Grant Thornton

Auditor's Annual Report on Dorset Council

2023/24

February 2025



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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting, on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary

Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2023/24 is the fourth year that these arrangement have been in place. Your previous external auditor is yet to issue Auditor's Annual Reports for 2020/21 to 2022/23 inclusive. Therefore, we have had to produce commentary without knowledge of the outcome of the Value for Money work for prior audit periods.

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The NAO has consulted and updated the Code to align it to accounts backstop legislation. The new Code requires auditors to share a draft Auditors Annual Report ("the Report") with those charged with governance by a nationally set deadline each year (30 November) and for the audited body to publish the Report thereafter. This new requirements will be introduced from November 2025. As a firm, we are committed to reporting the results of our local audit work on as timely a basis as possible. Our summary findings are set out below.

We reported our interim findings to you in July 2024. This report provides additional information relating to a procurement issue brought to our attention by the Council in January 2025 and the final position on the financial statements audit.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below.

Criteria	2023/24 Risk assessment	2023/24 Auditor judgement on arrangements	
Financial sustainability	A risk of significant weakness was identified regarding the Council's DSG deficit and plan to deal with this.	R	Significant weakness in arrangements for the Dedicated Schools Grant (DSG) deficit identified and a key recommendation made, with three other improvement recommendations made.
Governance	No risks of significant weakness identified	R	A significant weakness in the governance arrangements identified relating to the Council's procurement arrangements. The details which are reported with the "Improving economy, efficiency and effectiveness" section. Six improvement recommendations were also made.
Improving economy, efficiency and effectiveness	No risk of significant weakness identified	R	A significant weakness in the Council's procurement arrangements and non-compliance with its contract procedure rules and scheme of delegation. Two improvement recommendations made.

G	No significant weaknesses in arrangements identified or improvement recommendation made.
A	No significant weaknesses in arrangements identified, but improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendations made.

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Executive summary (continued)

Financial sustainability

We have identified a significant weakness in the Council's arrangements around its plan to address the Dedicated Schools Grant (DSG) deficit, which is currently not on target to eliminate the cumulative deficit within the planned timescale agreed with the Department for Education. Due to the financial significance of this matter to the Council we have raised a key recommendation which has been accepted by Management. See page 5 for more detail.

We have also made three iimprovement recommendations regarding developing contingency plans for savings, consulting with the public on budget priorities and reporting on achievement of savings to members which have been accepted by Management. See pages 19-21 for more detail.

Governance

We have identified a significant weaknesses within the governance arrangements based on the Council's failure to promptly identify non-compliance with its contract procedure rules and its scheme of delegation. Due to the significance of this matter we have raised a key recommendation which has been accepted by management on page seven.

In addition, we have identified areas where the Council could improve arrangements and have raised six improvement recommendations regarding review of risk registers, reducing the number of overdue internal audit actions, adding a standard section for legal implications in reports, reviewing audit committee effectiveness, officer's declarations of interest and data breaches which have been accepted by Management. See pages 25-30 for more detail.

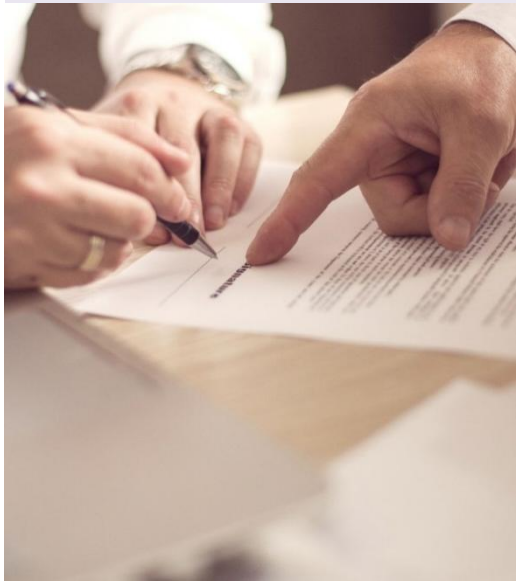
Improving economy, efficiency and effectiveness

We have identified a significant weaknesses within the Council's procurement arrangements due to a lack of compliance with the Council's contract procedure rules and its agreed scheme of delegation in relation to authorisation spend limits. Due to the significance of this matter we have raised a key recommendation which has been accepted by management on page seven.

In addition, we have identified areas where the Council could improve arrangements and have raised two improvement recommendations regarding performance indicators and benchmarking which have been accepted by Management. See pages 34 and 35 for more detail.

Financial Statements opinion

We have undertaken audit work on the 2023/24 financial statements. Due to the backstop disclaimer opinion issued by the previous auditor for 2022/23, we do not have sufficient assurance over opening balances and issued a backstop disclaimer opinion for 2023/24 on 25 February 2025. More information can be found on page 37.



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Key recommendation

Key Recommendation 1	The Council should continue to renegotiate its Safety Valve management plan with the Department for Education (DfE) to ensure the Council can manage its DSG deficit and remain financially sustainable.
Identified significant weakness in arrangements	The Council is off track from its plan to reduce its annual DSG deficit. As the Council is not meeting the requirements of the current plan DfE funding is being withheld. The original plan would have seen the deficit eliminated, however now the Council is off plan, there will be a deficit to meet from Council funds. As it stands, this deficit will need to be financed from 2026 when the current temporary statutory override is due to come to an end.
Summary findings	The Council's DSG spending is above its allocation. Like all Councils, it is currently permitted to not have to meet this deficit from its own funds, albeit temporarily. The Council was invited to take part in the DfE's Safety Valve programme and agreed a plan to reduce the level of annual deficits and then to eliminate the cumulative deficit. The Council has not been able to meet this plan, mainly due to delays in the building of new facilities, and the plan is currently being renegotiated. The cumulative deficit at the end of 2022/23 was £36m against a planned level of £27m, with the outturn position for 2023/24 being £60m.
Criteria impacted by the significant weakness	Financial sustainability
Auditor judgement	Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2023/24. We have therefore identified a significant weakness in arrangements.
Management comments	For management comments see page 6.

The range of recommendations that external auditors can make is explained in Appendix B.

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Key recommendation

Key Recommendation 1	The Council should continue to renegotiate its Safety Valve management plan with the Department for Education (DfE) to ensure the Council can manage its DSG deficit and remain financially sustainable.
Management comments	Whilst it would be difficult to disagree with the significance of the risk that the DSG deficit presents to Dorset Council, this is a symptom of a national issue due to inadequate funding and resources to meet DfE policy changes made in 2014. Estimates as to the national size of the national deficit according to analysis conducted by the Society of County Treasurers and reported by the LGA and County Council network show the national deficit was £1.9bn in March 2022 and is expected to rise to £3.6bn by March 2025. Without either a change to National policy or funding arrangements it is unclear how Councils can be expected to resolve this alone. At a national level there are now 38 Councils within the Safety Valve Programme. 5 Council's Safety Valve deals are under review. A further 55 local areas are taking part in the Delivering Better Value in SEND programme. 11 of the 13 Councils which administer budgets for the DSG are engaged in either the DBV of SV programmes. Not withstanding the national picture, officers continue to work to achieve financial sustainability for the DSG and have been actively negotiating with the DfE and DfE's own SEN and financial advisors to review plans. The Council has also engaged IMPOWER to provide a critical friend review of the model, proposed interventions and benchmark current activity. So far, the DfE advisors nor independently appointed consultants have been unable to identify new or different interventions that could be put in place. Furthermore during the renegotiation period Ofsted conducted a local area SEND inspection at the end of February and beginning of March 2024. The inspection which was led by one of His Majesty's Inspectors (HMI) from Ofsted who had a team of inspectors including two more HMI's as well as lead inspectors from a range of relevant disciplines. The outcome of this was that Dorset received the highest possible grading and are the first Unitary Council to receive this. There were no areas for improvement that would materially affect the financial management arrangements. In terms of the Councils financial arrangements currently the 23/24 outturn was £60m, partly due to partner contributions being withheld until the negotiation is concluded. The Council is holding the contribution in an earmarked reserve to be released in line with a new agreement. The original agreement saw Dorset Council make total contributions of £80m. Finally, Grant Thorntons own recommendation is to "continue". It's recognised that this situation is unsustainable nationally and locally, despite a range of external views it remains unclear what more could be done locally to address this without jeopardising the outcomes for children and young people.

