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Audit Committee
Thursday 31 January 2019
10.00 am Library Meeting Room, Taunton Library

To: The Members of the Audit Committee

Cllr C Aparicio Paul (Chair), Cllr G Verdon (Vice-Chair), Cllr M Caswell, Cllr B Filmer, Cllr L Leyshon, Cllr G Noel and Cllr M Rigby. (Vacancy Independent Cllr)

Issued By Scott Wooldridge, Strategic Manager - Governance and Risk - 23 January 2019

For further information about the meeting, please contact Neil Milne on 01823 359045 or ndmilne@somerset.gov.uk

Guidance about procedures at the meeting follows the printed agenda.

This meeting will be open to the public and press, subject to the passing of any resolution under Section 100A (4) of the Local Government Act 1972.

This agenda and the attached reports and background papers are available on request prior to the meeting in large print, Braille, audio tape & disc and can be translated into different languages. They can also be accessed via the council's website on www.somerset.gov.uk/agendasandpapers

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AGENDA

Item Audit Committee - 10.00 am Thursday 31 January 2019

*** Public Guidance notes contained in agenda annexe ***

1 **Apologies for absence**

The Chair of the Committee will request apologies received from Members.

2 **Declarations of Interest**

Details of all Members' interests in District, Town and Parish Councils will be displayed in the meeting room. The Statutory Register of Member's Interests can be inspected via the Community Governance team.

The Chair of the Committee will ask for any other declarations.

3 **Minutes from the meeting held on** (Pages 9 - 20)

The Chair of the Committee will ask for confirmation that the attached minutes are an accurate record of the last meeting.

4 **Public Question Time**

The Chair of the Committee will allow members of the public, who have registered, to ask a question/s and/or make a statement/s about any matter on the agenda for this meeting. Each member of the public that has registered to speak is allocated 3 minutes.
At the Chair's discretion, questions and statements from the public may be taken during the meeting, when the relevant agenda item is considered.

5 **Section 106 Review update** (Pages 21 - 56)

To consider this report.

6 **Partial Audit Update - Strategic Asset Management** (Pages 57 - 94)

To consider this report.

7 **Internal Audit Report - Healthy Organisation** (Pages 95 - 156)

To consider this report.

8 **Treasury Management Strategy** (Pages 157 - 186)

To consider this report.

9 **Capital Strategy** (Pages 187 - 200)

To consider this report.

10 **Minimum Revenue Provision (MRP)** (Pages 201 - 206)

To consider this report.

11 **External Audit Plan** (Pages 207 - 252)

To consider this report.

12 **Value For Money tracker** (Pages 253 - 266)

To consider this report.

13 **Risk Management** (Pages 267 - 310)

To consider this report.

14 **Internal Audit Update** (Pages 311 - 328)

To consider this report.

15 **Debtor Management** (Pages 329 - 334)

To consider this report.

16 **Anti-Fraud and Corruption Report** (Pages 335 - 372)

To consider this report.

17 **Committee Future Workplan** (Pages 373 - 376)

To consider this report

18 **Any other urgent items of business**

The Chair of the Committee may raise any items of urgent business.

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Guidance notes for the meeting

1. Inspection of Papers

Any person wishing to inspect Minutes, reports, or the background papers for any item on the Agenda should contact the Committee Administrator for the meeting on Tel (01823) 359500 or 357628; or Email: democraticservices@somerset.gov.uk
They can also be accessed via the council's website on
www.somerset.gov.uk/agendasandpapers

2. Members' Code of Conduct requirements

When considering the declaration of interests and their actions as a councillor, Members are reminded of the requirements of the Members' Code of Conduct and the underpinning Principles of Public Life: Honesty; Integrity; Selflessness; Objectivity; Accountability; Openness; Leadership. The Code of Conduct can be viewed at:
http://www.somerset.gov.uk/organisation/key-documents/the-councils-constitution/

3. Minutes of the Meeting

Details of the issues discussed and recommendations made at the meeting will be set out in the Minutes, which the Committee will be asked to approve as a correct record at its next meeting.

4. Public Question Time

If you wish to speak, please tell the Committee's Administrator, by 5.00pm on the 3rd (working) day before the meeting.

At the Chairman's invitation you may ask questions and/or make statements or comments about any matter on the Committee's agenda – providing you have given the required notice. You may also present a petition on any matter within the Committee's remit. The length of public question time will be no more than 30 minutes in total.

A slot for Public Question Time is set aside near the beginning of the meeting, after the minutes of the previous meeting have been signed. However, questions or statements about any matter on the Agenda for this meeting may be taken at the time when each matter is considered.

You must direct your questions and comments through the Chairman. You may not take direct part in the debate. The Chairman will decide when public participation is to finish.

If there are many people present at the meeting for one particular item, the Chairman may adjourn the meeting to allow views to be expressed more freely. If an item on the Agenda is contentious, with a large number of people attending the meeting, a representative should be nominated to present the views of a group.

An issue will not be deferred just because you cannot be present for the meeting. Remember that the amount of time you speak will be restricted, normally to two minutes only.

5. Exclusion of Press & Public

If when considering an item on the Agenda, the Committee may consider it appropriate to pass a resolution under Section 100A (4) Schedule 12A of the Local Government Act 1972 that the press and public be excluded from the meeting on the basis that if they were present during the business to be transacted there would be a likelihood of disclosure of exempt information, as defined under the terms of the Act.

6. Committee Rooms & Council Chamber and hearing aid users

To assist hearing aid users the following Committee meeting rooms have infra-red audio transmission systems (Luttrell room, Wyndham room, Hobhouse room). To use this facility we need to provide a small personal receiver that will work with a hearing aid set to the T position. Please request a personal receiver from the Committee's Administrator and return it at the end of the meeting.

7. Recording of meetings

The Council supports the principles of openness and transparency. It allows filming, recording and taking photographs at its meetings that are open to the public - providing this is done in a non-disruptive manner. Members of the public may use Facebook and Twitter or other forms of social media to report on proceedings and a designated area will be provided for anyone wishing to film part or all of the proceedings. No filming or recording may take place when the press and public are excluded for that part of the meeting. As a matter of courtesy to the public, anyone wishing to film or record proceedings is asked to provide reasonable notice to the Committee Administrator so that the relevant Chairman can inform those present at the start of the meeting.

We would ask that, as far as possible, members of the public aren't filmed unless they are playing an active role such as speaking within a meeting and there may be occasions when speaking members of the public request not to be filmed.

The Council will be undertaking audio recording of some of its meetings in County Hall as part of its investigation into a business case for the recording and potential webcasting of meetings in the future.

A copy of the Council's Recording of Meetings Protocol should be on display at the meeting for inspection, alternatively contact the Committee Administrator for the meeting in advance.

8. Operating Principles for Audit Committee

Reports

i. The reports should be clearly and concisely written. The report template available to officers on the intranet will be used.

ii. Reports should highlight issues for Member consideration, no matter how difficult or complex, for example:
   - All reports should detail current performance levels.
   - All reports should identify cost implications.

iii. No report should contain a recommendation "to note" the report.

iv. Any report, which outlines clear priorities for improvement, should contain recommendations and a detailed action plan with timescales and resources.

Members

i. Members should be clear about cost and resourcing issues highlighted in clearly and concisely written reports.

ii. Members should seek to understand the impact of reports on Council performance.

iii. Members can refer reports / issues back to the Cabinet where there are constructive concerns about services and/or performance.

9. The Role of the Audit Committee

The Committee:

(a) Approves (but not directs) internal audit's strategy, plan and performance;
(b) Reviews summary internal audit reports and the main issues arising, and seeks assurance that action has been taken where necessary;
(c) Considers the reports of external audit and inspection agencies;
(d) Ensures that the Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
(e) Ensures that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process and effective financial governance is actively promoted;
(f) Reviews the financial statements, external auditor's opinion and reports to Members, and monitors management action in response to the issues raised by external audit;
(g) Approves the annual accounts of the Council and the Annual Governance Statement, together with considering the Matters Arising from the Accounts Audit.

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AUDIT COMMITTEE

Minutes of a Meeting of the Audit Committee held in the Library Meeting Room, Taunton Library, on Thursday 22 November 2018 at 10.00 am

Present: Cllr C Aparicio Paul (Chair), Cllr G Verdon (Vice-Chair), Cllr S Coles, Cllr B Filmer, Cllr P Ham, Cllr L Leyshon, Cllr M Rigby, and Cllr J Lock.

Other Members present: Cllr T Munt and Cllr L Redman.

Apologies for absence: Cllr M Caswell.

82 **Declarations of Interest** - Agenda Item 2

In respect of agenda item 10 Cllr Verdon declared a personal interest as she held a contract with Grant Thornton.

83 **Minutes from the last meeting** - Agenda Item 3

The Committee agreed that the minutes of the meeting held on 20 September 2018 were accurate, and the Chair signed them.

84 **Public Question Time** - Agenda Item 4

The Chair noted that 2 members of the public had registered to speak, and some of their questions were relating to agenda item 12 and would be heard at that time.

The Chair invited a question about agenda item 6.
Mr Nigel Behan asked about the Partial Audit Update – Risk of Care Provider Failure and noted it was stated in the Executive Summary (of the SWAP Final Report) that:
"The Council uses a number of strategies to manage care provider failure risks. In order to understand the sustainability of the local care market, market analysis is completed by the Commissioning Team to assess the level of available provision in the county and identify any gaps. The state of the care market in neighbouring authorities is also assessed to identify how significant failures may impact on the Somerset care market. In recognition of the link between financial performance and quality of care and to identify any providers potentially at risk of failure, the Quality Assurance Team periodically complete a number of assessments of care providers. These are in the form of: • Six monthly Self-Assessment Forms (SAFs) completed by providers, focussing on quality standards, which are electronically assessed to provide a score; • Contract Reviews - The SAF score provides a RAG rating for each provider which, alongside other intelligence, such as CQC assessments and any safeguarding alerts received, informs their contract review period. As a minimum contract reviews will be conducted every 24 months; • Financial Assessments - Those providers deemed market risk should annually provide SCC with a copy of their accounts. These will be assessed by the Finance Team and risk scored. A medium or high risk would be referred to the Commercial and Procurement Team for further analysis.

Where failures do occur the Quality Assurance Team work closely with other partners such as the CQC and the Clinical Commissioning Group (CCG) to ensure that closures are managed, and that suitable alternative care is arranged for residents or service users with minimum distress. A Business Failure Policy has been developed which informs this process."

i) Do similar or equivalent Six monthly Self-Assessment Forms, Contract Reviews and Financial Assessments apply for the outsourced Learning Disability Service(LDPS) known as the (Social Enterprise Vehicle) Discovery operated by Dimensions UK Ltd? If so please can you supply the latest assessment of "risk of failure"? ii) How do you avoid the possible perception that Self-Assessment Forms could be interpreted as the providers "marking their own homework"?

Response
Discovery are not currently required to complete the SAF due to the reporting requirements set out in the Services Contract. There are a number of ways Discovery report and the Authority monitors the Financial Health of Discovery. These are briefly set out below:

1. Discovery are required to regularly monitor the financial health of their organisation in relation to a number of Financial Distress Thresholds. If Discovery fail to meet the Financial Distress Thresholds they must notify the Authority as soon as is practicable and within 10 Working Days. These are additionally reported in Discovery's Quarterly Finance Report and discussed at the Quarterly Finance Meeting. The Financial Distress Thresholds and the last reported assessments are shown in the table below.

2. Discovery submit a Quarterly Finance Report including detailed financial information to the Authority. This is a commercially sensitive and confidential report. The Authority did not have any concerns regarding Discovery's financial health following the last meeting.

3.In the event Discovery were to become insolvent the Authority has a Performance Bond with Dimensions (UK). In an insolvency situation Dimensions (UK) would assume the obligations and responsibilities of Discovery.

Although regulated care providers are required to complete self-assessment questionnaires to help the service monitor quality and determine risk, we ensure these are not relied on in isolation and are used rather to support the broader reviewing process. This information is triangulated by the contract officer alongside the provider's latest CQC inspection report, as well as with service quality feedback information received from a variety of sources including feedback from relatives or independent organisations like Healthwatch, and with intelligence gathered from professional teams accessing provider services such as safeguarding staff, district nurses and the CCG's Continuing health care teams.

In preparation for the contract visit, the contract officer will always undertake broader background enquiries, and when visiting the setting, they will spotcheck records held including care and support plans, monitoring records, environmental records and training matrices. Visits will also encompass discussions with residents, relatives and staff with time to look around the service independently.

The Quality Assurance Service uses local intelligence to determine the level of risk and to monitor the quality of the service being provided. The level of concerns and significance will determine whether the contract review process is halted and the provider is moved into the Quality Improvement Process (QIM). The QIM process enables a more in-depth overview of the provision, working in partnership with key colleagues from the CCG, CQC and Somerset Partnership, regular visits, meetings and further scrutiny of the service is undertaken. Once satisfied with the sustain improvement, the service will then revert back to the contract review process.

