC CORE</b>	Those activities which local authorities engage in specifically because they are elected, multi-purpose authorities. There is no basis for apportioning these costs to services.
<b>COST CENTRE</b>	A specific area of activity where control of certain budgets has been delegated.
<b>COUNCIL TAX</b>	A property based tax, with discounts for those living alone, which is administered by District, Borough and Unitary Councils.
<b>CREDITORS</b>	Amounts owed by the Authority for work done, goods received or services rendered but for which payment has not been made by the end of the accounting period.
<b>CURRENT ASSETS</b>	Current assets are those which can either be converted to cash or used to pay current liabilities within 12 months.
<b>CURRENT LIABILITIES</b>	Amounts owed by the Local Authority which are due to be settled within 12 months.
<b>CURRENT SERVICE COST</b>	The increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period.
<b>CURTAILMENT</b>	For a defined benefit pension scheme, an event that reduces expected future years' service or accrual of benefits. Examples include redundancies from discontinuing an activity or amendment of scheme terms.
<b>DEBTORS</b>	Amounts due to the Authority but unpaid by the end of the accounting period.
<b>DEPRECIATION</b>	The measure of the use or consumption of a fixed asset during the accounting period.
<b>DONATED ASSET</b>	An asset which is acquired by the Authority for no cost. Not the same as assets which are transferred to the Authority as part of the "machinery of Government".

<b>EMOLUMENTS</b>	All sums paid to an employee, including any allowances chargeable to UK income tax, but excluding pension contributions payable by either employer or employee.
<b>EARMARKED RESERVES</b>	These are Usable Reserves which have been set aside from revenue to meet particular spending needs, including funding capital projects.
<b>ESTIMATION TECHNIQUES</b>	The methods adopted to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves. These implement the measurement aspects of the accounting policies, and include selecting methods of depreciation and making provision for bad debts.
<b>FINANCIAL ASSET</b>	Financial assets are cash and cash equivalents, plus any other assets that can be converted into cash in a reasonably short period of time.
<b>FINANCIAL INSTRUMENT</b>	Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term financial instrument covers both financial assets and financial liabilities.
<b>FINANCIAL LIABILITY</b>	Financial liabilities are liabilities that are contractual obligations to deliver cash or other financial assets to another entity.
<b>FORMULA SPENDING SHARE (FSS)</b>	The Government's assessment of each Authority's spending needs, used as the mechanism to distribute government grants (RSG and NNDR).
<b>FULL TIME EQUIVALENT (FTE)</b>	In terms of staffing time, a full time equivalent is 37 hours per week. So if two staff are employed working 18.5 hours per week each, they can be said to constitute one FTE.
<b>GENERAL FUND</b>	This is the main revenue account of the Council and incorporates the net cost of all services (as shown in the Comprehensive Income and Expenditure Statement) together with the adjustments between accounting basis and funding basis under regulations and transfers to and from Earmarked Reserves (as shown in the Movement in Reserves Statement).
<b>HERITAGE ASSET</b>	A heritage asset is one with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.
<b>IAS</b>	International Accounting Standards are statements of standard accounting practice issued by the International Accounting Standards Committee and with which all Local Authorities are now required to comply.
<b>IFRS</b>	International Financial Reporting Standards are statements of standard accounting practice issued by the International Accounting Standards Board and with which all Local Authorities are now required to comply.
<b>IMPAIRMENT</b>	A reduction in the value of a fixed asset or financial instrument below its carrying amount, arising from physical damage such as a major fire or a significant reduction in market value, or a situation where capital spending on an asset has no effect on the value of the asset.
<b>INFRASTRUCTURE ASSETS</b>	Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples are highways and footpaths.
<b>INVENTORIES</b>	The amount of unused or unconsumed stock held for future use. Examples include consumable stores and services in intermediate stages of completion.
<b>INVESTMENT PROPERTY</b>	Investment property is property (land or a building) held by the Authority to earn rental income or for capital appreciation or both.
<b>LEASE (EMBEDDED LEASE)</b>	While it does not necessarily take the form of a lease, an embedded lease is an arrangement that conveys the right to use an asset in return for payment.
<b>LEASE (FINANCE LEASE)</b>	A finance lease is an arrangement where substantially all of the risks and rewards of ownership of the leased asset pass to the lessee, regardless of whether the lease arrangement provides for actual transfer of ownership.
<b>LEASE (OPERATING LEASE)</b>	Any lease which is not a finance lease.
<b>LOCAL MANAGEMENT IN SCHOOLS (LMS)</b>	Control of a significant proportion of school budgets is devolved to schools for them to manage under the LMS scheme. Balances held by schools under this scheme are ring-fenced and are not available to the remainder of the County Council.