The range of recommendations that external auditors can make is explained in Appendix B.

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Key recommendation

Key Recommendation 2	The Council should: • take immediate action to ensure controls and procedures relating to its procurement systems and scheme of delegation are compliant and in line with the Council's contract procedure rules and constitution; • review all spend with suppliers to identify all instances where procurement has not been in accordance with contract procedure rules or procurement legislation; • ensure that appropriate action is taken to ensure breaches are identified in a timely manner, with appropriate action taken; • report contract waivers and breaches to members at a public meeting, such as the Audit and Governance Committee, including the number and extent of contract exemptions; • ensure that there is no residual risk to the Council from those services procured by non-compliant procurement methods; and • ensure that as further investigations are concluded, prompt action is taken with consideration given to actions which would apply to other areas of the Council.
Identified significant weakness in arrangements	Failure to promptly identify and lack of compliance with the Council's contract procedure rules and its agreed scheme of delegation in relation to authorisation spend limits.
Summary findings	Following an internal review, it was brought to our attention by the Council that in 2023/24 there had been a lack of compliance with the Council's contract procedure rules and its scheme of delegation in relation to some procurement decisions and procedures. Investigations are not yet complete, but are sufficient for us to conclude that this represents a significant weakness in arrangements. Based on the findings to date the Council should ensure that any non-compliant procurement decisions do not leave the Council with any residual risk.
Criteria impacted by the significant weakness	 Governance and Improving economy, efficiency and effectiveness
Auditor judgement	Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2023/24. We have therefore identified a significant weakness in arrangements.
Management comments	See next page

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Key recommendation

Key Recommendation 2 (continued)	The Council should: • take immediate action to ensure controls and procedures relating to its procurement systems and scheme of delegation are compliant and in line with the Council's contract procedure rules and constitution; • review all spend with suppliers to identify all instances where procurement has not been in accordance with contract procedure rules or procurement legislation; • ensure that appropriate action is taken to ensure breaches are identified in a timely manner, with appropriate action taken; • report contract waivers and breaches to members at a public meeting, such as the Audit and Governance Committee, including the number and extent of contract exemptions; • ensure that there is no residual risk to the Council from those services procured by non-compliant procurement methods; and • ensure that as further investigations are concluded, prompt action is taken with consideration given to actions which would apply to other areas of the Council.
Management comments	Each of the bullet points that comprise recommendation 2 are accepted. When council officers became aware of possible non-compliance with contract procedure rules and the scheme of delegation the South West Audit Partnership (SWAP) was commissioned to undertake an investigation. The terms of engagement for the investigation were shared with leading members including the Leader of Council and the Chair of the Audit and Governance Committee. SWAP has since been commissioned to undertake related internal audit review work focused on compliance with internal controls. Recommendations from the SWAP investigation and review will be reported to councillors. It should be noted that the External Auditors VFM states that this matter would not have a material impact on the financial statements.

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Securing economy, efficiency and effectiveness in the Council's use of resources

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on the Council's arrangements in each of these three areas, is set out on pages 11 to 36.

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications

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The current Local Government landscape

National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The local government finance settlement for 2023/24 was better than many in the sector anticipated, demonstrating an understanding by Government of the financial challenges being faced by the sector. However, in July 2023 the Local Government Association estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date the financial year and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, have accepted Exceptional Financial Support from Government, or are commenting on the likelihood of needing a Section 114 Notice, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies;
- a failure to address and resolve relationship difficulties between senior officers and members;
- significant challenges associated with financial capability and capacity;
- a lack of compliance with procurement and contract management processes and procedures; and
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

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The current Local Government landscape (continued)

Local context

Dorset Council (the Council) is a unitary council with a population of 380,000 residents. It was formed in 2019 when the County moved from a two tier county council and district council system to form two unitary authorities, Dorset Council and Bournemouth, Christchurch and Poole Council. Dorset Council covers a large rural area, and has a large older population, 29% of whom are aged 65 and older (compared to 19% in England and Wales) as people choose to retire in the area. The Council's working age population is expected to see a marginal decline over the next 25 years, whereas the greatest area of population growth is among the over 65s.

This year is the first year of our work as the Council's auditors. As mentioned on page 3 your previous external auditor is yet to issue Auditor's Annual Reports for 2020/21 to 2022/23 and so this commentary on value for money has been produced without knowledge of the outcome of their Value for Money work for prior audit periods. As discussed on page 4 we have identified the DSG deficit as a risk prior to beginning detailed work.

The Council operates under an Executive decision-making model, which oversees the formation of all major policies, strategies and plans and as such the Council's formal decision making and governance structure constitutes the Full Council and an Executive (the Cabinet). Full Council and Cabinet are supported by two overview committees and two scrutiny committees.

The Council has 82 councillors, and the Council is elected every four years. The most recent elections were in May 2024 when the Liberal Democrats secured a majority with 42 elected councillors.

The Dorset Council Plan 2022 to 2024 sets out the Council's contribution to enabling communities to work together for a successful Dorset. This plan sets out the Council's vision and strategic priorities:

- Driving economic prosperity;
- Creating stronger healthier communities;
- Creating sustainable development and housing;
- Protecting our natural environment, climate and ecology; and
- Becoming a more responsive, customer focused council.

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Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Financial performance 2023/24

Revenue position

The Council had a revenue overspend of £1.0m for 2023/24 against a non DSG budget of £347.6m. The main areas adverse to budget were children's social care (£2.7m), adult care packages (£1.8m), home to school and public transport (£6.7m), housing and community including homelessness (£2.1m), assets and regeneration (£2.1m), Highways including parking income (£2.6m) and planning income (£1.2m). The Council's experience for the first four of these areas is similar to the issues in many local authorities, being increased volumes of service users and high increases in unit costs. The Council's reporting to members and Senior Leadership Team (SLT) has detailed information on prices and volume variations for Adults and home to school transport. Variations in assets and regeneration (£1m) and parking (£2.6m) relate to savings plans which have not been achieved, in parking mainly relating to lower demand than forecast when setting the budget. The Council has realigned these budgets for the 2024/25 financial year to bring them in line with latest expectations.

The Council has significant forecast under spends in some areas in 2023/24, which help to mitigate these cost pressures, in capital financing (£1.8m), Council tax and business rate income (£8.5m) and has used its corporate contingency of £4.7m which is set aside for this purpose. Whilst the Council has been able to largely mitigate pressures in 2023/24 using underspends in other areas, it may not be able to rely on this mitigation in future years and so will need to continue to monitor and take action to manage spend in these areas in 2024/25.

Capital position

The Council forecast to spend 67% of its capital programme in 2023/24 , that is £66.5m against the planned spend of £98.8m. The capital programme for 2023/24 had been increased by £22m for slippage into 2023/24 from previous years. The Council has been reviewing its capital programme as discussed on page 33 of this report.

Dedicated Schools Grant (DSG)

The Council's DSG deficit is expected to reach £60.0m by the year end, an increase of £24m during 2023/24. This figure includes grant that the Department for Education (DfE) is withholding as discussed on the next page.

Table 1

	2023/24
Planned revenue expenditure	£347.6m
Outturn revenue expenditure	£348.1m
Forecast outturn/overspend	£1.0m
Planned capital spend	£98.8m
Forecast capital spend	£66.5m
Forecast capital yearend position/underspend	£32.3m
Planned savings target	£20m
Forecast savings delivered (includes those fully achieved and those assessed as green)	£16.6m

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Financial sustainability (continued)

Dedicated Schools Grant Deficits

On 12th December 2022, the UK Government announced that it would be extending statutory override for the Dedicated Schools Grant (DSG) in England for the next 3 years, from 2023/24 to 2025/26. By the time this period elapses, the statutory override will have been in place for six years.

Whilst the statutory override remains in place, there is no requirement to make provision from general reserves for repaying the deficit. Reforms and savings targets have been agreed with those local authorities with the biggest deficits. However, all local authorities need to focus on managing (and reducing) their deficits.