85 **Partial Audit update - Concessionary Fares** - Agenda Item 5

The Committee considered this report following an audit to assess the adequacy of the controls and procedures in place for the concessionary fare travel scheme operating in Somerset by the Council. This was an update report to the Committee as the original audit had resulted in partial assurance.

Members were reminded that the original audit had found that some key risks were not well managed, and systems required the introduction or improvement of internal controls to ensure desired objectives were met.

Attention turned to the report and the Lead Officer outlined the action and responses that had been put in place to address the partial audit recommendations.

Firstly, an overview was provided of concessionary fares and it was noted that 37 bus operators, including the Council, in Somerset provided services for 108,800 active bus pass users which totalled approximately 2.8 million passenger journeys resulting in a re-imbursement budget of £4.6m.

An explanation was also provided of how the system should work and the process to be followed by the bus operators to make quarterly claims for reimbursement using ticket machine data. A question was asked about the variance (between the journeys being claimed for and actual number of journeys) and if there were any sanctions being imposed and the Lead Officer undertook to provide a written response.

It was noted that the English National Concessionary Travel Scheme (ENCTS) allowed the Bus Operators to submit claims and these were then checked against the Host Operator Processing System (HOPS) that would then verify the Operator claims. The introduction of the smart ticketing system, the tightening of procedures and systems and the appointment of a dedicated concessionary fares officer had resulted in significant improvements in control systems.

There was a question about the data/information available from e-ticketing on the number of journeys made by women and those over retirement age in Somerset and the Lead Officer undertook to provide a written response.

The Committee was reassured that the audit findings were being appropriately addressed and the report was accepted.

86 **Partial Audit update - Risk of Care Provider Failure** - Agenda Item 6

The Committee considered this report that provided an update on the progress made in response to the partial audit recommendations following an audit in to the risk of care provider failure published in March 2018.

It was explained that, the Council had a statutory duty to support the needs of vulnerable adults if a regulated provider becomes unable to provide a regulated activity for an individual due to a business failure and that this duty applied regardless of whether the individuals' care was funded by the Council or not.

Members noted a that an audit had been undertaken to assess the adequacy of the controls and procedures in place to mitigate the risk of care provider failure and the audit had produced a partial opinion as several areas required improvement, particularly in relation to the financial assessment of local providers.

There was a discussion of the report and Appendix A which provided details of the progress made against the partial audit recommendations and Members noted the majority of which had been progressed and completed. It was noted that 2 recommendations had yet to be progressed and the Committee sought and received reassurance that improvements in both areas was being progressed.

There was a brief general discussion about the provision of care providers in Somerset and the role both the Council and the Care Quality Commission (CQC) had to ensure that quality and safeguarding issues were always adequately maintained.

The Committee accepted the report.

87 **Partial Audit update - Children's Direct Payments** - Agenda Item 7

The Committee considered this report that provided an update on progress made since an audit of the controls and procedures in place for the administering of direct payments by the Children with Disabilities team (CwD) in the Council.

It was noted that the audit had provided a partial assurance and identified 3 key areas of service where changes were required to be able to provide full assurance. The report set out the service activity relating to the areas of concern and the Committee considered each of the 3 areas.

It was reported that assessments were now more timely and accurately identified children and their families' needs. Regarding Direct Payments it was explained that these were now consistently used for the purposes set out in legislation. In addition rigorous administrative and management oversight and review has ensured that needs could be met within the budget assigned for that purpose.

Members were reassured that the actions higlighted in the partial audit had been embedded into the ongoing functioning of the service, thus providing an improved service to families and better financial controls.

The report was accepted.

88 **Partial Audit update - Contract Management of Children's Independent Placements** - Agenda Item 8

The Committee considered this final report following an audit of Contract Management in respect of children's independent residential, fostering and education placements. It was noted the placements team, part of the wider Children's Commissioning team, was responsible for sourcing and negotiating the terms for individual placements based upon information provided by service areas.

It was explained that Independent residential and fostering placements were funded from the Council's revenue budget, whereas SEND placements were largely funded by Dedicated Schools Grant (DSG) and spend on independent placements continued to be significant and remained a budget pressure for the Council. Therefore, it was imperative that a robust system of contract management was in place to ensure value for money was achieved and opportunities to reduce spend were exploited.

The objective of the audit had been to confirm that those contracted services were delivered in accordance with the terms and conditions of the contract and desired outcomes achieved. It was stated that the Auditors had reported a partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks were not well managed, and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.

Attention turned to the report and it was noted that of the seven significant findings five related to contract arrangements, and particularly a lack of clarity in who held responsibility for ensuring contracted outcomes were delivered, and an absence of process for an annual review of contracts. It was noted that in response lead officers had set out a range of responses to the identified risks and in answering questions explained how improvement had been achieved and progressed.

There was a brief discussion about changes to the funding for Children's Services from the next financial year onwards. The report was accepted.

89 **Internal Audit update** - Agenda Item 9

The Committee considered this report, introduced by the Internal Auditors, that provided a thorough overview and general update of the progress made against the 2018/19 Audit Plan.

It was noted that for a variety of reasons there continued to be some slippage in delivering the Audit Plan heading in to quarter 4 as a number of Audits had been deferred. In response to a question it was explained that remedial measures had been taken following requested actions from the Senior Leadership Team and extra days and/or staff could be added if required.

Attention was drawn to the overview of the Audit work being undertaken, included as Appendix B of the report, which included details of the Audits completed since the last report that had received Partial findings. There was a question about the progress regarding the partial Audit of Section 106 agreements and the Strategic Manager – Financial Governance advised that an update report would be prepared for the January 2019 meeting.

There was a question about the Council's proposed future borrowings and it was noted that this would be included within the overall MTFP review that was continuing to assess the Council's overall financial position. There was a brief discussion about training and the Chair noted that all Members were encouraged to undertake training/attend conferences in order to further develop their skills.

The Committee accepted this report.

90 **Emerging Audit Issues for the Audit Committee** - Agenda Item 10

The Committee considered this report that provided a collection of emerging audit topics for Members to consider. The Strategic Manager explained to the Committee that the Chartered Institute of Public Finance and Accountancy (CIPFA) had considered both the role of the Audit Committees and Heads of Internal Audit across local government.

In Somerset, whilst the South West Audit Partnership (SWAP's) work was governed by Public Sector Internal Audit Standards (PSIAS), CIPFA had developed further guidance about Audit Committees in particular. The CIPFA position statement on Audit Committees was attached to the report as Appendix A and this set out the key principles that CIPFA recommends for Audit Committees operating in local government.

In response to a question it was noted that CIPFA was supportive of audit committees and recognised the value they can add to good governance and strong public financial management. It was noted that generally, Somerset's Audit Committee's remit aligned very well with the CIPFA position statement and this included the 'core functions' as listed in section 4 of the statement.

The report asked the Committee to take a view on the CIPFA recommendation for all Audit Committees to have an independent member, even though this was not a statutory requirement. There was a brief discussion and the view of the external auditor was sought and he noted in his experience about half of the local authorities he had worked with had an independent member on the Audit Committee.

Members agreed to support the proposal for the Audit Committee to have an independent member and asked Officers to progress this suggestion and the Committee accepted this report.

91 **Corporate Risk ORG 0043** - Agenda Item 11

The Committee considered this report introduced by the Risk Manager, that provided details of the latest position of each of the identified strategic risks to the Council achieving its objectives.

There was a discussion of the report, particularly Appendix 1, the Strategic Risk Report which listed 12 risks and the actions being taken to mitigate each. It was reported that ORG0043 'maintain a sustainable budget' remained the most critical risk to the Council.

It was noted there was a focus to better understand the drivers of overspend across the Council's Services as it was reported that successful control of those budgets would underpin an overall balanced budget and the Director of Finance explained measures being taken to achieve that aim.

Members attention was also drawn to a heatmap which showed the latest distribution of the 12 identified risks and any changes since the last update report were indicated with a directional arrow.

The Committee welcomed the report and the determination of Officers to ensure that focus was retained to ensure risks were robustly managed and monitored and so ensure the Council objectives were achieved.

The report was accepted.

92 **Value For Money tracker** - Agenda Item 12

The Chair of the Committee invited 2 members of the public who had registered to speak on this item to address the Committee.

Mr David Orr, a Somerset resident, noted that the Value For Money report stated: "Reporting of financial performance to members should be transparent and understandable". I was looking for a simple Dashboard paper to give me these urgent answers:

Q1. Has the Councils financial position for 2018/19 improved or worsened since the September crisis budget? I cannot say.
Response
I would like to point Mr Orr towards the Month 6 Revenue Budget monitoring report that clearly sets out the answer to this question. That report was considered by the Cabinet on Monday 19 November and is available on our website. It shows that the position for 2018/19 has improved significantly. It is correct that reports such as that are considered by the Cabinet and by Scrutiny

Committees, while the Audit Committee ensures that there are processes for such monitoring to be undertaken.

Q2. Has the Councils shortfall for 2019/20 got worse, improved or stayed the same? I cannot say. The picture is even more confusing when considered against the 30% plus increase to the Children's Services base budget reported today.

Response

The position remains as per the report to the Cabinet in October 2018. A further report on how the pressures for 2019/20 may be met will be presented to the Cabinet in December 2018, with the detail coming forward in January and February 2019.

Q3. What level are the Council's reserves now? Are they at a healthy level or not? I do not know.

Response

Paragraph 1.3 of the report to the Cabinet on 19 November refers to this and confirms that the situation is a previously reported (General Fund at £7.8m), but that there will be a more detailed update at Q3.

Q4. Are underlying demographic and other service access pressures in social care manageable or not for 2018/19 and 2019/20? I do not know.

Response

Again, this information is set out in other reports; the monitoring report to the Cabinet of 19 November and the MTFP report to the Cabinet in October. Both note that the social care pressures continue and that the Council is having to address these by identifying proposals for change in other areas of the Council's services.

Q5. What is the External Auditor's view of the Value for Money progress to date (at the 2018/19 budget half year)? No paper or written opinion by him is published. Will a verbal assurance and opinion be given by the External Auditor?

Response

It is unlikely that the External Auditor will give a view at this stage, other than the comments that he has made in his report on today's agenda. There he notes that progress is being made against the recommendations given in July 2018.

The two Value for Money risk reports are incomplete without scores, mitigations, completion of actions etc.

There is an awful lot of incomplete work of a fundamental nature which I find worrying so far into this financial year.

Of particular concern, is the large amount of remedial budget management training being provided by the LGA to SCC managers with spending responsibilities?

When staff are promoted to managerial positions there should be a training programme that covers these new duties including budget management. There used to be. Is there still?

I believe that these disparate papers before you today show that a simple Dashboard summary report is required to highlight the state of this Council's finances and reserves and progress towards balancing budgets in 2018/19 and 2019/20.

Response
Officers and members are committed to ensuring that we follow up audit actions diligently. That is why we use JCAD to track the actions required under the VFM audit. JCAD is a risk management system with pre-defined reporting templates that are aimed at the full requirements of recording a risk. There is a big advantage in having all our risks and our audit recommendations in one system so that managers and action owners have one system to deal with. Furthermore, the system is reliable in providing prompts and is good in terms of its reporting capabilities. In short, it performs as we need it to perform with the report before the Committee showing good progress in delivering against the recommendations made by our Auditors in July.

Mr Nigel Behan, a Somerset resident, noted that in risk reference GTVFM005 it was stated: “Review and improve further our Budget Monitoring reports, making them more transparent and understandable and include greater analysis of areas such as use of reserves or grants and application and achievement of transformational projects through the use of capital flexibilities.” In the corresponding comments it is noted: “There have been improvements to the clarity of the budget monitoring reports since month 4, but there are further improvements that can be made………” where the Progress is 60% complete.
a) When will details of the proposed further improvements be made available?

Response
It is not proposed to produce a report outlining the future improvements, but rather to listen to comments about the report as it is considered, review identified good practice and hence improve the report incrementally. The month 6 report before the Cabinet on 19 November indicated that there will be more detail on reserves and on capital receipts flexibility in the next quarterly report. In addition, thought is being given as to how a better understanding of spending trends compared between years can be conveyed. The emphasis will be to make the report as comprehensive and as transparent as possible to underpin good quality decision making.