<b>MEASUREMENT</b>	Measurement is the process of determining the monetary amounts at which the elements of financial statements are to be recognized and carried in the balance sheet and comprehensive income and expenditure statement. Measurement bases include historical cost, current cost, present value, depreciated replacement cost and fair value.
<b>MEDIUM TERM FINANCIAL PLAN (MTFP)</b>	The Council's five-year, rolling, financial plan.
<b>MINIMUM REVENUE PROVISION (MRP)</b>	The sum required to be met from revenue under current capital controls to provide for the repayment of outstanding borrowings; additional sums may be voluntarily set aside.
<b>MOVEMENT IN RESERVES STATEMENT (MIRS)</b>	This statement shows the movement in the year on the different reserves held by the Council, analysed into Usable Reserves and Unusable Reserves.
<b>NATIONAL NON-DOMESTIC RATES (NNDR)</b>	Billing Authorities (District and Borough Councils) collect this tax locally and pay it to the Government. It is then redistributed to County, Unitary, Borough and District councils, and Fire Authorities on the basis of the resident population.
<b>NON-CURRENT ASSETS</b>	Assets that provide benefits to the Authority and the services it provides, for a period of more than one year.
<b>NON-DISTRIBUTED COSTS (NDC)</b>	Overheads for which no user benefits, and therefore not apportioned over services.
<b>NON-OPERATIONAL ASSETS</b>	Fixed assets that are not occupied or used in the delivery of services. Examples are investment properties and assets surplus to requirements, pending sale.
<b>OPERATING SEGMENTS</b>	Local Authorities are required to present information on reportable segments within the notes to the Financial Statements. Reportable segments must be based on an Authority's internal management reporting, for example departments, directorates or portfolios. DC has chosen Directorates as its operating segments.
<b>OTHER OPERATING INCOME AND EXPENDITURE</b>	Items that are required to be shown in the Authority's Comprehensive Income and Expenditure Statement but which should not be charged to specific services.
<b>OUTTURN</b>	The final actual income and expenditure earned or incurred in the financial year
<b>PAST SERVICE COST</b>	For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.
<b>PRECEPT</b>	A levy requiring the Council to collect income from council taxpayers. Sums collected are held in the Collection Fund (see above) and paid to the preceptor in ten instalments.
<b>PROVISIONS</b>	Amounts set aside to meet liabilities or losses which arise in the accounting period and which are likely to be incurred, but where the actual sum and timing are uncertain.
<b>RELATED PARTY</b>	A related party is a person or entity that is related to the reporting entity. There are different rules and definitions for public and private sector bodies. An entity can be regarded as a related party to DC if, for example, a person employed by DC has significant influence over the entity or is a member of the key management personnel of that entity.
<b>REFCUS</b>	Revenue Expenditure Funded from Capital Under Statute. This is principally capital expenditure on properties which the Council does not own and which are not included in its asset register. This expenditure is reported in the Comprehensive Income and Expenditure Statement in the year it is incurred with the necessary appropriations in the Statement of Movement in Reserves between the General Fund and the Capital Adjustment Account to reflect that although financing is from a capital source, it funds revenue expenditure in the Authority's accounts.
<b>RESERVES</b>	Sums set aside and earmarked to meet the cost of specific future expenditure.



<b>RESIDUAL VALUE</b>	The amount at which an asset will be carried in the Authority's accounts after it has been depreciated.
<b>REVALUATION RESERVE</b>	Revaluation reserves (or, more precisely, revaluation surplus reserves) arise when the value of an asset becomes greater than the value at which it was previously carried in the Balance Sheet. When accounting rules allow/require the Authority to revalue the amount at which the asset is carried in the Authority's Balance Sheet, there is an increase in the Authority's net worth.
<b>REVENUE EXPENDITURE</b>	The day to day costs (pay, premises, transport, supplies and services, etc.) incurred by the Authority in providing services.
<b>REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE</b>	Expenditure of a capital nature, which does not result in the acquisition or enhancement of a fixed asset owned by the Authority. Such expenditure is written out of the accounts in the year it is incurred, but is financed by a capital stream.
<b>REVENUE SUPPORT GRANT (RSG)</b>	A general central government grant paid to the Council in support of its day to day expenditure and distributed on a formula basis.
<b>RUNNING COSTS</b>	Expenditure incurred on the use of premises, transport and equipment, together with other general expenditure necessary to enable the service to be provided.
<b>SECTION 106 RECEIPTS</b>	Under Section 106 of the Town and Country Planning Act 1990, developers and local authorities can enter into planning obligations to enable the developments to proceed, when permission might otherwise not be approved. These obligations are commonly referred to as Section 106 (S106) agreements and usually provide for the developer to make financial payments to the Council that will be used for specific compensatory works or measures. Most S106 receipts are treated as capital contributions and applied to capital expenditure.
<b>SEGMENTAL ANALYSIS</b>	A breakdown of the Authority's income and expenditure by major business segment (Service Area).
<b>SERVICE CONCESSION</b>	Service concessions are arrangements whereby a government or other body grants contracts for the supply of public services (such as roads, energy distribution, prisons or hospitals) to private operators.
<b>SOFT LOAN</b>	A loan with an interest rate below market rates.
<b>SPECIFIC GRANTS</b>	Grants paid by government, government agencies and similar bodies, to local authorities in support of particular services. These are often in return for past or future compliance with certain conditions relating to the activities of the Authority.
<b>SUBSEQUENT EXPENDITURE</b>	Expenditure which is incurred on an asset after it has begun its useful economic life.
<b>SURPLUS ASSETS</b>	Non-current assets which are surplus to service needs, but which do not meet the criteria required to be classified as Investment Property, or Assets Held For Sale.
<b>THIRD PARTY PAYMENTS</b>	The cost of specialist or support services purchased by the Council from outside contractors or other bodies.
<b>TOTAL COST</b>	The total cost of a service includes all revenue expenditure (see above) and support services, overheads and capital charges.
<b>TRADING UNDERTAKING</b>	A workforce employed by the authority to carry out work in competition with the private sector. These were formerly called Direct Service Organisations (DSOs) or Direct Labour Organisations (DLOs).
<b>TRUST FUNDS</b>	Funds administered by the Authority for such purposes as prizes, charities and special projects.
<b>UNUSABLE RESERVES</b>	Those that cannot be applied to fund expenditure or reduce local taxation as they are required for statutory purposes.
<b>USABLE RESERVES</b>	Those that can be applied to fund expenditure or reduce local taxation.