Within the DSG, the High Needs Block has proved particularly problematic. The Block is there to support children with special educational needs (SEN), which means providing more teaching staff and resources. However, there is often a significant gap between funding granted per child and the actual cost of the teaching and other resources needed.

Every parent has the right to apply for support for their child. An expensive appeal process also exists. There are significant regional differences in numbers of plans granted by local authorities and cost management on those plans once they are granted. Managing (and reducing) the growing DSG deficits that arise as a result are a challenge both for financial sustainability and for maintaining the overall quality and effectiveness of service provision.

Dedicated Schools Grant (DSG)

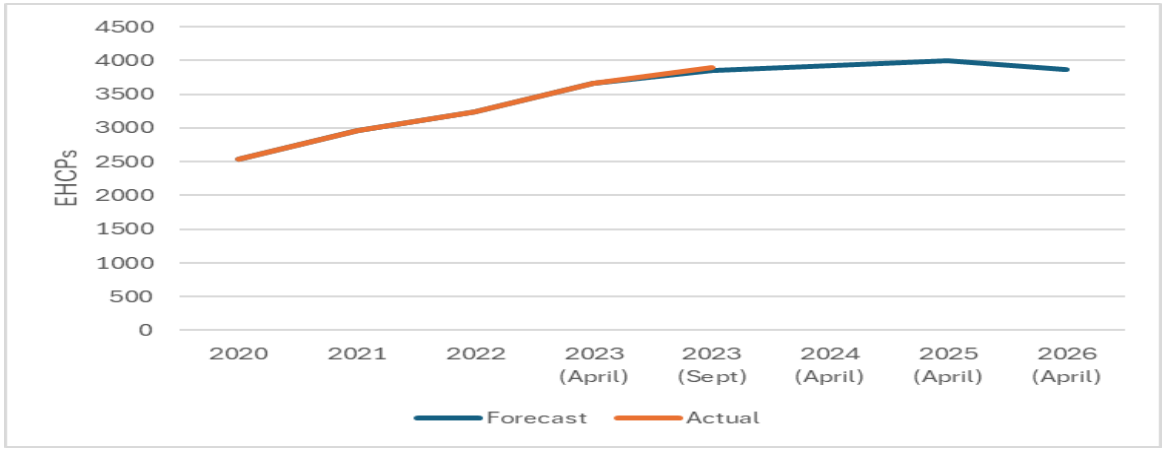
The DSG is a budget allocated in four blocks, including schools, early years, high needs, and central school services. A number of Councils have experienced increasing costs in the DSG high needs block. Dorset's own data is shown in Figure 1 below for a key driver of cost, being the number of Education Health and Care Plans (EHCPs). The DfE has established two programmes to support councils who have large deficits within their DSG high needs block; the Safety Valve (SV) and the Delivering Better Value (DBV) programmes. Both programmes work with local authorities to develop recovery plans to achieve financial sustainability.

The Council has been spending more than the funding provided and has been in a deficit position since the Council was created, attributable to the High Needs Block (HNB), and is part of the safety valve programme.

The DSG deficit was identified as a risk of significant weakness as part of our audit planning. Having completed our detailed work in this area we consider this to be a significant weakness in arrangements for 2023/24. Whilst the Council had agreed a Safety Value management plan with the DfE, this plan is not on target and is currently being renegotiated. While this plan is suspended DfE have withheld grant payments, worth £6m in 2023/24.

The Council does have sufficient reserves to meet its cumulative deficit if the statutory override is removed as planned after 2025/26. We however note that the level of reserves reported by the Council and the DSG deficit is not based upon audited financial statements, as the audit opinion for the 2021/22 and 2022/23 financial statements have not yet been issued. We have raised the following Key Recommendation:

The Council should continue to renegotiate its Safety Valve management with DfE to ensure the Council can manage its DSG deficit and remain financially sustainable.



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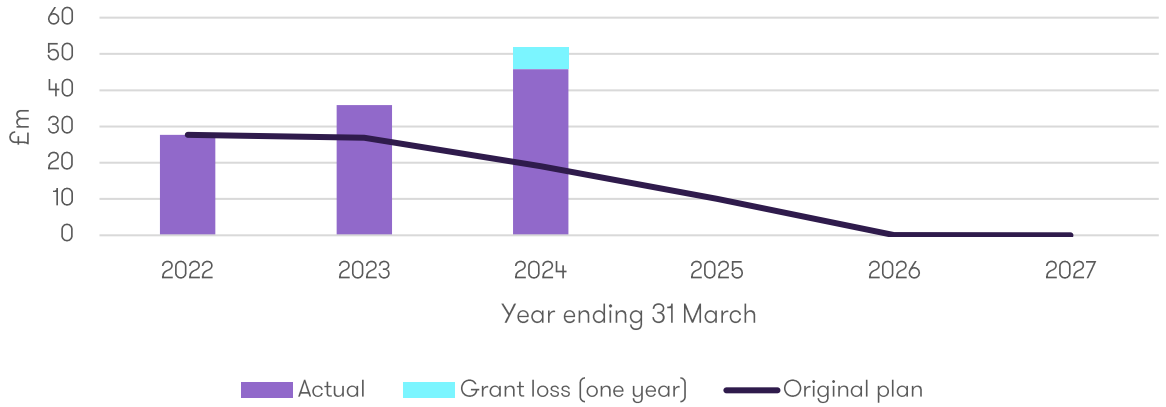
Financial sustainability (continued)

Dedicated Schools Grant (DSG) (Continued)

Figure 2 below illustrates the original plan agreed with DfE, and actual / forecast data. If the statutory override were removed as currently written at the end of 2025/26, the Council would have to meet the cumulative deficit position at that point from its reserves. The unaudited reserves balance is £175m, and therefore it is currently likely there would be sufficient funds to meet this should this unaudited position be appropriately stated.

The Council started in the safety valve system in 2021/22 and was due to receive £42m over the 6 years to 2026/27. As mentioned above the Council is not on target on the financial plan agreed with DfE, as shown in Figure 2 below . The latest safety valve payment of £6m, due to be received in 2023/24, is being withheld by DfE pending the agreement of a new plan. The reason for the financial variance is broadly due to the average unit costs of provision being higher than in the plan, and not due to the forecast number of EHCPs which is broadly on track (See Figure 1 on page 13). In turn, the reason for this higher average unit cost is that planned construction to expand local capacity, including a new school being delivered by the DfE is behind schedule. The plan, in outline, involved measures to ensure that the demand on the services was reviewed and correct levels of provision offered, as well as measures to ensure that the services provided were as required and cost effective. The largest financial impacts of these were respectively the trend in the number of EHCPs (see Figure 1) and the provision of new facilities to reduce reliance on expensive bought-in provision. Capital project delays (reflected in the capital outturn discussed on page 12), for example regarding Beaucroft school, have meant that the Council have continued to need to purchase higher cost places elsewhere. Approximately 83 of these in total in 2022/23 estimated to cost £4.4m.

Figure 2 DSG cumulative deficit



The Ofsted inspection on SEND was conducted in March 2024 and the written report was published in May 2024. This report identified what the area partnership is doing effectively as well as things which they could do better. Two areas of improvement were identified, and we note that a written statement of action was not required, reflecting a positive outcome from this inspection. The Council has also recently had an internal audit report on joint funding of health and medical aspects of EHCPs which suggests developments to the process of identifying health needs from EHCPs which should help to improve processes.

The Council recognises that its new Safety Valve plan is likely to be ambitious. Figure 2 above shows that at each stage so far it has been difficult to keep to the agreed position. A number of councils have similar issues, and the Council has been involved in sector-wide sharing of good practice, and lobbying in an area which is likely to continue to be a major area of focus.

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Financial sustainability (continued)

Reserves

The purpose of the unearmarked general fund reserve is to meet costs arising from any unplanned events such as unforeseen financial liabilities or natural disasters. These reserves also act as a financial buffer to help mitigate against the financial risks the Council faces and can be used to a limited degree to 'smooth' expenditure on a one-off basis across years. Earmarked reserves are set aside for specific purposes.