In Risk Reference GTVFM0007 it is stated: “External Audit – VFM: The S151 Officer in his/her annual reporting under Section 25 of the LG Act 2003 on the adequacy of reserves should clearly articulate their view on the adequacy of both general fund and other reserves (including earmarked reserves) along with any proposed actions to strengthen these going forward. As part of this process, consideration should be given, to the appropriateness of holding negative earmarked reserves.” And the 2019/20 MTFP gap of £19m between anticipated spend and the level of budget provision was revealed in October. In the comments section: “ Additional money has been granted to local government by the Government in the Autumn Statement; the precise impact of that is awaited at the time of this update.”
b) Will the additional money, in effect, help contribute to general and earmarked reserves, the general fund and negative earmarked reserves and in what proportion(s)?

Response

To date the Council has only received details of the capital grant for potholes and road repairs; it is intended that all of this will be utilised in 2019/20 so in that case none will go to reserve. If it cannot be spent in-year, and we have permission to do so, then a carry forward would be facilitated by an earmarked reserve.
In regard of the Social Care grant, the Council does not know the rules for its use. Bearing in mind that a lot of the pressure on the 2019/20 budget is caused by rebasing the Children's Services budget, then it is likely that some or all of the new grant (depending on the rules) will be used to support that increase and hence reduce the challenge of finding other savings.

c) Has there been any further progress in assessing the External Auditors comment about considering "the appropriateness of holding negative earmarked reserves". Can you share the latest view(s) on this matter?

Response
The review of reserves is ongoing, and opportunities will be taken to address inappropriate negative reserves provided that in doing so there is not further pressure on the revenue budget and hence on services.
The External Auditor also noted that he felt it would be inappropriate for him to comment and offer an opinion on the Council's overall financial position as not all the required information was available to enable a whole year assessment.

The Committee's attention then turned to the report and the various responses had been entered on to the Council's risk management system (JCAD), which would be the necessary tracking and reporting mechanism, and this format was familiar to Members from the regular Risk Management reports.

It was noted that since the report to the September meeting, progress had been made in a number of areas:

i) The budget monitoring reports continued to be developed regarding transparency. The month 6 report recently completed for Cabinet showed where budgets had been rebased to align more closely with need and the significant progress in reducing the in-year overspend;
ii) The rollout of budget management training to relevant officers was well advanced, fourteen courses would be completed by the end of November and feedback from the courses had been positive;
iii) The tracker had also been updated to reflect the Leader's recent round of meetings with local MPs. Members and officers continued to press government for a fairer funding agreement for Somerset as an upper tier rural authority.

There was a brief discussion about the update which included an overview of the possible progression and possible benefits to Somerset of business rate grants.

The report was accepted.

93 **External Audit update report** - Agenda Item 13

The Committee considered an audit progress report and sector update from external auditors Grant Thornton. The Committee was reminded that the

Council's financial statements had received an unqualified opinion and the value for money conclusion had received an adverse opinion.

The report also contained an update on the Pension Fund annual report consistency statement as a non-material error had been highlighted. It was noted that planning had begun for the 2019/20 financial year audit and the detailed work and visits would start next year.

The report also noted that the external auditors were meeting monthly with the Director of Finance and other officers to assess how the Council was responding to the VFM conclusions and addressing its budgetary challenges.

It was noted that several previous recommendations had focused on realistic and achievable base budget for each service area and the external auditors would also want to see that savings plans were also fully costed and stretched but deliverable.

The external auditors report was accepted.

94 **Future arrangements for the Chief Internal auditor role** - Agenda Item 14

The Committee considered this report about the function of the role of the Chief Internal Auditor (CIA) as the current post holder would be leaving. The Director of Finance praised the current CIA for his considerable contribution and the Chair and other members of the Committee echoed those sentiments.

It was reported that every local authority has a designated CIA with a direct reporting line to the Director of Finance (S151 Officer) and with routine access to the Chief Executive, leading Members and the Audit Committee. It was noted that an Assistant Director of the South West Audit Partnership (SWAP) would take over the CIA role.

Members noted that the Director of Finance (S151 Officer) would be the designated reporting line for the CIA and would carry out the client liaison role. The Director of Finance and CIA would work together to ensure that the Committee continued to be supported in the same way.

The report was accepted and the Committee agreed that the proposed arrangement would ensure the Council would have access to appropriate audit advice through a suitably independent person.

95 **Future workplan and Update** - Agenda Item 15

The Committee noted the report that listed future agenda items and reports for the first 2 meetings (31 January and 28 March) of 2019. There were 7 reports scheduled for each meeting.

It was further agreed that an update report on the Annual Audit Findings report tracker would continue to be presented at each meeting.

Members also noted during a brief discussion that there were 3 Fraud investigations on-going. The work plan was accepted.

96 **Any other urgent items of business** - Agenda Item 16

The Chair, after ascertaining there were no other items of business, thanked all those present for attending and closed the meeting at 13:31.

(The meeting ended at 1.31 pm)

CHAIRMAN

Somerset County Council
Audit Committee – 31 January 2019

Management of s106/s278 Agreements – follow up

Lead Officer: Alyn Jones, Director of Economic and Community Infrastructure Operations
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Cabinet Member: Cllr John Woodman, Cabinet Member for Highways and Transport
Division and Local Member: All

1. Summary / link to the County Plan

' The purpose of this report is to provide an update to Audit Committee on management and administration of Section 106 prior to a follow up audit scheduled to commence at the end of January 2019.

2. Issues for consideration / recommendations

: The Committee is asked to consider and comment on the latest position in response to the audit findings.

3. Background

3 Section 106 (S106) Agreements or Planning Obligations are commonly used by Local Authorities to bring development schemes in line with the objectives of sustainable development as articulated through the relevant local, regional and national planning policies.

3 Planning obligations can be provided by developers "in kind" (where the developer builds or provides directly the matters necessary to fulfil a planning obligation), by means of a financial payment, or in some cases a combination of both. Planning obligations in the form of financial contributions can be made by developers as a one-off contribution towards the total cost, or as a series of payments phased over time, depending on how the payment schedule has been negotiated.

3 Following an audit into the management of s106 agreements the key findings for the service were;

- There is no formal policy that documents the agreed approach to agreeing and obtaining S106 contributions from developers.
- There is a lack of co-ordination in the recording and monitoring processes for S106 contributions by different sections of the Council, with highways contributions being added to a database.
- There are no defined minimum standards for data entry of the detail of legal agreements into the systems used for monitoring of contributions.

3 In response the summary findings above the service has been addressing these through a number of different actions. The findings and summary action are set out in the appendix to this report.

3 A follow up audit has been requested by the service to consider whether the actions undertaken have addressed the risks identified, provide further guidance to the Service and to inform any future service improvement plans.

4. Consultations undertaken

Not applicable

5. Implications

The audit report identified that if management actions were not put in place there was a risk that contributions due to the County Council via legal agreements are not received or the actions from developers do not materialise.

The actions of the service are designed to address this risk and ensure that the actions recommended by the South West Audit Partnership are addressed.

6. Background papers

SWAP Section 106 Agreements – final audit report. March 2016.

Note For sight of individual background papers please contact the report author

Item No.	Original SWAP Recommendation	Update from the 2017 follow up Audit	SWAP Follow up Action	Latest Position
1.1	We recommend that the Strategic Manager Traffic & Transport Development should ensure that the draft policy in respect of agreeing and obtaining payments for maintenance of highways infrastructure is finalised and approved as soon as possible.	A draft Protocol 'Commuted Sums for Highway Infrastructure' had been produced and was to be published for use by developers once the following remaining tasks were completed: • Prepare appropriate amended commuted sums clauses for use within agreements under Section 38 and 278 Highways Act 1980. • Calculate proposed commuted sums charges for each appropriate highway asset based upon whole life costings and net present value of maintenance operations.	The previous Strategic Manager commented at the time of the last follow-up audit that some of the commuted sum charges required further bespoke calculations and it was important to recognise that the agreement of the Protocol would also involve the Local Planning Authorities. Since then, the Service Manager - Development Engineering has been tasked with completion of the calculations for commuted sums, to obtain approval of the Protocol and publish the guidance. Prior to this, there are two remaining actions: • To add standard commuted sums clauses in Section 106 and Section 38 legal agreements as an appendix; • To ensure the schedule of commuted sums charges is populated post calculation of extra 'over whole life' costs. It should be noted that most charges will be calculated on a site-specific basis and therefore it is envisaged that this schedule will include limited 'baseline' charges only.	The service has confirmed that: 1. Commuted Sums policy has been drafted. 2. Standard clauses added into the S106 & S278 Legal Agreement templates Action to take forward: Commuted sums guidance to be reviewed every 2 years.
1.2	We recommend that the Commercial and Business Services Director should review the decision regarding the corporate standard system for S106 contributions, by way of a joint service evaluation to determine whether all contributions should be recorded and monitored on a single system.	It was established that the Mastergov system would not be able to interface with Atrium as the two systems operate with different programming languages. Mastergov does have the functionality to record education contributions but there were no plans for Corporate Property to have access to the system and they were to continue to use Atrium for this purpose. The Head of Property advised that this decision had been arrived at following an assessment of the extent of the synergies between Infrastructure Programmes and Property processes, in respect of S106 contributions. It was agreed that whilst there are similarities, the two services needed to continue to function separately.	At the time of the 2017 follow up audit, it was stated by the Commercial and Business Services Director and the then Strategic Manager for IT that there was a much more collaborative approach to this issue since the audit was undertaken and that it would be ensured that as far as is technically possible that any replacement IT system for planning would be able to communicate with the Atrium Property system. For Infrastructure Programmes, the Mastergov modules for highways development control and infrastructure implementation are now operational, following completion of the data migration from Atrium to Mastergov and User Acceptance Testing. The Mastergov system went live on 24th January 2018. For Corporate Property, through further development work of the Atrium asset database it has been discovered that Atrium is unable to provide all required functionality needed to record and monitor S106 agreements. Furthermore, it has since transpired that Atrium will become unsupported from 2020 and therefore there has been initial work to commence a procurement process for a replacement system. Since this system will primarily provide the Council's property database, it is likely that any replacement may have similar limitations in the extent to which it can also provide a complete monitoring system for S106 contributions. For this reason, Atrium has been used to a limited extent to record S106 agreements, but Corporate Property have retained their previous manual spreadsheet, and this continues to be the primary method for recording and monitoring education contributions. This follow-up audit therefore aimed to establish whether there is any scope for officers in Property responsible for S106 education contributions to adopt and use the Mastergov system to record and monitor education contributions. Through testing of highways contributions in the Mastergov system (which can invariably be	Following a review of the functionality of MasterGov, Corporate Property now have access to the MasterGov System and an officer trained to use it. All education contributions are now being recorded within the MasterGov System. Action to take forward: Maintain records and review data integrity.

			more complex than education contributions) it was confirmed that all required functionality is available. This was discussed with the Infrastructure Programmes Development Infrastructure Officer who agreed that access and training for the Property Officer responsible for the monitoring of education contributions is feasible and could be considered and agreed by managers in both services. We are therefore recommending that the Director of Economic and Community Infrastructure Operations and Head of Corporate Property should liaise with ICT to confirm whether the Mastergov system can be adopted by Property for the recording and monitoring s106 education contributions.	
1.3	We recommend that the Strategic Manager Traffic & Transport Development should ensure that guidance is developed to formalise a set of minimum standards that dictate the key information that must be entered into a database of agreed developer contributions. This should include: • Evidence of key decisions throughout the negotiation process • Use of case notes to record key milestones and activity • This can also be used to help select the suitability of any future replacement system for recording contributions.	When the new system is introduced, a list of requirements/minimum standards are to be provided for every entry and will be issued along with formal training on the new system. An additional benefit of the Mastergov system is that TTDG will be able to set mandatory system fields themselves, without having to request and incur additional costs from the provider, which will enable them to enforce the minimum standards required.	A walkthrough of Mastergov confirmed there is functionality to ensure that each file on the database has a Documents section to add electronic images and an Agreements section in which all agreement documents can be uploaded. Furthermore, there is a section where Planning Officers can record details of enquiries received into the team. The Principal Development Infrastructure Officer is currently drafting a protocol for standardisation of document description names uploaded to the system and we were satisfied that the Mastergov system has greatly enhanced functionality compared to Atrium. However, due to the bespoke nature of each legal agreement and development, it is not possible to make these fields mandatory for completion. Therefore, the completion of this recommendation requires further guidance currently being written by the Service Managers for Highways Development Management and Development Engineering, which will define the minimum expected standards for recording key decisions throughout the negotiation process, as well as key milestones and activity. In the interim, management instructions have been issued to relevant officers by email to communicate the expected standards. We have therefore assessed this recommendation as being in progress.	Document Storage Protocols now written and issued to all MasterGov database users. Service Managers are responsible for ensuring that their team members abide by the document storage protocols. Action to take forward: Maintain records and review data integrity using the Audit function in MasterGov monthly to confirm quality of data entry (missing information, inaccurate entry and/or non-compliance with guidance). Review data integrity.
1.4	We recommend that the Strategic Manager – Corporate Property should ensure that key information is entered into a monitoring system for agreed education contributions. This should include: • Evidence of key decisions throughout the negotiation process • Supporting notes to evidence how formula amounts	The Head of Property advised that Property were in the process of refining and cleansing the data that they recorded in the spreadsheet system, with a view to loading this into Atrium when the system has been fully developed. Since the return of SWOne colleagues to SCC, Property had their own resource with the necessary Atrium knowledge and expertise to move this forward. There was however currently no allocated budget for this development work and for this reason, the revised implementation date had to be practical.	Through discussion with the Head of Corporate Property and the Property Officer, it was established that due to the aforementioned status of the Atrium software, all information in respect of education contributions relating to; • Evidence of key decisions throughout the negotiation process • Supporting notes to evidence how formula amounts have been calculated • Key milestones and activity • is still being recorded in manual files only, as currently there is no central repository where it can be stored. This gives further weight to the recommendation made for 1.2 for consideration to be given to Corporate Property adopting the Mastergov system to record S106 contributions.	Corporate Property now have access to the MasterGov System and an officer trained to use it. All education contributions are now being recorded within the MasterGov System. Action to take forward: Corporate Service Manager to issue Management Instruction similar to those issued by Service Manager Development Engineering and Service Manager Highways