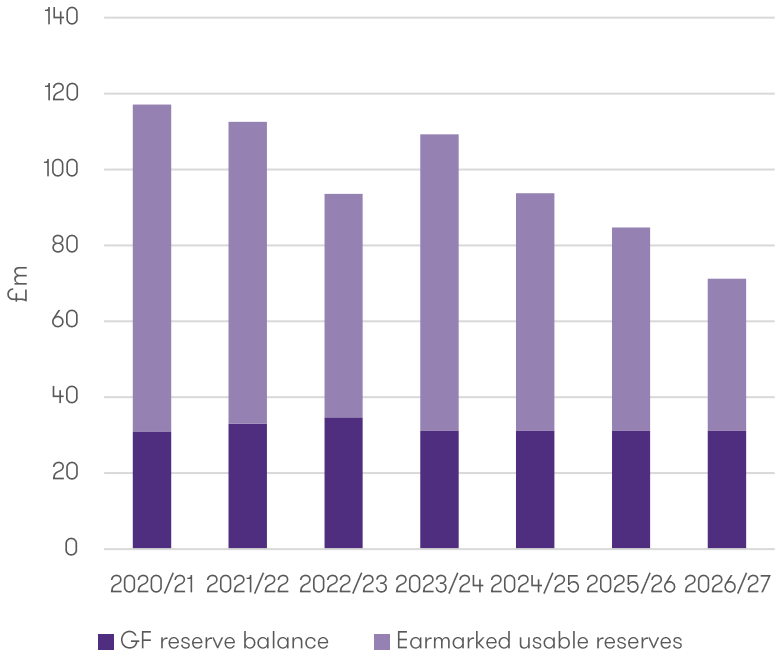
The Council has set aside reserves to mitigate risks, including the risk of transformation savings not being delivered. The Council's policy is to set the level of the general fund reserve at 5 to 10% of its net budget requirement, which is between £18.8m and £37.6m. This is based on a broad assessment of risk, linking to work done by CIPFA in 2018. The latest forecast level of £31.5m is within this range.

The Council has reserves as a proportion of budget a little below the median for unitary authorities, although we note that the Council is not intending to use reserves directly in budget planning and has set an overall budget with a contingency which has reduced the impact of service overspends on the general fund reserve.

Figure 3 opposite illustrates the actual and forecast level and movement of general fund reserves (both earmarked and unearmarked, but excluding grants) from 2020/21 to 2026/27, as set out within the Council's statements of accounts, Medium Term Financial Plan (MTFP), and the June 2023 draft outturn report. The MTFP is discussed on page 16.

Based upon the current level of reserves and the Council's intention to not use them we consider the Council has proper arrangements in place in respect of its level and management of reserves. As discussed on page 14 should the statutory override regarding DSG be removed the reserve level would be significantly lower but the Council would not be immediately at risk of a s114 notice, assuming the reported reserve levels are correct given that they are currently unaudited since 2020/21.

Figure 3 level of reserves, excluding schools balances, grants and DSG deficit



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Financial sustainability (continued)

Budget planning and Medium-Term Financial Plan (MTFP)

The Council presented and agreed its MTFP and budget in February 2024.

The MTFP, budget proposals and capital strategy are aligned with the Dorset Council Plan which is the Council's Corporate Plan. This plan is itself aligned to the Transformation plan which sets out the changes to services needed to help the Council's financial stability and sustainability.

We have reviewed the main issues and assumptions in the budget for 2024/25 and these are appropriate. The budget allows for inflation (5% on pay and 3.2% generally) and includes funding of £36m for pressures on demand led budgets. As was experienced in 2023/24 the main areas of pressure on the budget for 2024/25 are children's social care, adults social care, home to school transport, homelessness, asset management, parking income, recycling income and planning income. As discussed on page 12 the pressures in asset management and parking relate to savings plans which have not been achieved. The Council has realigned these budgets and those for home to school transport for 2024/25 to make them in line with latest expectations. For the latter area there have also been some recent service improvements suggested by internal audit.

The Council's February 2024 budget report addresses the funding from central government, including the additional funding announced by the Secretary of State after the provisional settlement. The budget report shows a large increase in Business Rates yield, which has been reviewed by an external advisor. Generally fees and charges budgets have been assumed to go up by 5% to support the Council's financial sustainability.

The budget for 2024/25 includes £25m of planned savings, of which £8.1m are transformation savings. The Council's plans to achieve this £8.1m are embryonic at this stage. The £8.1m is underwritten by reserves in the case of it not all being achieved or achieved on time. The Council has set out its financial gap for future years as being from 2025/26 onwards £13.5m, £26.5m and £40m (all figures cumulative). The Council's track record in delivering savings in discussed on page 17.

The Council's budget report includes a discussion on risk which identifies service pressures and non-delivery of the transformation savings, inflation pressures and the Government's approach to DSG deficits as the main risks. The Council in its budget process looks at scenarios around key areas of children's and adults social care and recyclates.

The Council has a People Strategy which was last reviewed in 2019 and is due for review in Autumn 2024. The MTFP incorporates budget assumptions around the Council's workforce, including pay and recruitment.

We consider that the Council had proper arrangements in place in 2023/24 to set its 2024/25 budget and agree its MTFP. Careful monitoring of spend (as discussed on page 12) and progress on savings, including transformation savings (see Improvement Recommendation made on page 21) will be needed in 2024/25.



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Financial sustainability (continued)

Delivery of planned savings

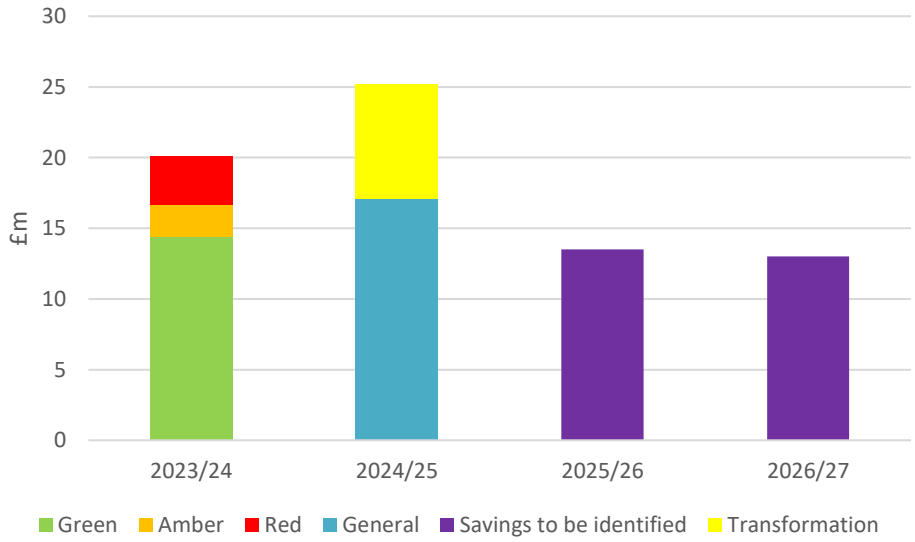
The Council planned savings of £20m in 2023/24, is planning to deliver savings of £25m in 2024/25 and has projected budget gaps in subsequent years where work is required to identify savings (see Figure 4).

The Council categorises progress in delivering savings as red, amber or green. For the quarter 3 monitoring reported to Cabinet in January 2024 the progress reported for 2023/24 was Red £3.4m (24% of total savings) and Amber £2.3m (16% of total savings, three quarters of which is adults and children) with the remainder being Green, meaning that the Council expects to deliver £16.6m.

The savings shown as red are built into the reported budget variation for each department, and the detail of red and amber rated savings are monitored and reported to SLT. These arrangements are adequate but an Improvement Recommendation is made on page 21 to report more information on this to members.

The Council's performance in 2023/24 in delivering savings has shown that not all savings are being delivered. The budget for 2024/25 relies on £25m of savings, including £8.1m of transformation savings, the latter being a risk because as discussed on page 14 the plans for this are being developed. The Council will earmark reserves to cover this in 2024/25 should it be necessary, and will need to embed savings in subsequent years to ensure longer term financial sustainability. With regard to the other savings a**n** Improvement Recommendation is made that officers should develop or augment existing contingency plans for additional savings that members may need to make if original plans do not proceed or do not proceed as quickly as planned. **See improvement Recommendation 1.**

Figure 4 Breakdown of total savings required



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Financial governance

Budget setting and monitoring

The 2024/25 annual budget setting process budget involved budgets being produced by officers, led by Executive Directors with significant input from members. The Budget is proposed to Council by Cabinet. During the budget process Cabinet, and particularly the Portfolio Holder, Deputy Leader and Leader are kept updated and given opportunity to input. The process has its context set by the MTFP, including the inflationary and service pressures and savings requirements.

The Budget Report outlines how each Executive Director is taking personal responsibility for their budget through a formal sign-off process. This will also form part of their performance assessment during the year.

Public consultation with residents was not carried out directly on the budget for 2024/25 (although there was discussion with the public on the Dorset Council Plan). There was engagement and consultation with managers and other employees.

The Council should ensure that it consults with residents as part of the budget process. This has been undertaken by other authorities using online surveys or meetings. This would allow more information on the views of residents to be considered in budget setting and resource prioritisation. **An improvement recommendation has been raised in respect of this. See improvement recommendation 2.**

Budget monitoring information was produced by the finance team. Finance staff work as business partners to support service managers with financial advice and budget management. Service managers can access reports from the financial system at any time, and are sent monthly reports which are profiled. Business Partners report each month to Directorate Leadership teams.

A detailed report on revenue and capital budget monitoring was presented to Cabinet on a quarterly reporting cycle during 2023/24, and subsequently began to be reported to the Audit and Governance Committee quarterly during 2023/24. The reports provide an appropriate level of detail and information to allow understanding and to enable appropriate challenge. The report includes a discussion of debts and progress on recovering them (debt recovery is an area where Internal audit have suggested some process improvements).

The budget monitoring reports could be improved if more detail was given on the achievement of savings during the year to members (the detail discussed on page 15 is only reported to SLT). **An improvement recommendation has been raised in respect of this. See improvement recommendation 3.**

The Council reports twice yearly on Treasury Management to Audit and Governance Committee, as is required and standard in the sector.

In conclusion, and based on the lines of enquiry undertaken, we have identified a significant weakness in arrangements to ensure the Council manages risk to its financial sustainability, regarding the DSG deficit.

We have made three improvement recommendations.



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Improvement recommendations

Improvement Recommendation 1	Officers should develop or augment existing contingency plans for additional savings that the Council may need to make if existing savings plans are not progressing adequately.
Improvement opportunity identified	Contingency plans for savings will allow the Council to take action more quickly and in a more focussed manner if required.
Summary findings	The Council has had experience of not all savings progressing as planned and don't currently have alterative plans and savings identified to offset this should it happen.
Criteria impacted	Financial sustainability
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	The Councils Senior Leadership receive detailed financial management reports and commentary monthly, with Portfolio holder briefings taking place weekly. These meetings provide regular opportunities to review progress and identify the need for contingency plans. Increased scrutiny has been placed on recruitment decisions to seek to reduce spend where possible, in particular in Place and Corporate Services.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

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Improvement recommendations

Improvement Recommendation 2	The Council should make arrangements to consult with residents on budget priorities as part of the budget setting and MTFP process.
Improvement opportunity identified	The Council's decisions on financial changes will be better informed with more input from the public.
Summary findings	The Council has consulted in the process of producing the Dorset Council Plan but has not consulted on financial matters specifically.
Criteria impacted	 Financial sustainability
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	The 2025/26 budget proposals are driven by the new Dorset Council Plan and priorities. The Council Plan was approved at Full Council on 5 December 2024 following engagement with partners and residents across Dorset. More than 700 responses were received through the engagement, and these were used to help shape the new Council's priorities, as reflected in the budget proposals and MTFP. As an integral part of the Council's budget planning, the process of setting Council Tax involves consultations with major precepting authorities, including the Office of the Police and Crime Commissioner, the Dorset and Wiltshire Fire and Rescue Service, and local precepting authorities such as town and parish councils. During this budgetary procedure, the Council engages with these preceptors to thoroughly understand and incorporate their individual budget requirements. These consultations specifically focus on proposed plans for Council Tax levels and the respective precept needs of the preceptors. The Executive Director for Place and their management team also hold regular engagement and consultation with the business sector and managers throughout the organisation share information regularly with businesses in the supply chain to ensure they are aware of and can contribute to the conversations around priorities and resources.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

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Improvement recommendations

Improvement Recommendation 3	The Council should put into place arrangements to report to members on the progress in the achievement of savings four times a year to an appropriate level of detail.
Improvement opportunity identified	Understanding of delays and impediments to savings may help to progress them and to avoid similar problems in future.
Summary findings	The Council reports on the savings that are built into the budget when it is agreed, monitors the spend against the new budgets, and gives a high-level overview of savings progress but does not give more detail in its reporting to members.
Criteria impacted	Financial sustainability
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Cabinet and Audit & Governance Committee receive quarterly reports on the Councils financial management. Service commentary contained within this report details variances and their underlying causes. Where there is a variance due to the progress against savings, this is detailed in the reports.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

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Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

Risk management and internal controls

The Council has a risk management policy, which was last updated in March 2019 which is supported by a risk management framework. We understand that the Council is in the process of updating these documents.

The Audit and Governance Committee are responsible for the assurance of the Council's risk management framework and in 2023/24 received three risk management update reports. These reports set out the extreme risks faced by the Council, but do not include a detailed corporate risk register. These reports included links to a risk management dashboard and service risk registers, however these reports are only accessible to employees and members of the Council and cannot be accessed by the public.

Cabinet do not review the risk management arrangements within a formal Cabinet meeting, but risks are considered within informal meetings.

We consider that corporate risk registers should be reviewed and discussed publicly (other than where they related to areas such as commercial confidentiality) to enable public scrutiny, but also to demonstrate that the Council is open and transparent. The Council's risk management arrangements were reviewed by the Council's Internal Audit service South West Audit Partnership (SWAP) in 2022. This report provided a limited assurance opinion and raised 12 (six priority 2 and six priority 3 recommendations, based on a scale that SWAP use which sets priority 1 as a major issue and 3 as an issue of medium implications). Progress of these recommendations has been limited as the Council progressed the appointment of a Head of Risk Services. We understand that these recommendations are now being progressed and that Risk Services are being amalgamated within the Business Intelligence and Performance Service.

We have raised an improvement recommendation to require Cabinet to review the corporate risk register in a public meeting and ensure the recommendations raised by Internal Audit, including the review and update of the risk management policy and framework, are actioned in a timely manner. See improvement recommendation 4.

Procurement

It has recently been brought to our attention by the Council that, following an internal review, the Council's internal control systems have not been effective in identifying breaches of the contract procedure rules and scheme of delegation. We consider this to be a significant weakness in arrangements. **Our key recommendation can be found on page 7.**

Internal Audit and Counter fraud arrangements

As already mentioned, the Council's Internal audit services are provided by SWAP, an established provider of internal audit services used by several other councils. For 2023/24 SWAP has not provided an internal audit plan but work is allocated on a rolling risk-based plan. We will continue to monitor how this new approach to internal audit planning and reporting becomes embedded. Progress on internal audit work was reported to Audit and Governance Committee in June 2023, September 2023 and December 2023. Each progress report includes an update on implementation of outstanding Internal Audit recommendations and committee members have access to a live action tracker. However, the number of overdue actions has increased during 2023/24 from ten in April 2023 to twenty three in April 2024, with a peak of thirty in November 2023. Internal Audit consider that they have support from the Council's SLT to develop a culture where implementation of agreed actions is a priority, but the increase in overdue actions shows further work is required to ensure the number of overdue actions reduces in 2024/25. Updates on progress in areas provided with limited assurance reports are provided to Audit and Governance Committee. **An improvement recommendation has been raised – see improvement recommendation 5.**

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Governance (continued)

The 2023/24 Head of Audit Opinion provided reasonable assurance (See Table 2 below). In the 2023/24 year, SWAP completed 28 audit reviews on which an audit opinion was provided, five were provided with substantial assurance, 13 were provided with reasonable assurance and 10 had limited assurance. Advisory reviews and grant certification reviews were also undertaken on which an opinion was not given.