	have been calculated • Recording key milestones and activity			Development Control. Corporate Property to ensure data integrity of Education Contributions in accordance with the guidelines and management instructions.
1.5	We recommend that the Strategic Manager Traffic & Transport Development should ensure that guidance is developed to formalise a set of minimum standards that dictate the key information that must be entered into a database of agreed highways contributions. This should include: • Original estimated payment triggers and due dates • Revised estimated payment trigger dates (and a comments field to explain the delay) • Actual invoice date • Furthermore, it is recommended that reports can be produced from the system for ongoing monitoring purposes.	When the Mastergov system is introduced, a list of requirements/minimum standards are to be provided for every entry and will be issued along with formal training on the new system. An additional benefit of the Mastergov system is that TTDG will be able to set mandatory system fields themselves, without having to request and incur additional costs from the provider, which will enable them to enforce the minimum standards required.	A walkthrough of Mastergov identified a series of fields in which the following information can be recorded: • Original estimated payment triggers and due dates • Revised estimated payment trigger dates (and a comments field to explain the delay) • Actual invoice date However, it has not been possible to make these fields mandatory for completion because not all legal agreements will require time-based triggers. By introducing further control, it could prevent details from being saved onto the database unless the fields hold information. If there is no information to be applied in these fields, it could encourage irrelevant information being input to allow the data to be saved, so having further mandatory fields could make the database ineffectual. A supplementary management instruction has therefore been sent by the Service Manager, Development Engineering to all relevant staff communicating that: • All Clauses/Obligations within the Legal Agreement must be accurately entered into the Clauses and Obligations tabs within the Legal Agreements Module once the Agreement has been signed and sealed. • Trigger dates will be estimated if they are occupation based. Monthly reports will indicate what Obligations are due within the following month and if the trigger dates need to be revised then this must be done before the Trigger Date is passed and the reason for the change will be recorded in the Comments field. For example, the Trigger date may need to be extended due to a slowdown on site of construction/sales. We were satisfied that the Mastergov system has greatly enhanced functionality compared to Atrium. However, because of the bespoke nature of each legal agreement and development, it is not possible to make these fields mandatory for completion. Therefore, the completion of this recommendation hinges on the guidance currently being written by the Service Managers for Highways Development Management and Development Engineering that will define the minimum expected standards for recording key decisions throughout the negotiation process, as well as key milestones and activity.	Guidance documents and management instruction issued to all Database users on what must be recorded and how. Monthly meetings now take place with ECI Operations Director the purpose of which is to review the contributions schedule and monitor data quality. Corporate Property also now hold monthly review meetings to consider the relevant s106 account. Action to take forward: to regularly review data integrity using the Audit function in MasterGov. Historic Data migrated over from the old Atrium System will be updated as and when it is reviewed
1.6	We recommend that the Strategic Manager – Corporate Property should ensure that should ensure that key information is entered into a monitoring system for agreed education contributions. This should include:	The Head of Property advised that Property were in the process of refining and cleansing the data that they recorded in the spreadsheet system, with a view to loading this into Atrium when the system has been fully developed. Since the return of SWOne colleagues to SCC, Property had their own resource	Given the limitations of Atrium, sample testing was conducted on nine S106 agreements with education contributions and payment triggers as recorded in the monitoring spreadsheet. The spreadsheet records all original payment triggers and the Property Officer has worked with a colleague in Education Commissioning to use the Infrastructure Growth Plan to plot trigger due dates for each development in progress. At present the due date is specified as a year (enabling the	Corporate Property now have access to the MasterGov System and an officer trained to use it. All education contributions are now being recorded within the MasterGov System. Vacant position has now been filled.

	• Original estimated payment triggers and due dates • Revised estimated payment trigger dates (and a comments field to explain the delay).	with the necessary Atrium knowledge and expertise to move this forward. There was however currently no allocated budget for this development work and for this reason, the revised implementation date had to be practical.	spreadsheet to be filtered to identify all agreements with triggers due) but the Property Officer envisages this developing into specific calendar dates in the future when time and resource allows. Within the sample tested, there were four agreements where estimated trigger dates have been exceeded without receipt of payment from the developer. Due to a vacancy within the team, there is insufficient resource to conduct debt management activity to chase developers, but records of such instances are being maintained and when recruitment is complete, a newly appointed officer will be tasked with this work. We were satisfied that improvements have been implemented to provide a more effective monitoring system for payment triggers and actions are in progress to further improve this system. There is however reduced assurance that overdue contributions are being pursued with developers for the aforementioned reasons.	
1.7	We recommend that the Strategic Manager Traffic & Transport Development should ensure that guidance is developed to formalise a set of minimum standards that dictate the key information that must be entered into a database of agreed highways contributions. This should include contribution spend expiry dates It is also recommended that a report of expiry dates can be produced from the system for ongoing monitoring purposes.	When the Mastergov system is introduced, a list of requirements/minimum standards are to be provided for every entry and will be issued along with formal training on the new system. An additional benefit of the Mastergov system is that TTDG will be able to set mandatory system fields themselves, without having to request and incur additional costs from the provider, which will enable them to enforce the minimum standards required.	A walkthrough of Mastergov identified that each file on the database has a Cash section, where details of received contribution payments can be added. The Principal Development Infrastructure Officer is currently developing reporting that will alert the team to approaching expiry dates and prompt action to either ensure funds are spent or returned. However, because not all legal agreements will specify an expiry, this field cannot be made mandatory for completion and Mastergov cannot be configured to prompt a user to enter an expiry date when payment is entered, to avoid this being missed. A supplementary management instruction has therefore been sent by the Service Manager, Development Engineering to all relevant staff communicating that: "For all contributions with payback clauses, the Date the payment is due to be returned if not used will be recorded in the Spend by Date of the Cash Details record". We were satisfied that the Mastergov system has greatly enhanced functionality compared to Atrium and that positive action has been taken but have assessed the recommendation as being in progress, to make provision for further audit sample testing to fully verify the effectiveness of these actions.	Alerts have been created and set up along with monthly reports to the ECI Operations Director providing details of every contribution associated with highways related legal agreement held on the database. Monthly review meetings are held to discuss the contributions and any actions that may be required. Actions to take forward: Regular reporting and review.
1.8	We recommend that the Strategic Manager – Corporate Property should ensure that key information is entered into a monitoring system for agreed education contributions. This should include: • Contribution spend expiry dates	The Head of Property advised that Property were in the process of refining and cleansing the data that they recorded in the spreadsheet system, with a view to loading this into Atrium when the system has been fully developed. Since the return of SWOne colleagues to SCC, Property had their own resource with the necessary Atrium knowledge and expertise to move this forward. There was however currently no allocated budget for this development work and for this reason, the revised implementation date	Education contributions recorded in the monitoring spreadsheet record were reviewed for the inclusion of contribution spend expiry dates. For a sample of nine agreements tested, seven had expiry dates specified in the legal agreement. When an agreed contribution is entered onto the spreadsheet, the deadline is recorded as the number of years from payment. We confirmed that as soon as a payment is received, that field is converted into an expiry date. For the seven agreements, all had an appropriate expiry format entered and we are therefore satisfied that this action is complete.	MasterGov has now been implemented in Property services. There is further work to undertake to upload and review or relevant legal agreements and ensure that MasterGov review and notification triggers are included. No further action required.

		had to be practical.		
1.9	We recommend that the Strategic Manager Traffic & Transport Development should ensure that guidance is developed to formalise a set of minimum standards that dictate the key information that must be entered into a database of agreed developer contributions. This should include: • Designated Responsible Officers	When the Mastergov system is introduced, a list of requirements/minimum standards are to be provided for every entry and will be issued along with formal training on the new system. An additional benefit of the Mastergov system is that TTDG will be able to set mandatory system fields themselves, without having to request and incur additional costs from the provider, which will enable them to enforce the minimum standards required	A walkthrough of Mastergov identified for each file on the database, several mandatory fields where officers connected to an agreement must be specified. This includes District Council Officers where known, but the main requirement for Infrastructure Programmes is the County Officer. We were therefore satisfied that the Mastergov system has greatly enhanced functionality compared to Atrium in terms of the requirement to record designated responsible officers and as these fields are now mandatory for completion, this has completed the recommendation.	No further action required.
1.10	We recommend that the Strategic Manager Traffic & Transport Development should ensure that guidance is developed to formalise a set of minimum standards that dictate the key information that must be entered into a database of agreed developer contributions. This should include: • Original contribution agreed • Revised contribution • Evidence of indexation calculations to maintain an audit trail of the increased contribution.	The AtriumSoft system was unable to record the information relating to indexation of Contributions within its structure. When the Mastergov system is introduced, a list of requirements/ minimum standards are to be provided for every entry and will be issued along with formal training on the new system. An additional benefit of the Mastergov system is that TTDG will be able to set mandatory system fields themselves, without having to request and incur additional costs from the provider, which will enable them to enforce the minimum standards required.	Each file on the Mastergov database has a section in which the original contribution agreed, and the revised contribution can be entered. This will not be applicable to every S106 Agreement but can occur because the developer seeks to renegotiate a contribution amount after the agreement, or because indexation is added to a contribution to reflect inflationary factors between the date of agreement and date of payment. Mastergov has sufficient fields to record an audit trail where contributions are revised, along with reasons and where this relates to indexation, the calculation method must be specified. However, is has not been possible to make these fields mandatory for completion because not all legal agreements will require indexation. This requirement varies between one legal agreement and another. A supplementary management instruction has therefore been sent by the Service Manager, Development Engineering to all relevant staff communicating that the following information must be recorded within the comments/details fields within the system: Any change in Bond figure/fees/contributions due to indexation. The indexation increase must be recorded in the Indexation Amount Due Field in the Triggers tab within the Legal Agreement Module and the reason provided in the Comments field. We were satisfied that the Mastergov system has greatly enhanced functionality compared to Atrium. Because of the bespoke nature of each legal agreement and development, the completion of this recommendation hinges on the guidance currently being written by the Service Managers for Highways Development Management and Development Engineering that will define the minimum expected standards for recording reasons why contributions received have varied from the original amount agreed, as well as the basis for such calculations.	The information is now entered into the database and reported on each month to the ECI Operations Director. Actions to take forward: Continue to monitor data integrity.
1.11	We recommend that the Strategic Manager – Corporate Property should	The Head of Property advised that Property were in the process of refining and cleansing the data that they recorded	An indexation amount is applied at the time of a payment becoming due and is determined by a time-based calculation that accounts for inflation over the total period. The Property team use	No further action required. Implementation to be reviewed through regular monthly

	ensure that guidance is developed to formalise a set of minimum standards that dictate the key information that must be entered into a database of agreed developer contributions. This should include: • Evidence of indexation calculations to maintain an audit trail of the increased contribution.	in the spreadsheet system, with a view to loading this into Atrium when the system has been fully developed. Since the return of SWOne colleagues to SCC, Property had their own resource with the necessary Atrium knowledge and expertise to move this forward. There was however currently no allocated budget for this development work and for this reason, the revised implementation date had to be practical.	the Building Cost Information Service (BCIS) provided by the Royal Institute of Chartered Surveyors to provide the relevant annual rates to inform the calculation. For a sample of nine education contributions tested, there were four where indexation had been required within the legal agreement and applied to staged payments. In all four cases there was an entry on the monitoring spreadsheet of rates used, which were verified to the agreement date, payment date and confirmed to be accurately calculated. This revised approach has provided a clear audit trail and therefore, we are satisfied that this recommendation is complete.	compliance check.
1.12	We recommend that the Strategic Manager Traffic & Transport Development should ensure that invoices are raised, and minimum standards are agreed for the raising of invoices for developers to pay highways contributions. This should include an agreed format for invoice description details, to ensure that payments can be identified through SAP. The invoice number should be recorded in the monitoring system for audit trail purposes.	When the Mastergov system is introduced, a list of requirements/minimum standards are to be provided for every entry and will be issued along with formal training on the new system. An additional benefit of the Mastergov system is that TTDG will be able to set mandatory system fields themselves, without having to request and incur additional costs from the provider, which will enable them to enforce the minimum standards required.	Through discussion with the Principal Development Liaison Officer, it was established that a management instruction was issued to the team following the previous audit, that all S106 contributions should be formally requested from developers through a raised invoice on SAP. The Principal Development Liaison Officer confirmed that as this applies to a small group of officers, he is confident this is now standard procedure and is being complied with. The Mastergov system includes sufficient fields within the Cash screen to ensure that invoice numbers can be recorded in the system for audit trail purposes. However, is has not been possible to make these fields mandatory for completion because not all legal agreements will require invoices to be raised. A supplementary management instruction has therefore been sent by the Service Manager, Development Engineering to all relevant staff communicating that: • Invoices will be raised for all financial elements within the Agreement. i.e. Superintendence fees, commuted sums and Contributions. • Copies of all invoices will be stored in the Agreements Tab of the Legal Agreement Module and the Invoice number will be recorded on the Cash Details record. We are satisfied that positive action has been taken but have assessed the recommendation as being in progress, to make provision for further audit sample testing to fully verify the effectiveness of these actions. This will include a review of whether invoices conform to an agreed format for description details, to ensure that payments can be identified through SAP.	All financial elements of Legal Agreements are now invoiced. Copies of the invoices are kept on the database file and the invoice number recorded against the payment. Actions to take forward: Continue to monitor data integrity.
1.13	We recommend that the Strategic Manager - Traffic & Transport Development and the Strategic Manager – Corporate Property ensures that periodic reports of development schemes with commenced S106 contributions are provided to Senior Management, to include a risk ranking where issues are identified.	The AtriumSoft reporting tool was difficult and took time to create an accurate report. These reports then had to be exported for managers to review in Excel format. The new system has a manager's dashboard bolt-on, which will allow managers to quickly and accurately review up to date information on standard reports without having to access the full system. Periodic reports can also be created and produced automatically in the	Mastergov is now implemented and has a manager's dashboard bolt-on, which will allow managers to quickly and accurately review up to date information on standard reports without having to access the full system. Periodic reports can also be created and produced automatically in the new system. An action was agreed for the Principal Development Infrastructure Officer to establish what data will be required in preparation for Mastergov implementation, as specifications for the reports needed to be written so that they can be created within the report builder. Reports are currently being considered and written for the	Report issued on a monthly basis to ECI Operations Director and monthly meetings held to review the status and confirm appropriate actions.

		new system. The Mastergov provider has asked TTDG for a list of basic reports that will be available from the system from day 1 and TTDG then expect to ascertain and request what fine tuning and additional information will be required.	reporting mechanism within Mastergov. The ECI Operations Director has instructed that reports are to be prepared and issued at a monthly meeting whereby contributions, data quality and exceptions are reviewed and signed off. The report will contain the following information; • Contributions expected within the next month and any changes to expected due dates. • Expiry dates that fall within the next 6 to 12 months for contributions received • Review of mandatory and non-mandatory field information • Exceptions reports (to consider those contributions likely to be out of tolerance within the Agreements) and to record any decisions made. These decisions will be recorded within the Mastergov software. • We have therefore assessed the recommendation for Infrastructure Programmes as in progress.	

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Final Report

SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

Somerset County Council

▶ Section 106 Agreements

Issued to:

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Janet Frost
Estates and Planning Advisor

Mike Lewis
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Richard Williams
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SWAP Chief Executive

Working in partnership with

Date of Report: 22nd March 2016

Issued by:

Lisa Fryer
Assistant Director

Jenny Frowde
Lead Auditor

Section 106 Agreements

Management Summary

Section 106 (S106) Agreements or Planning Obligations are an established and valuable mechanism for securing planning matters arising from a development proposal. They are commonly used by Local Authorities (LAs) to bring development schemes in line with the objectives of sustainable development as articulated through the relevant local, regional and national planning policies.

Planning obligations can be provided by developers "in kind" (where the developer builds or provides directly the matters necessary to fulfil the obligation), by means of a financial payment, or in some cases a combination of both. Planning obligations in the form of financial contributions can be made by developers as a one-off contribution towards the total cost, or as a series of payments phased over time, depending on how the payment schedule negotiated.

In terms of highways obligations, the provision of traffic calming measures, a new roundabout or other junction improvements are a few examples where such an Agreement would be necessary. Highway works can be secured by other means, such as S278 Agreements and contributions can also relate to transport matters, such as contributions towards bus services.

Development schemes of a significant size that will impact on existing education provision will require a contribution towards school facilities. These payments are usually calculated using recognised formulae based on an estimated number of pupils for primary, secondary, and sixth form education that are likely to be generated from each house that is built.

Other types of contribution can include affordable housing, community infrastructure and open space provision, which are the responsibility of the District Council.

At Somerset County Council, S106 Agreement negotiations are primarily dealt with by officers in the Traffic and Transport Development team for highways contributions and Estates officers within Corporate Property for education contributions. Currently there is no central management information available to provide an overview of the financial context of all such contributions owing to the Council. However, we looked at a sample of ten schemes with agreed contributions for both highways and education and the total exceeded £57m.

Legislation was introduced in 2010 that allows local councils to set a Community Infrastructure Levy (CIL), rather than a S106 contribution. Within Somerset, the adoption of CIL has been staged by the District Councils with each adopting their own timetables for public inquiry and consultation. Currently only West Somerset Council and Exmoor National Park are yet to formally adopt CIL, however at the present time only Taunton Deane and Sedgemoor Councils have adopted charging schedules.

A CIL allows councils to raise funds from developers carrying out building projects in their area, for spending on infrastructure as identified in the District Council’s Infrastructure Delivery Plan.

Summary of Significant Corporate Risks

The following table records the inherent risk (the risk of exposure with no controls in place) and the manager’s initial assessment of the risk (the risk exposure on the assumption that the current controls are operating effectively) captured at the outset of the audit. The final column of the table is the Auditors summary assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Areas identified as significant corporate risks, i.e. those being assessed as ‘high’ or ‘very high’ risk areas in line with the definitions attached should be addressed as a matter of urgency.

Risk	**Inherent Risk Assessment**	**Auditors Assessment**
The contributions due under a Section 106 Agreement are not received, or the actions required from the developer do not materialise.	High	Medium

Summary of Significant Findings

The following were identified as key findings for the service and therefore categorised, in accordance with the definitions attached, as a level '4' or '5' priority in the action plan.

- There is no formal policy that documents the agreed approach to agreeing and obtaining S106 contributions from developers.

- There is a lack of co-ordination in the recording and monitoring processes for S106 contributions by different sections of the Council, with highways contributions being added to a database and education contributions being recorded in a manual spreadsheet.

- There are no defined minimum standards for data entry of the detail of legal agreements into the systems used for monitoring of contributions.

Further details of audits’ findings can be viewed in the full audit report, which follows this Management Summary.

Conclusion and Audit Opinion

Partial

I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

The absence of an overarching policy means that there is a risk of an inconsistent approach by officers in the negotiation of planning obligations, which could result in insufficient contributions being secured from developers. This is mitigated to some extent by the fact that the officers currently involved in such negotiations are both qualified and experienced in their fields. However, it is important that a policy is developed to ensure there is a common understanding of the Council’s approach that is consistent with other relevant strategies and to allow more detailed operational guidance to be developed.

The recent decision to seek a replacement for the Atrium system used by Traffic & Transport Development, presents an ideal opportunity for a cross-Council review of how all S106 contributions should be recorded and monitored, with a view to minimising the use of separate and manual systems for the same purpose.

Practice guidance provided by DCLG for Planning Obligations states that "*the use of phased payments over a period of time will require a longer-term relationship between the LA and developer. As such the LA and developer will need to have monitoring systems to alert parties to outstanding contributions*". The current use of systems was found to be inconsistent in respect of the way that agreements are entered into the database to enable effective monitoring of payments when they become due. The absence of checklists to ensure minimum standards are complied with and the fact that some system functionality is not being fully utilised, has led to officers becoming more reactive than proactive in the pursuit of contributions. In addition our work identified that all of the above meant that the audit trail for contributions was very difficult to follow and often not complete. The result is that it is not possible to measure easily whether trigger points have been met and contributions received promptly and in full.

The timing of the project to identify a replacement for Atrium again, provides an ideal opportunity to:

a) review the desirable functionality of the new system;
b) the preferred approach for recording of agreements and
c) monitoring of developer compliance with conditions.

The recommendations in this report relating to the need for minimum standards have been made in anticipation that, in line with best practice, a single system for recording all contribution types can be introduced. However, should the decision be taken to retain separate systems, then the required standards will need to be applied to both highways and education contributions, to ensure effective monitoring. It is noted that there are other teams within the Council, not included within the scope of this audit, who should be party to this decision as primary users of the current system.

Detailed Audit Report

Objectives & Risks

The key objective of the service and risks that could impact on the achievement of this objective were discussed and are identified below.

Objective: To secure from developers, as part of the planning process, contributions towards the creation and improvement of the infrastructure necessary to support and sustain the local community.

Audit Objective: Processes are in place to ensure that developers deliver their planning obligations as included in Section 106 agreements.

Risk: The contributions due under a Section 106 Agreement are not received.

Method & Scope

This audit has been undertaken using an agreed risk based audit. This means that:

- the objectives and risks are discussed and agreed with management at the outset of the audit;
- the controls established to manage risks are discussed with key staff and relevant documentation reviewed;
- these controls are evaluated to assess whether they are proportionate to the risks and evidence sought to confirm controls are operating effectively;
- at the end of the audit, findings are discussed at a close-out meeting with the main contact and suggestions for improvement are agreed.

Findings

The following paragraphs detail all findings that warrant the attention of management.

1.1 S106 Policy

We were unable to establish that Somerset County Council have a formal policy detailing how S106 agreements will be sought, from the interviews conducted with various officers who are involved with the agreement and monitoring of planning obligations.

Our research of polices held by other local authorities concluded that whilst their documents tend to vary in terms of depth and scope, they do provide clarity and robust information of how local authorities work with developers to understand the viability of development and to support justified requests for planning obligations.

Calculation and Scheduling of Developer Contributions

Contributions towards highways works are determined by planning obligations legislation, under Section 106 of the Town and Country Planning Act 1990. For the provision of highways infrastructure to be delivered by the Local Authority, an agreed amount is usually negotiated between the Authority and the developer, based on a contribution towards actual cost and taking into account any other relevant factors.

Developer contributions towards the provision of education were until 2009, most commonly determined by the Basic Need Cost Multiplier formula provided by the Department for Children, Schools and Families (DCSF). After this time, the DCSF ceased to provide annual updates to the multiplier figures. However many Councils have continued to use the formula as a basis for calculation, with an additional indexation amount applied to account for inflationary factors. The present cost multipliers used in Somerset are not formally documented in a policy and were last reported to Scrutiny Committee in 2013.

Typically, it was noted that the smaller development schemes within our sample required a single lump sum contribution from the developer towards highways provision, which was usually timed towards the start of the development. However, there is no policy guidance that provides a definition of what constitutes a small development and when such payment methods should be applied.

In trying to establish common practice, we identified that a number of other local authorities publish an approved policy document for guidance purposes. The more robust examples provide a detailed overview of how authorities assess the impact of existing and new development proposals, on for example education facilities, by identifying the likely number of pupils that will be generated, allowing for existing capacity and identifying mitigation needed to arrive at the cost of additional school facilities.

Whilst Somerset do not have an overarching S106 policy, there is a risk that officers, developers and other stakeholders do not have clear guidance on the Council's strategic approach for planning obligations, the basis for how contributions are agreed and calculated and how they will be monitored.

1.1a I recommend that the Economic & Community Infrastructure Operations Director should ensure that a formal policy for S106 is documented and approved by Members, to ensure that the agreed approach is consistent with the broad objectives of other strategic plans. The policy should also include guidance on how and when agreements will be applied and the basis for calculation of developer contributions, including the education contribution formula.

1.2 Maintenance Payments – 'Commuted Sums'.

In respect of developer maintenance payments that are typically applied to highways infrastructure, the Council do not secure maintenance payments for 'normal' infrastructure (normal road construction and associated highway drainage), only for 'abnormal' provisions which attract greater on-going maintenance and for which funding is not already covered by other means. These are usually referred to as Commuted Sums.

We were advised that there is Somerset common practice, which guides the way that such payments are calculated. However this practice is not currently documented in a formal policy.