Internal Audit

The limited assurance reports related to:

- Data quality and governance
- Homelessness - front door services
- Effectiveness of manager self-serve
- Debt recovery
- Transport operations
- SEND transport
- Use of consultants and temporary staff
- Joint funding arrangements
- Children with disability
- Repairs, maintenance and minor capital works framework

Within these reports whilst there were recommendations that the Council would benefit from implementing in a timely manner, we did not identify any areas of significant weakness.

Counter fraud

Counter fraud services are also provided by SWAP. The team undertake both reactive and proactive work. SWAP is developing Computer Based Training (CBT) on fraud to roll out to all its clients, which will make fraud training available to all Council employees.

During 2023/24 CIFAS (a counter fraud service) data matching was undertaken to assist in preventing and identifying fraud. The SWAP Counter Fraud team completed two investigations and one special review which were either the result of whistleblowing or requests from the Council's Monitoring Officer. No significant findings were noted.

The Audit and Governance Committee receives an annual report on fraud and whistleblowing, which provides an update on the Councils approach, including a summary of cases reported in the preceding twelve months. The last relating to 2022/23 was received in June 2023.

The Council have an anti-fraud and corruption policy (last updated in 2022), and a whistleblowing policy (last updated in 2022) to ensure all officers and Members understand their roles.

Informed decision making including the Audit and Governance Committee

The Council operates under an Executive decision-making model, with the decision-making processes set out in its Constitution. The Constitution was updated four times during 2023/24 and the Council's website provides access to all these versions.

A review of a sample of committee papers indicated that they are comprehensive and provide members with sufficient information to make informed decisions.

Table 2 The Council's performance against key governance metrics is set out in the table below.

	2022/23	2023/24
Annual Governance Statement (control deficiencies)		Substantial level of assurance that good governance is in place
Head of Internal Audit opinion	Substantial level of assurance that good governance is in place	Reasonable assurance
Ofsted inspection rating	Reasonable assurance Good	Good

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Governance (continued)

Informed decision making including the Audit and Governance Committee (continued)

We found that the papers resented to Cabinet set out the recommendations and decision required and the reason for the recommendations. The reports also included consideration of the implications relating to financial, natural environment, climate and ecology, well-being and health, other (HR and workforce), risk, and an Equality Impact Assessment.

We note that the reports to Cabinet did not include legal implications, although we did find examples of where legislative requirements were included in the main body of the report. In addition, we found that reports published later in the year (2023/24) also included a section titled 'report sign off ' and documented that the report had been through the internal report clearance process and has been signed off by the Director for Legal and Democratic Services, the Executive Director for Corporate Development and the appropriate Portfolio Holder. **An improvement recommendation has been raised to include a Legal implications section in reports – see improvement recommendation 6.**

The Audit and Governance Committee consists of 12 members, ten members of the Council and two co-opted independent members. The co-opted members were appointed in September 2023 in order to improve expertise and effectiveness of the Audit and Governance Committee, and this is good practice.

In 2023/24, the Committee had seven meetings. We reviewed attendance and found this to be appropriate, with all meetings quorate. Audit and Governance Committee Terms of Reference (TOR) are set out in the Council's Constitution.

We have seen no evidence of a self-assessment or committee effectiveness review. We are aware that the Council intend to improve the effectiveness of all committees, through techniques to develop member challenge and capabilities and to introduce member annual appraisals after the May 2024 elections. **An improvement recommendation has been raised – see Improvement recommendation 7.**

Standards and behaviours

The Council has codes of conduct in relation to members and officers which are incorporated into the Constitution. These codes set out the standards of behaviour which are expected from members and officers. The Constitution requires that both members and employees are required to declare gifts and hospitality and interests.

Members' declarations can be found on the Council's website. However, a central record is not maintained for officers and declarations are held within the individual Directorates and Services.

The Constitution requires that declarations should be made within 28 days, so as a result declarations are made ad-hoc. Officers are not required to submit an annual return, which we have seen at some of our other local authorities. **An improvement recommendation has been raised – see Improvement Recommendation 8.**

Early indications are that there is an adequate tone from the top, and we will continue to consider this as our work on the financial statements audit continues.

We have been made aware of a breach in the member's code of conduct related to a Councillor's behaviour and the Council has taken action to address this issue. Within 2023/24 there has also been a serious data breach which has been reported to the Information Commissioners Officer (ICO) and the Council are awaiting a response in relation to this issue. The Council should ensure that controls are in place to ensure any similar breaches are not possible, prior to any action /recommendations from the ICO. We will reconsider this issue once the report from the ICO has been received. **An improvement recommendation has been raised to ensure controls are in place around this – see Improvement Recommendation 9.**

In conclusion, we have identified a significant weakness in the governance arrangements relating to procurement and the Council's scheme of delegation. We have raised a key recommendation on page 7. We have identified six improvement recommendations. Further details can be seen on pages 25 to 30 of this report.



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Improvement recommendations

Improvement Recommendation 4	To improve its risk management arrangements the Council should: • require Cabinet to review the corporate risk register in a public meeting to ensure they are formally involved in the risk management process, as the Council's decision makers, and to ensure the corporate risk register is publicly available; and • ensure the recommendations raised by Internal Audit regarding risk management are actioned in a timely manner, including the review and update of the risk management policy and framework.
Improvement opportunity identified	Improvements in risk management will assist in the making of appropriate decisions.
Summary findings	The Council's approach is for cabinet meeting informally to review risk registers. This shows the Council attach importance to this area of work but it does not ensure the information is available to the public. The Council's Internal Audit service (SWAP)provided a limited assurance opinion and the recommendations included the need to review and update the risk management policy and framework which was last updated in 2019.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	New reporting is being developed for Cabinet covering risk and performance. This will include the development of a new Council Principal Risks register as aligned to the delivery of the Council's strategy/Council Plan. The frequency of any public update is to be agreed with the new Cabinet. The Audit & Governance and Scrutiny Committees will also review the Principal Risk register as part of scheduled public meetings. As part of on-going plans to provide greater risk and performance information to the public, the Principal Risk register and updates will be included on the Council's public facing website. As we further embed the 3 lines of defence monitoring into the wider performance framework, audit tracking for P1 and P2 actions will continue to form part of Directorate level dashboards and monthly performance meetings to drive progress/delivery. The Senior Leadership Team will have quarterly discussions on delivery and progress with 6 weekly updates in the intervening periods. The 2nd line risk team and BI & Performance Business Partners will continue to actively centrally monitor the delivery of audit actions to ensure these are completed in a timely manner. Whilst accountability for delivery will remain with action owners, the central team will actively follow-up for results. Our SWAP audit partners also provide dashboards to Directorates to assist with delivery tracking. The review of the risk management policy and framework is currently on-going following the transfer of risk management into the central BI & Performance Service. This includes the development of a Dorset Council Risk Management Guide to ensure a unified and consistent approach is enforced to actively manage the Council's risks. All risks are currently being systematically reviewed against the new guidance via a series of workshops which will conclude by the end of 2024 before an annual refresh and on-going review process is embedded as part of the changes.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit and Governance Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

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Improvement recommendations

Improvement Recommendation 5	The Council should ensure that recommendations raised by Internal Audit (SWAP) are implemented in a timely manner.
Improvement opportunity identified	Improved control processes through timely implementation of internal audit recommendations.
Summary findings	Internal Audit progress reports to the Audit and Governance Committee included an update on implementation of outstanding Internal Audit recommendations and committee members have access to a live action tracker. However, the number of overdue actions has increased during 2023/24 from 10 in April 2023 to 23 in April 2024, with a peak of 30 in November 2023.
Criteria impacted	 Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Officers welcome the systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes of SWAP which helps Dorset Council accomplish its objectives.

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Improvement recommendations

Improvement Recommendation 6	The Council should consider including a section within the member committee reports titled 'Legal Implications', to ensure legal issues have been considered and can be easily identified by the reader (Cabinet and Full Council members).
Improvement opportunity identified	Improved decision making.
Summary findings	We reviewed four reports for Cabinet and noted that they did not include legal implications, although we did find examples of where legislative requirements had been included in the main body of the report. We did find that Cabinet reports written in 2024 included a section titled 'report sign off' and documented that the report had been through the internal report clearance process and has been signed off by the Director for Legal and Democratic Services, the Executive Director for Corporate Development and the appropriate Portfolio Holder. However, including a section in the report headed up 'Legal Implications' should ensure that all legal issues and implications are considered and clearly documented to assist the decision maker.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	To help the reader to easily identify the legal implications associated with the recommendations within reports, this will be introduced.

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Improvement recommendations

Improvement Recommendation 7	The Council should ensure the continued effectiveness of the Audit and Governance Committee by conducting a self-assessment exercise, in line with the Chartered Institute of Public Finance and Accounting's (CIPFA) methodology.
Improvement opportunity identified	The performance of Audit and Governance Committee and Committee members' confidence in performing their role would be enhanced by self-assessment and will enable the Committee to evaluate its effectiveness and identify areas for improvement, including any unmet training needs.
Summary findings	The performance of the Audit and Governance Committee could be strengthened by a self-assessment exercise to identify any areas of potential improvement.
Criteria impacted	 Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	Following the Local election in May 2024 the Political balance for committees has changed. As part of the induction a tailored training and development programme will be offered to members. Training with Audit and Governance committee members has already commenced, and the results of the recommended self-assessment based on CIPFA guidance will be used to identify where further training may be beneficial.

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Improvement recommendations

Improvement Recommendation 8	The Council should: • establish a central record for officers' declarations (gifts, hospitality and interests); and • consider introducing annual declarations of interest, including nil returns where appropriate, for officers.
Improvement opportunity identified	Annual declarations of interest and a register of interest for officers should enhance compliance.
Summary findings	Officers have to register interests within 28 days of compliance with their superior and are not required to submit an annual return, which we have seen at some of other local authorities. A central register of interests is not maintained.
Criteria impacted	Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	The recommended enhancements to the process will be introduced with an annual declaration being introduced for the year financial year 2024/25.

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Improvement recommendations

Improvement Recommendation 9	The Council should ensure that controls are in place to ensure any data breaches are minimised, prior to any actions/recommendations being received from the Information Commissioners Office.
Improvement opportunity identified	Action should be taken to understand what arrangements failed and what action should be taken to ensure a similar breach does not occur.
Summary findings	Within 2023/24 there was a serious data breach which has been reported to the Information Commissioners Officer (ICO) and the Council are awaiting a response in relation to this issue.
Criteria impacted	 Governance
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	The Council's Strategic Information Governance Board has an "Organisational Compliance and Risk Learning Group" that is analysing higher risk breaches, examining control effectiveness and considering organisational learning. The data breach process is being further enhanced, to strengthen the role that the Information Asset Owner plays, by ensuring they are aware of breaches associated with their information assets and agree/sign off remedial actions. More generally, the Board has identified an improvement action plan based on the outcome of a self assessment using the Information Commissioners Officer Accountability framework, to enhance the Council's information governance arrangements, and reduce the risk of data breach exposures. This is due to be presented to Audit and Governance Committee in July 2024.

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Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Use of financial and performance information

The Council adopted a new Data and Business Intelligence Strategy in August 2023 which aims to improve the use made of data in the organisation. This has involved ceasing reporting performance indicators to Cabinet. The Council does report performance indicators to the informal Performance Board (which does not take decisions) consisting of cabinet members, and also reports to the Scrutiny Committees. The performance information reported to Scrutiny shows targets and performance and remedial actions. The information focuses on strategic priorities and performance indicators and gives detail on items which are RAG rated (Red Amber or Green) including actions required where they are rated amber or red. The use of indicators is adequate, but it should be clear to the public how to access the performance information and how it is used - for example the flow of information set out in the Performance Management Framework could be described (in summary) in the Annual Governance Statement.

An improvement recommendation has been raised. See Improvement Recommendation 10.

The Council's Data and Business Intelligence Strategy includes Improving Data Quality as one of its missions. The strategy sets out the Council's approach which includes a focus at the input stage and establishing regular checking processes. There is evidence of staff engagement around this. In May 2023 Internal Audit finalised a report on Data Quality and Information Governance and gave limited assurance, stating improvements were needed around checking of Performance Indicator information.

The Council's data strategy is extensive and comprehensive and the approach is ambitious. It will take some time for all elements to be delivered, but it is important that the Council ensures it is satisfied with the quality of data used in performance indicators in the short term. The Council should continue to take the actions that it has accepted arising from the Internal Audit report on Data Quality and Information Governance.

As well as data used in performance management we review data used in the statement of accounts and this is an area where, at present, the lack of audited accounts may create a problem in placing reliance on some financial information. We may comment further on this when we issue the final Auditor's Annual Report for 2023/24.

The Council, in a report to Cabinet in April 2023, set out how it intends to learn from other local authorities as part of its approach to value for money. This report discussed the approach in general, drew on lessons learned from some pilot work and suggested a revised approach, which involved feeding data and insight into work in the transformation programme. The Council also has plans to use Benchmarking data including in service planning and the budget process. It is important to begin action on this and **an improvement recommendation has been raised, see Improvement Recommendation 11.**

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Improving economy, efficiency and effectiveness (continued)

Assessing performance and identifying improvement

As set out in the Council's report on their approach to Value for Money the Council is aiming to achieve a significant amount of change through its transformation programme. In addition to this the Council challenges its priorities and operations through external review (including inviting external review for example through the Local Government Association (LGA) Peer Review), through its budget work, through its scrutiny process and where relevant its Overview work.

The Council had an inspection in November 2021 from the Office for Standards in Education, Children's Services and Skills (Ofsted) which gave a "Good" rating and a follow up review in May 2023 in one area - care leavers - where Ofsted stated "leaders have significantly strengthened support and services". The Council also had a follow-up LGA corporate peer challenge which was positive about progress. As previously mentioned, a separate Ofsted review of SEND provision was carried out in March 2024 and the outcome is awaited.

There is no evidence of a failure to meet minimum service standards in core service areas or of repeated or historic failure to achieve improvements in efficiency and productivity.

As discussed on page 13, the Council is not on track on its work to remove the DSG deficit but at present this is a financial sustainability weakness and we do not regard it as evidence of failure to achieve improvements in efficiency.

There may be further matters to discuss in this section as the audits for 2023/24 and previous years conclude. If this is the case, commentary will be included in the final version of this report, or in our subsequent Value for Money work.

Partnership working

The Dorset Council Plan sets out the Council's key partners. The plan shows strategies originating at partnership level or relating to the Council's approach to partnership, very specifically around Integrated Care, the Local Enterprise Partnership and the aim for a Dorset County Deal (now described as a Devolution Deal). The plan shows evidence of a number of the Council's key actions being delivered with or after discussion with partners.

The Council has, for example, partnerships relating to resilience, refugee support and the Integrated Care System. As part of the developing position post-Local Government Reorganisation (see page 10) some of the partnerships with Bournemouth, Christchurch and Poole Council have been unwound, though this is not evidence of the partnerships failing to deliver.

The Council has oversight over its partnership working through its constitution. For the Harbours Advisory Committee for example, the Council has a report to Cabinet. The monitoring officer has confirmed that the Council's activity in all partnerships are subject to the Council's decision-making rules.

The performance information discussed on page 29 includes objectives and indicators where the delivery involves partnerships. Examples of this are the Safeguarding Board and the adoption return to an adoption agency.



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Improving economy, efficiency and effectiveness (continued)

Commissioning and procurement

The Council has a “Commercial Strategy - Commissioning and Procurement" which sets out its overall approach to commissioning and procurement. It also in February 2023 agreed an adult social care contracting strategy, and in February 2022 a strategy for children's commissioning. The Council has contract procedure rules as part of the constitution and its record of payments covers the information for a contracts register. The Council has a standing report to Cabinet on contracts awarded over £500k for transparency and scrutiny.

One internal audit report during 2023/24 identified some instances of non-compliance with a framework for repairs, where improvements need to be made. Additionally, the contract procedure rules allow departures from the prescribed rules where certain criteria are met, with these exemptions being agreed by officers under delegated authority. These exemptions are not reported to members. Our experience indicates that exemptions which are reported regularly to a member committee such as the Audit and Governance Committee can demonstrate enhanced transparency and enable lessons to be learned and trends to be monitored and addressed.