There is a risk that if the basic principles for calculating commuted sums are not documented then they will not be consistently applied which could result in insufficient funds being available to maintain infrastructure.

1.2a **I recommend that the Strategic Manager Traffic & Transport Development should ensure that the draft policy in respect of agreeing and obtaining payments for maintenance of highways infrastructure is finalised and approved as soon as possible. This should form part of the overarching policy recommended under 1.1a.**

1.3 Monitoring Systems for Highways & Education Contributions

This finding should be viewed in the context of the current situation with regards to the Atrium system. As part of the Council's agreement with SWOne, there was a requirement for a system to be identified and procured to replace Genesis – the corporate property and asset database. Atrium was selected and Corporate Property are in the process of rolling out, with priority being given to higher risk areas, such as schools and asbestos records.

Atrium is also the incumbent system used by the Traffic & Transport Development team, for recording and monitoring highways S106 contributions. However, as the support contract is due to expire in 2017, there have been initial discussions and a working group set-up to identify a replacement system. The functionality currently provided by Atrium is felt to be insufficient to meet requirements by officers responsible for highways contributions.

S106 contributions relating to the provision of education, the Estates and Planning Advisor in Corporate Property is responsible for maintaining a manual spreadsheet to capture and monitor contributions agreed. The spreadsheet includes details of payment due dates and triggers and also payments received.

Since the Traffic and Transport Development team are currently involved in discussions regarding a replacement system for Atrium, there is the opportunity for consideration to be given to both education and highways contributions being recorded in a single database.
However, there are accepted differences. Highways are statutory consultees in the planning process and education are not, meaning that the requirements for recording and monitoring of information are not the same. Generally speaking, education contributions are more straightforward and do not have same requirements for recording of information.

However, whilst separate systems are used for the same purpose by staff in the Traffic and Transport Development and Estates teams, there is a risk of inefficiency and duplication of effort. Furthermore, the spreadsheet used by Estates does not have the in-built system controls for data validation to ensure consistency of input and detail. Spreadsheets can also be more vulnerable to potential issues such as duplication, input error and data loss. Furthermore reporting capability is also limited.

As a single system would be the best practice approach, the following findings identified in this report reflect the current separate systems as they were tested, but recommended improvements should be applied to the recording and monitoring of both types of contribution and interpreted as such. If a decision is made to retain separate systems, then duplicate effort will be required to bring both monitoring systems into line with the required minimum standards. There does however, remain a question as to why Traffic and Transport Development are moving away from what was procured as corporate standard system.

1.3a I recommend that the Commercial and Business Services Director should review the decision with regard to the corporate standard system for S106 contributions, by way of a joint service evaluation to determine whether all contributions should be recorded and monitored on a single system.

1.4 Recording of key information

These findings apply to both education and highways contributions.

Testing of a sample of S106 legal agreements identified that they are largely based on standard templates but that there are acceptable variations between them. All agreements have standard clauses that are common, but the layout and order of the schedules must be bespoke to the scheme that they relate to. The legal agreement represents the finalised decisions reached, following what can be a period of complex and protracted negotiations, to establish contributions that are both financially viable for the developer, will meet the Authority's objectives and secure measures to support and sustain the local community.

In terms of the ability of this audit to retrospectively scrutinise the process for how agreements were negotiated and decisions finalised, it was not possible to establish a full audit trail through the Atrium database for highways contributions, nor the spreadsheet used for education contributions.

Evidence of negotiation is not entered into either monitoring system to support the final decisions and could only be established through supplementary evidence in the form of the email archive and manual files of those officers involved. Email is the most common method of communication between officers, developers and third parties and can provide some evidence, but where other means of communication are used, there is no process to update case notes within the Atrium database.

For Education contributions, there is no central repository for such evidence. In the case of the older agreements within the sample, we were advised that there would also be a boxes of manual files in archive, containing the history of the agreement.

Within the scope of the audit, it was not possible to review the information relating to negotiations that exist outside of the database, due to the volumes of evidence involved. There were also cases where negotiations that took place several years ago were made by officers who are no longer in post and existing officers have only a partial understanding of the process to reach decisions. It is accepted that it would be impractical for all communications and records of negotiations to be stored in a database, but through discussion with the Principal Development Infrastructure Officer, it was agreed that improvements could be made to the extent to which case notes are used to record pertinent information.

Further testing identified a number of inconsistencies in the way that information is recorded and this has been reflected in the subsequent findings. Whilst only basic details of agreed contributions are recorded in the database, there is a risk that if a database is not used as a single repository for details of all negotiations, progress notes and key communications between the

Authority, legal advisors and developers, there is an incomplete record of how decisions have been agreed and this may compromise the Council's ability to pursue outstanding contributions.

1.4a I recommend that the Strategic Manager Traffic & Transport Development should ensure that guidance is developed to formalise a set of minimum standards that dictate the key information that must be entered into a database of agreed highways contributions to ensure that there is an audit trail for the contribution agreed. This should include:

- **Record of key decisions throughout the negotiation process**
- **Use of case notes to record key milestones and activity**

This can also be used to help select the suitability of any future replacement system for recording contributions.

1.4b I recommend that the Strategic Manager – Corporate Property should ensure that key information is entered into a monitoring system for agreed education contributions. This should include:

- **Evidence of key decisions throughout the negotiation process**
- **Supporting notes to evidence how formula amounts have been calculated**
- **Recording key milestones and activity**

1.5 Recording of Key Dates and Triggers for Payments

Where payments and provisions are phased over a period of time, the legal agreement should make clear at what stages in the development process these payments need to be delivered. The LA and developer will often agree that certain obligations should be paid or provided after a percentage or number of residential units have been constructed. These stages are commonly referred to as 'triggers' and developer are asked to estimate a due date for each trigger.

Education contributions are currently recorded in a spreadsheet, which includes the contribution amounts due but not the estimated due dates.

Highways contributions are recorded in Atrium and the system enables the recording of key dates, including the agreed triggers for payments. However sample testing identified that the estimated due dates are not commonly entered. In the sample of ten development schemes tested, only two had payment due dates entered into the database. At the time when agreement details are entered into Atrium, it is difficult at this stage to anticipate when the developer will reach the trigger points for payments because the development will not have commenced. In addition, Atrium does have the functionality for email prompts to be sent to principal officers to alert them that a trigger date has been reached, but they are not currently used.

Officers explained that the developer will often give a best guess for stage completion so that key dates can be input, but this may not be consistently recorded. The developer will be asked to provide estimated dates and the responses will usually vary in terms in specificity.

However if estimated due dates are not entered into the database and the functionality for email prompts is not utilised, then there is no mechanism to remind officers that original agreed dates have been exceeded. In cases where developers have not reached the estimated trigger dates, this could be used as a prompt for officers to make contact and establish a revised date, which would be a more proactive approach. Without this process and by relying only on the honesty of the developer, there is a risk that payments will not be made in a timely manner.

1.5a **I recommend that the Strategic Manager Traffic & Transport Development should ensure that guidance is developed to formalise a set of minimum standards that dictate the key information that must be entered into a database of agreed highways contributions. This should include:**

- **Original estimated payment triggers and due dates**
- **Revised estimated payment trigger dates (and a comments field to explain the delay)**
- **Actual invoice date**

Furthermore it is recommended that reports can be produced from the system for ongoing monitoring purposes.

1.5b **I recommend that the Strategic Manager – Corporate Property should ensure that should ensure that key information is entered into a monitoring system for agreed education contributions. This should include:**

- **Original estimated payment triggers and due dates**
- **Revised estimated payment trigger dates (and a comments field to explain the delay)**

1.6 Compliance with agreed payment triggers

Sample testing identified that it is not fully possible to retrospectively confirm the extent to which developers have complied with the agreed trigger points. For example, where a payment trigger is set at occupation of X number of dwellings, both the Traffic and Transport Development and Estates Officers are unable to be fully proactive in terms of maintaining a current awareness of how many dwellings have been occupied at any given time, due to the constraints of time and resource within the teams. Historically when teams had greater levels of resource and capacity, routine inspections of developments would be conducted to visually confirm how many dwellings had been occupied. Now that resource has been scaled back, this activity is no longer possible. Therefore Officers are reliant on both the honesty of the developer and intelligence from other teams, including those within the District Councils who can advise on occupation numbers from Council Tax and Electoral Register data.

This fact adds further weight to the requirement for robust monitoring procedures, as per the recommended improvements in 1.5a and b above. Given that resources are stretched, improved monitoring of trigger dates would allow resources to be focused where most needed.

1.7 Expiry dates for spend of contributions

Where the LA has made a commitment to providing a facility in part or in full from a developer's financial contribution, it should make clear in the S106 agreement when this work will be carried out and if it is not carried out to the specified timescale, how the unspent funds will be returned to the developer and with what interest added, if appropriate.

Atrium can also be used to record the expiry date by which income from S106 contributions must be spent, as per the legal agreement. The timeframe is commonly between five and ten years between receipts of the final payment and if this is not met, the payment should be returned to the developer.
However, within the scope of this audit, it was not possible for us to verify the extent to which expiry dates are complied with for highways contributions. This is because a) expiry dates are not consistently recorded in the database and b) where dates are recorded, it was not possible to produce any reporting from the system that would identify where they have been exceeded.

For education contributions, the monitoring spreadsheet includes a 'date of receipt' and 'spend deadline' column, but the deadline was observed to be quantified as both a period (e.g. 10 years) and a date and in some cases simply stated 'not specified'. The actual payment receipt date is recorded, but the spreadsheet does not provide any prompt to officers when spend deadlines are approaching.

There is an inconsistent approach for the data input into the system for both highways and education contributions in terms of the deadlines for contributions to be spent, resulting in the risk that this element of monitoring is not robust.

1.7a **I recommend that the Strategic Manager Traffic & Transport Development should ensure that guidance is developed to formalise a set of minimum standards that dictate the key information that must be entered into a database of agreed highways contributions. This should include:**

- **Contribution spend expiry dates**

It is also recommended that a report of expiry dates can be produced from the system for ongoing monitoring purposes.

1.7b **I recommend that the Strategic Manager – Corporate Property should ensure that should ensure that key information is entered into a monitoring system for agreed education contributions. This should include:**

- **Contribution spend expiry dates**

1.8 Designated Responsible Officer

For Education contributions, there is only one officer - the Estates and Planning Advisor, who has overall responsibility for monitoring.

However for highways contributions, all schemes will have a designated officer or officers who have allocated responsibilities throughout the stages of negotiation and monitoring. The Principal Development Infrastructure Officer explained that this may not always be reflected on the Atrium system and whilst there is an 'officer' field, we observed that it is not consistently completed, so there is a risk that ownership is not clear in this part of the system.

1.8a **I recommend that the Strategic Manager Traffic & Transport Development should ensure that guidance is developed to formalise a set of minimum standards that dictate the key information that must be entered into a database of agreed highways contributions. This should include:**

- **Designated Responsible Officers**

1.9 Indexation

When obligations are being phased over a significant period of time, to ensure that their value continues to match the cost of provision, LA's will commonly use inflationary indices, such as the Royal Institution of Chartered Surveyors (RICS) Building Cost Information Service (BCIS) indexation figures.

We observed that indexation clauses were evident in the legal agreements for all schemes in the sample.

However, it was found that after indexation has been calculated for highways contributions, the calculation basis and the revised payment amounts are not consistently entered into Atrium and officers will tend to rely on developer challenge if they are incorrectly applied. This means there is an inadequate audit trail that records the final payment amounts due and it was not possible to confirm that the calculation had been correctly applied.

For Education contributions, the monitoring spreadsheet used to track agreed contributions and payments due is updated with indexation amounts that have been calculated and applied when invoices are generated, but there are no supporting notes to indicate the basis for the calculation.

Therefore it was not possible to verify that indexation had been correctly applied to contributions in the audit sample, because the basis for the calculation is not documented for highways and education contributions.

1.9a **I recommend that the Strategic Manager Traffic & Transport Development should ensure that guidance is developed to formalise a set of minimum standards that dictate the key information that must be entered into a database of agreed developer contributions. This should include:**

- **Original contribution agreed**
- **Revised contribution**
- **Evidence of indexation calculations to maintain an audit trail of the increased contribution.**

1.9b **I recommend that the Strategic Manager – Corporate Property should ensure that guidance is developed to formalise a set of minimum standards that dictate the key information that must be entered into a database of agreed developer contributions. This should include:**

- **Evidence of indexation calculations to maintain an audit trail of the increased contribution.**

1.10 Raising of Invoices for Payments Due

In the sample testing of ten agreements, invoices were found to have been raised for all Education contributions due for the sample of ten schemes tested and paid in a timely manner. The following findings therefore relate to highways contributions only.