Following an internal review it was brought to our attention by the Council that in 2023/24 there was a lack of compliance with contract procedure rules and its scheme of delegation in relation to some procurement decisions and procedures. The investigations are not yet complete, but are sufficient for us to conclude that this represents a significant weakness in arrangements.

Based on the findings to date the Council should ensure that any non-compliant procurement decisions do not leave the Council with any residual risk.

We have raised a key recommendation on page seven.

Capital

The capital programme over the 5 years to 2027-28 is £373m. The Council reports on capital spending quarterly, and this includes changes to the programme where appropriate. The Council has an officer group named the Capital Strategy and Asset Management Group which reviews changes and approvals and monitors progress of spend and reviews new bids before making recommendations to Cabinet. Given the currently high interest rates the Council has been reviewing its capital programme to ensure that plans are not overstating the amount of spend that is likely to happen in each financial year.

In conclusion, and based on the lines of enquiry undertaken, we have identified a significant weaknesses within the Council’s procurement arrangements due to a lack of compliance with the Council’s contract procedure rules and its agreed scheme of delegation in relation to authorisation spend limits. We have raised a key recommendation on page 7.

We have identified two improvement recommendations. Further details can be seen on pages 34 and 35 of this report.

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Improvement recommendations

Improvement Recommendation 10	The Council should enable easy public access to performance information and show how this information is used in the organisation.
Improvement opportunity identified	The Council will get the benefits of its new approach without reducing transparency.
Summary findings	The Council has ceased reporting Performance Indicators to Cabinet as part of a thought-through approach to the use of data. This approach would be enhanced if i) the public can easily access the data and ii) it is clear how the data is being used by the organisation.
Criteria impacted	 Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	The Council has a stated aim of providing greater levels of public access to data, including performance information. The Data & BI Strategy 2023-2028 outlines a desire to 'democratise our data and provide open access to our data wherever practicable and appropriate' (page 8) and an intention to 'democratising and providing open data wherever possible' (Page 31). New public facing performance reporting is currently being developed as part of the on-going performance reporting project under this strategy and the wider Our Future Council Programme. This will include publicly available information showing performance against the Council's strategic plan/Council Plan. A new Council Plan is currently being established which will include new/updated publicly available performance monitoring. Details of the council's performance framework are available in the Council's main webpage which details how performance information is used inside the council. This information is also currently being refreshed and will be updated on the website once finalised.

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Improvement recommendations

Improvement Recommendation 11	The Council should progress its plans for benchmarking as part of a corporate approach to transformation and service review.
Improvement opportunity identified	Use of benchmarking in transformation and other reviews will help improve performance.
Summary findings	The Council's report on its approach to Value for Money proposes to use benchmarking and the Council also intends to use it in service planning and the budget process. Benchmarking provides an excellent opportunity to identify areas for further review and can enhance an organisation's economy, efficiency and effectiveness.
Criteria impacted	 Improving economy, efficiency and effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	As recommended, the Council will progress its plans for benchmarking as part of a corporate approach to transformation and service review.

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Dorset Pension Fund

Dorset Council is the administering authority for Dorset Pension Fund (DPF) and we are required to consider the Council's arrangements in respect of the governance and management of the pension fund. This requirement is for administering authorities only and as such we have undertaken a high-level review of arrangements in respect of:

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

The following operated throughout 2023/24:

- Dorset Pension Fund Committee - the decision-making committee with delegated authority from the Council, met five times in 2023/24. The committee received a range of performance information and agreed policies through the year.
- Dorset County Pension Board – its role is to ensure the effective governance of the Local Government Pension Scheme and compliance with regulations and legislation. The committee also considers matters relating to the management and investment of the assets of the fund. It met three times in 2023/24.

The Funding Strategy Statement is a key strategy to identify how employers' pension liabilities are best met going forward, support the desirability of maintaining as nearly constant a primary contribution rate as possible and ensure that the regulatory requirements to set contributions to meet the future liability to provide scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met. The funding strategy was updated and approved by DPF in March 2023 and approved by pensions committee in June 2023 to be posted on the Council's website.

The investment strategy was reviewed by Mercer, the fund's investment consultants, in June 2023 and confirmed the current investment strategy was relatively efficient with no compelling reason to make changes.

The last actuarial valuation took place in 22/23, valued at 31 March 2022.

We found that the risk register was a standard agenda item of Dorset Pension Board and that annual governance reviews were undertaken each year for the Board and the Committee. It was mentioned in the 2022/23 governance review there is added pressure on pensions administration due to the transition to Civica.

The treasury management strategy is set in March of each year. Administrative KPIs are reported quarterly and monitored during the year. The latest KPI report was taken to the December 2023 meeting. Throughout this time the DPF has only under performed in a limited number of processing targets such as deferred benefits and transfers in and out. The DPF is aware of this issue and has been open and transparent in reporting where performance has been below target and have taken steps to address the issues by:

- actively trying to recruit and reduce the vacancy rate; and
- contracting with AON Hewitt to help the pension administration team with the McCloud remedy.

Performance of the fund managers is monitored regularly and taken to the pension fund committee. The Council's pension fund is part of an LGPS pool called Brunel Pension Partnership. The Brunel partnership acts as an investment manager for several LGPS funds, and the cost of the partnership is monitored at the committee as part of confidential papers.

The DPF planned and managed its resources, monitored performance, and managed risk to ensure that it can continue to deliver its services.

Based on our review of the arrangements for administering the Dorset Pension Fund we are satisfied that proper arrangements were in place and we have not identified any evidence of significant weakness.

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Opinion on the financial statements

Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2024 and of its 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 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conduct our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements

The predecessor auditor issued a backstop disclaimer opinion on the 2022/23 financial statements in line with the national backstop deadline of 13 December 2024. Whilst we have undertaken significant work on the 2023/24 financial statements, in line with guidance issued by CIPFA, the National Audit Office and the Financial Reporting Council, we issued a backstop disclaimer opinion on the 2023/24 financial statements on 25 February 2025, ahead of the national deadline of 28 February 2025. The work we have completed begins the process of rebuilding assurance, however as we do not have assurance over opening balances we are unable to form an unmodified conclusion on the 2023/24 financial statements. Our detailed findings were reported to the Council's Audit and Governance Committee 24 February 2025.



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Appendices

Appendix A: Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

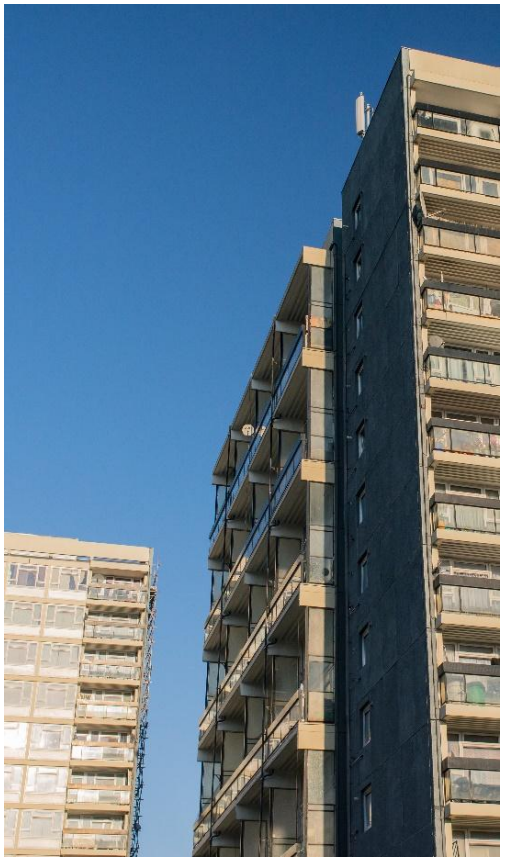
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

The Chief Financial Officer is required to prepare 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. In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



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Appendix B:
An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference(s)
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	-
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council's arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	5 and 7
Improvement	These recommendations, if implemented, should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	19-21; 25-30; 34 & 35

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