The Principal Development Infrastructure Officer advised that invoices are not routinely raised for payments due for highways contributions, because of the limited administrative resource within the team. Traffic and Transport Development Officers themselves do not have SAP access and it is felt to be too burdensome to request support officers to raise an invoice for every payment due. Therefore, payment requests are usually made by email or verbally to developers.

Our testing identified that for highways contributions, a total of nine invoices had been raised in comparison to a total of twenty-two payments made. The SCC Code of Practice for Income Management contains the following requirements and states that:
If the contribution is payable when the project has been completed, the invoice should be raised immediately following completion...
Where supply takes place over a prolonged period, stage payments are the preferred method; in order to maximise the Council's cash flow...
All invoices should be raised within 1 week of the provision of service and not later than 30 days after supply.

The current practice in the Traffic and Transport Development is not compliant with these required standards.

Where invoices are not raised, there is no record of the amount due on the financial management system, no mechanism to identify overdue payments and therefore no trigger for commencing recovery procedures. This was discussed with the Principal Development Infrastructure Officer who explained that for highways, invoicing all payments would not be desirable approach in all cases because of the administration involved.

Timeliness of Invoiced Payments

Due to the limited information recorded in the Atrium system for invoices raised and the fact that case notes are not used to record when payments are requested, there was insufficient information to establish when contributions were requested and the timeliness of payment by the developer. Furthermore, where invoices are not raised, there is reduced evidence of any activity to pursue and recover debts.

Invoice & Payment Descriptions in SAP

When highways contribution payments are received in SAP, they are commonly allocated to a variety of different income codes, due to the fact that they are ring-fenced funds. Our testing identified that the descriptions entered for such payments do not follow a consistent format, so it was not possible for us to independently verify from SAP that all instalments had been paid. Instead, testing of payments was conducted based on a report from Atrium and then verified back to SAP with the additional assistance of officers in Corporate Finance. It is accepted that if payments have not been logged in Atrium then they will not have been identified, but it was not possible to identify a preferable means of testing.

The absence of a consistent approach to the coding of invoices and the descriptions entered, mean that it is difficult to trace payments for highways contributions via SAP.

1.10a I recommend that the Strategic Manager Traffic & Transport Development should ensure that invoices are raised and minimum standards are agreed for the raising of invoices for developers to pay highways contributions. This should include an agreed format for invoice description details, to ensure that payments can be identified through SAP. The invoice number should be recorded in the monitoring system for audit trail purposes.

1.11 Reporting to Senior Management & Members

The Planning Liaison & Estate Roads Manager and Estates and Planning Advisor advised that currently there is no routine reporting of S106 agreements to senior management and during the course of the audit it was discussed whether a status report of all live s106 agreements could be produced at least quarterly for senior management consideration.

For the service to provide management reporting, a preferred and more valuable approach would be to report on schemes where payments have commenced, as this would exclude schemes where building has not started. The report could include risk ranking to ensure that issues with compliance can be prioritised and addressed accordingly.

Current discussions for a replacement system should include consideration of the required suite of reports that will provide a summary of all schemes to both operational and strategic levels of management for Economic and Community Infrastructure.

1.11a I recommend that the Strategic Manager - Traffic & Transport Development and the Strategic Manager – Corporate Property ensures that periodic reports of development schemes with commenced S106 contributions are provided to Senior Management, to include a risk ranking where issues are identified.

The Agreed Action Plan provides a formal record of points arising from this audit and, where appropriate, the action management has agreed to take and the timescale in which the action will be completed. All findings have been given a priority rating between 1 and 5, where 1 is low and 5 is high.

It is these findings that have formed the opinion of the service's control environment that has been reported in the Management Summary.

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
Objective: **To secure from developers, as part of the planning process, contributions towards the creation and improvement of the infrastructure necessary to support and sustain the local community.** **Audit Objective: Processes are in place to ensure that developers deliver their planning obligations as included in Section 106 agreements.**					
Risk: The contributions due under a Section 106 Agreement are not received, or the actions required from the developer do not materialise.					
1.1a There is no formal policy that documents the agreed approach to agreeing and obtaining S106 contributions from developers.	I recommend that the Economic & Community Infrastructure Operations Director should ensure that a formal policy for S106 is documented and approved by Members, to ensure that the agreed approach is consistent with the broad objectives of other strategic plans. The policy should also include guidance on how and when agreements will be applied and the basis for calculation of developer contributions, including the education contribution formula. *SWAP Ref: 31193*	4	**Transport & Traffic Development Group (TTDG)**: There is no formal Policy (to address highway issues) because legislation and development plan documents adopted by Local Planning Authorities and SCC as Highway Authority set a framework within which we must consider planning applications and any s106 obligations. SCC has adopted DfT Guidance on Transport Assessments as local Policy and there is adopted Travel Plan Guidance. **Corporate Property:** Contributions sought for education are based upon a long	**Corporate Property:** Estates and Planning Advisor	**Corporate Property:** End of May 2016

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
			established County rule of thumb to establish the pupil yield from a development, agreed with all 5 District Councils (LPAs), and to which the Central Government cost per pupil place multipliers are applied. It is proposed to include this information within The School Growth Infrastructure plan in order to formally document the policy. This is expected to be published May 2016		
1.2a There is no formal guidance that documents the common practice for obtaining maintenance payments from developers.	I recommend that the Strategic Manager Traffic & Transport Development should ensure that the draft policy in respect of agreeing and obtaining payments for maintenance of highways infrastructure is finalised and approved as soon as possible. This should form part of the overarching policy recommended under 1.1a. *SWAP Ref: 31187*	3	There is a guidance document being prepared to detail the securing of Commuted Sum payments. Whilst this is currently in draft, it should be complete and ready for adoption by the end of May 2016. It should be noted that this is based on Nationally Recognised Industry Best Practice, where sums are secured for the future maintenance of 'abnormal' assets.	Strategic Manager Traffic & Transport Development	End of May 2016
1.3a There are separate systems	I recommend that the	4	**TTDG:** Works are underway to	Not applicable	Not applicable

Page 47

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
managed by separate teams for the recording and monitoring processes for S106 contributions by different sections of the Council, with highways contributions being added to a database and education contributions being recorded in a manual spreadsheet.	Commercial and Business Services Director should review the decision with regard to the corporate standard system for S106 contributions, by way of a joint service evaluation to determine whether all contributions should be recorded and monitored on a single system. *SWAP Ref: 31191*		replace the system currently used by the highways and planning teams in TTDG as the existing system is being withdrawn from market. I understand that Property Services are in the process of acquiring a separate system, although there is clearly merit in a shared system. **Property:** Evidence suggests that all LPA's will be including education on their Reg 123 list which means education contributions should in theory come to SCC via the CIL – the exception being urban extension. Thus s106 contributions for education might be expected to decline steadily over coming years/months. This is not the case for Highways as a statutory consultee. However, CIL is still evolving and it may therefore be sensible to defer a joint service evaluation until the position is clearer. **The Strategic IT Manager** added		

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
			"support *for the Atrium Planning application is being discontinued and the Atrium Property application (procured by SWOne and hosted by Atrium) will continue to be supported and developed. The highways team are aware of the position and are actively pursuing a replacement through normal procurement routes; (We have) been involved in the discussions regarding a replacement and this is moving to procurement stage shortly. I am happy that there is a much more collaborative approach to this issue since the audit was undertaken*".		
1.4a There are no defined minimum standards for entry of the detail of legal agreement into the systems or adherence to the agreement to facilitate the monitoring of contributions for highways.	I recommend that the Strategic Manager Traffic & Transport Development should ensure that guidance is developed to formalise a set of minimum standards that dictate the key information that must be entered into a database of agreed developer contributions. This should include: • Evidence of key decisions throughout the	4	It is agreed that when the new system is introduced a list of requirements/minimum standards will be provided for every entry. This can be issued along with formal training on the new system. It may not be possible to capture how all decisions were reached, for example when they are specified by the LPA or reached	Principal Development Infrastructure Officer	End of Feb 2017

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
	negotiation process • Use of case notes to record key milestones and activity This can also be used to help select the suitability of any future replacement system for recording contributions. *SWAP Ref: 31186*		via negotiation.		
1.4b There are no defined minimum standards for entry of the detail of legal agreement into the systems or adherence to the agreement to facilitate the monitoring of contributions for education.	I recommend that the Strategic Manager – Corporate Property should ensure that key information is entered into a monitoring system for agreed education contributions. This should include: • Evidence of key decisions throughout the negotiation process • Supporting notes to evidence how formula amounts have been calculated • Recording key milestones and activity *SWAP Ref: 31405*	4	Property is migrating to a new database – Atrium. It is anticipated that Atrium will be used to record s106 agreements. Potential land acquisition via s106 agreements can be recorded and all financial contributions can be linked to the relevant school site. This is at the early stages of investigation, but will be pursued as part of the wider implementation. Corporate Property will seek to record relevant data as suggested. Triggers present a greater challenge as, whilst they can certainly be recorded, they are rarely specific dates and will	Estates and Planning Advisor	End of December 2016

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
			continue to require 'manual' review.		
1.5a There are no defined minimum standards for entry of the detail of legal agreement into the systems used for monitoring of contributions, in respect of estimated payment dates for highways contributions.	I recommend that the Strategic Manager Traffic & Transport Development should ensure that guidance is developed to formalise a set of minimum standards that dictate the key information that must be entered into a database of agreed highways contributions. This should include: • Original estimated payment triggers and due dates • Revised estimated payment trigger dates (and a comments field to explain the delay) • Actual invoice date Furthermore it is recommended that reports can be produced from the system for ongoing monitoring purposes. *SWAP Ref: 31258*	4	As 1.4a this can be included, but will be a 'best guess' only for start date and the invoice date may be an informal request for payment prior to formal invoice being raised, or payment received date if payment is received prior to request (which can happen in line with the terms of the agreement).	Principal Development Infrastructure Officer	End of Feb 2017
1.5b There are no defined minimum standards for entry of the detail of legal agreement	I recommend that the Strategic Manager – Corporate Property should ensure that should	4	As referred to in 1.4b, payment triggers cannot always be successfully converted to dates,	Estates and Planning Advisor	End of December 2016

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
into the systems used for monitoring of contributions, in respect of estimated payment dates for education contributions.	ensure that key information is entered into a monitoring system for agreed education contributions. This should include: • Original estimated payment triggers and due dates • Revised estimated payment trigger dates (and a comments field to explain the delay). *SWAP Ref: 31406*		although periodic review dates could be set and it is anticipated that Atrium will be used to record the trigger points for s106 contributions. Corporate property is investigating the reporting potential of Atrium and where possible will utilise such functions to ensure payments are collected in as timely a manner as resources allow.		
1.7a There are no defined minimum standards for entry of the detail of legal agreement into the systems used for monitoring of contributions, in respect of highways contribution spend expiry dates.	I recommend that the Strategic Manager Traffic & Transport Development should ensure that guidance is developed to formalise a set of minimum standards that dictate the key information that must be entered into a database of agreed highways contributions. This should include: • Contribution spend expiry dates It is also recommended that a report of expiry dates can be produced from the system for ongoing monitoring purposes.	3	It is agreed that when the new system is introduced a list of requirements/minimum standards will be provided for every entry. This can be issued along with formal training on the new system. It may not be possible to capture how all decisions were reached, for example when they are specified by the LPA or reached via negotiation.	Principal Development Infrastructure Officer	End of Feb 2017

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
	SWAP Ref: 31259				
1.7b There are no defined minimum standards for entry of the detail of legal agreement into the systems used for monitoring of contributions, in respect of education contribution spend expiry dates.	I recommend that the Strategic Manager – Corporate Property should ensure that should ensure that key information is entered into a monitoring system for agreed education contributions. This should include: • Contribution spend expiry dates *SWAP Ref: 31407*	3	This is currently recorded via Excel. It is anticipated that Atrium will record this data as it is on the current excel method.	Estates and Planning Advisor	End of December 2016
1.8a There are no defined minimum standards for entry of key information relating to S106 agreements, into the systems used for monitoring of contributions.	I recommend that the Strategic Manager Traffic & Transport Development should ensure that guidance is developed to formalise a set of minimum standards that dictate the key information that must be entered into a database of agreed developer contributions. This should include: • Designated Responsible Officers *SWAP Ref: 31195*	3	It is agreed that when the new system is introduced a list of requirements/minimum standards will be provided for every entry. This can be issued along with formal training on the new system. It may not be possible to capture how all decisions were reached, for example when they are specified by the LPA or reached via negotiation.	Principal Development Infrastructure Officer	End of Feb 2017
1.9a There are no defined minimum standards for entry of	I recommend that the Strategic Manager Traffic & Transport Development should ensure that	3	Noted – but can only be recorded at the time of each	Principal Development	End of Feb 2017

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
key information relating to S106 agreements, into the systems used for monitoring of contributions, in respect of indexation calculations for highways contributions.	guidance is developed to formalise a set of minimum standards that dictate the key information that must be entered into a database of agreed developer contributions. This should include: • Original contribution agreed • Revised contribution • Evidence of indexation calculations to maintain an audit trail of the increased contribution. *SWAP Ref: 31185*		request. Will look at how this can be captured.	Infrastructure Officer	
1.9b There are no defined minimum standards for entry of key information relating to S106 agreements, into the systems used for monitoring of contributions, in respect of indexation calculations for education contributions.	I recommend that the Strategic Manager – Corporate Property should ensure that guidance is developed to formalise a set of minimum standards that dictate the key information that must be entered into a database of agreed developer contributions. This should include: • Evidence of indexation calculations to maintain an audit trail of the increased contribution. *SWAP Ref: 31404*	3	This is currently recorded on the relevant file which can then be cross referenced with the Excel spread-sheet record. Atrium may well be able to record this information as part of the implementation.	Estates and Planning Advisor	End of December 2016

Page 54

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
1.10 There are no defined minimum standards for entry of key information relating to S106 agreements, into the systems used for monitoring of contributions, in respect of invoicing for highways contributions.	I recommend that the Strategic Manager Traffic & Transport Development should ensure that invoices are raised and minimum standards are agreed for the raising of invoices for developers to pay highways contributions. This should include an agreed format for invoice description details, to ensure that payments can be identified through SAP. The invoice number should be recorded in the monitoring system for audit trail purposes. *SWAP Ref: 31194*	4	Noted – a 'process flow' will be produced to document how these are requested at present. This may change when the new system is introduced, but can be a 'live' document. (i.e. informal request, prior to producing formal invoice – in line with the terms of the s106)	Principal Development Infrastructure Officer	End of Feb 2017
1.11a There is no periodic reporting to Senior Management and Members in relation to local schemes and developer contributions.	I recommend that the Strategic Manager - Traffic & Transport Development and the Strategic Manager – Corporate Property ensures that periodic reports of development schemes with commenced S106 contributions are provided to Senior Management, to include a risk ranking where issues are identified. *SWAP Ref: 31196*	4	**TTDG:** Agreed in principle. The Strategic Manager - Traffic & Transport Development will consider how best to do this, but suggest quarterly reporting. **Corporate Property**: suggests that this is addressed by providing periodic reports to the Asset Strategy Group and that in future proposed CIL bids to the District Councils should also be included.	Strategic Manager - Traffic & Transport Development Estates and Planning Advisor	End of June 2016

Audit Framework Definitions

Control Assurance Definitions

Substantial	▲★★★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲★★☆	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲★☆☆	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲☆☆☆	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation Of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.

Priority 4: Important findings that need to be resolved by management.

Priority 3: The accuracy of records is at risk and requires attention.

Priority 2: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Corporate Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

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Somerset County Council
Audit Committee 31st January 2019

Strategic Asset Management Audit 2017/18 and Follow-Up 2018/19

Service Director: Paula Hewitt, Lead Director for Economic and Community Infrastructure & Director of Commissioning
Lead Officer: Claire Lovett, Head of Corporate Property Group
Contact Details: email clovett@somerset.gov.uk
Cabinet Member: Cllr Mandy Chilcott
Division and Local Member: All

1. Summary

1.1. This Audit (and its Follow-Up concluded in early December 2018) focused on property assets and examined three risk areas as follows:

> 1. Asset management strategies are not aligned to the Council's priorities, preventing the Council's priorities from being fully achieved.
> 2. Governance arrangements for the ongoing work on Asset Rationalisation and review of the Corporate Asset Management Plan are inadequate, so this work is not fully completed and implemented, and benefits are not realised.
> 3. Asset management controls lapse during the introduction of the Corporate Landlord approach.

1.2. The original audit came at an opportune moment, early in the development of our new approach to Asset Management and following the "Asset Rationalisation and Review of the Corporate Asset Management Plan" decision taken in November 2017. Its findings, and discussions with Auditors during the audit work, helped shape improvements to the programme of work we have since undertaken.

1.3. Good progress has been made, notwithstanding intervening changes at Director and Cabinet Member level and the requirements of the Financial Imperative work. The Audit Report acknowledges that "the period following the issue of the audit report in May [2018] was one of considerable change at the Council with the Financial Imperative Programme, put in place to address the Council's financial pressures, being the main corporate priority. As part of this, the priority for the Corporate Property Group was to ensure capital receipts targets were achieved. Also, during this period the membership of the Asset Strategy Group changed significantly."

1.4. The attached Action Plan and Update (Appendix 1) summarises the recommendations of the Audit Report and sets out the position as at the Follow-Up Audit date of 5th December and the position at the time of drafting (20th January 2019). This shows that of the 9 recommendations, 4 were complete by the time of the follow-up with a further 2 having been completed since then. One recommendation is not now being implemented and two actions remain in progress, although these are expected to have been implemented by the date of the Audit Committee meeting.

2. **Issues for consideration**

2.1. Members are asked to consider the service's response to the audit recommendations as outlined in this report.

2.2. Risk 1: *Asset management strategies are not aligned to the Council's priorities, preventing the Council's priorities from being fully achieved.*

This risk was originally assessed as high, but has since been reassessed as medium due to the progress made on the Asset Management Plan. This contains links to the County Vision and the Business Plan, and the Business Plan in turn references the Asset Management Plan.

Through the newly expanded Asset Strategy Group (ASG), chaired by the Cabinet Member for Resources, there is now governance in place to ensure greater alignment of all asset plans and strategies including for ICT and fleet. Efforts to further align the Asset Management Plan, for example with the emerging People and Digital strategies for the Council, continues.

Monitoring of the Asset Management Plan is performed by ASG and by the Strategic Commissioning Group and work is now underway to ensure that all property related policies and strategies are brought up to date in light of the changes to our approach to asset management. These should start coming forward to appropriate decision-makers in Q1 of 2019/20.

All three recommendations falling under this risk are now complete.

2.3. Risk 2: *Governance arrangements for the ongoing work on Asset Rationalisation and review of the Corporate Asset Management Plan are inadequate, so this work is not fully completed and implemented, and benefits are not realised.*

As with Risk 1, this risk was originally assessed as high, but has since been reassessed as medium due to progress made. A key element of our Asset Rationalisation and Estate Optimisation approach is a programme of Place Based Reviews (PBRs), which sees Corporate Property Group (CPG) officers initially assessing the fitness for purpose, strategic need and value for money of all assets in a given location. However, some elements of the programme of PBRs have had to be delayed, due to the need to prioritise work on the Financial Imperative. This affected work that had been planned with service leads to assess the CPG's property perspective against longer term commissioning and operational requirements. The PBRs were rescheduled to ensure that initial work within the CPG could be carried out first and work to complete the picture with service input has now been rescheduled. Progress is monitored through ASG.

Of the five recommendations related to this risk, two are in progress, two complete and one is not now being implemented. This is due to the programme of work having been removed from the Core Council Programme and resource not therefore being available in the way that was previously anticipated, to produce a formalised Communications Plan. Instead, the CPG is taking a light touch approach to communications for the programme using existing governance channels to share regular updates on projects and providing topic updates as appropriate (e.g. regarding Corporate Landlord and A Block) through Core Brief and Member Information Sheets.

2.4. Risk 3. *Asset management controls lapse during the introduction of the Corporate Landlord approach.*

This risk has been assessed as medium and the single related recommendation is now complete.

Clearer controls and monitoring are now in place including a checklist and guidance for officers and the pipeline of potential disposals is now shared regularly with Strategic Commissioning Group and ASG to ensure that all opportunities and service needs are understood, and all upcoming disposals are transparent. In addition, the Estates Team has been bolstered, with resource dedicated to compliance with formal governance having been put in place since the original Audit.

3. **Background Information**

3.1. The "Asset Rationalisation and Review of the Corporate Asset Management Plan" Decision Paper provides more information on the principles applied to developing the Asset Management Plan and the basis for the programme of work referred to in the Audit.

http://democracy.somerset.gov.uk/documents/s5131/Asset%20Rationalisation%20and%20Review%20of%20the%20Corporate%20Asset%20Management%20Plan.pdf

3.2. The current Asset Management Plan, which is to be replaced as part of this programme of work, espouses many of the same principles, but requires updating and greater alignment to the Council's overall Vision, Business Plan and other Strategies.

http://www.somerset.gov.uk/organisation/council-buildings/

This link also gives access to relevant existing property asset related policies and the Council's asset register.

4. **Consultations undertaken**

4.1. N/A

5. **Implications**

5.1. As above

6. **Background papers**

6.1. As above

Strategic Asset Management Audit – Follow-Up Report (5th December 2018)

ACTION PLAN & UPDATE

Progress Overview:

Recommendations	**9**
Complete at date of follow-up	4
Completed since follow-up	2
Not being implemented	1
Remaining in progress	**2**

	Recommendation	**Priority Score**	**Follow-Up Status**	**Comments**
1.1	We recommend that the Head of Corporate Property ensures that the Asset Management Plan is added to the list of linked plans in the Service Planning template.	3	Complete	N/A
1.2	We recommend that the Head of Corporate Property ensures that a standing agenda/forward plan is introduced for each group which includes all the items in the groups' terms of references. Any agreed actions should be fully recorded, with follow up of actions included in the standing agenda.	3	In progress	Implementation date 31/1/19 Now complete.
1.3	We recommend that the Head of Corporate Property ensures the schedule is updated with realistic, prioritised target dates, and ensures that completion of these is monitored by ASG / AMG as appropriate.	3	In progress	Implementation date 31/1/19 Now complete. A revised schedule has been put in place and shared with ASG. The standing agenda provides for appropriate monitoring.

2.1	We recommend that the Head of Corporate Property ensures that a review of project milestones and staff resources is performed, the outcome taken to ASG / AMG; and any corrective actions are taken.	4	In progress	Implementation date 31/1/19 This was discussed at ASG with new timeline and resource issues reviewed. Further discussions are taking place this week (w/c 20th January) regarding project resource.
2.2	We recommend that the Head of Corporate Property ensures that an assessment of the Group meeting time available for project governance is performed, and if required, proposes remedial action for consideration by the ASG / AMG. The Head of Corporate Property should also ensure: - Governance details are included in the project outline. - The ASG and AMG terms of reference are updated to include the project monitoring role. - Milestones for long-term actions should include intermediate target dates. - Project monitoring is included as a standing item in the ASG and AMG agendas. - Resulting actions are fully recorded in the meeting minutes and the project documentation, assigned to a named officer, and monitored. - Quarterly position statements are submitted to the Core Council Board.	4	In progress	Implementation date 31/1/19 All ASG meetings have been extended by 30 minutes and further task oriented sub-groups have been brought together to ensure regular “touch-points” with colleagues and project leaders. For example, a working group has now been set up to monitor and drive forward work on the processing of invoices for all property matters which will be a Corporate Property Group responsibility from 1st April 2019. - Governance details are in the process of being clarified with help from Commissioning Development. - ASG and AMG terms of reference have been updated. - Milestones for long-term actions are now being broken down into stages with interim target dates being agreed. - ASG and AMG standing agendas have been updated. - Actions are recorded in meeting minutes and reviewed at the following meeting. - Position statements are not now being taken to Core Council Board as this project has been removed from the Core Council Programme.
2.3	We recommend that the Head of Corporate	4	Complete	N/A

	Property ensures that the project includes the publication of the Asset Management Plan, and its progress is monitored by ASG / AMG.			
2.4	We recommend that the Head of Corporate Property ensures that the Communications section of the project is fully populated with detailed actions, responsible officers, milestones and monitoring.	3	Not implemented	Unfortunately, due to other Council priorities, there is currently no Change or Communications resource available. We are therefore taking a light touch approach to communications for the project using existing governance channels to share regular updates on projects and providing topic updates (e.g. regarding Corporate Landlord and A Block) through Core Brief and Member Information Sheets
2.5	We recommend that the Head of Corporate Property reviews the role of the Corporate Landlord Steering Group to ensure it assists the project delivery. The Group should be included in the project, and terms of reference for the group written.	3	Complete	N/A
3.1	We recommend that the Head of Corporate property ensures that evidence to demonstrate that disposals have been processed in line with requirements is retained and available. The recommendations in the 2016 internal review should be revisited and implemented as required.	3	Complete	N/A

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Strategic Asset Management

Final Report

Issue Date: 02 May 2018

Working in Partnership to Deliver Audit Excellence

Contents

Executive Summary

This section provides an overview for senior management to understand the main conclusions of this audit review, including the opinion, significant findings and a summary of the corporate risk exposure.

Findings and Outcomes

This section contains the more detailed findings identified during this review for consideration by service managers. It details individual findings together with the potential risk exposure and an action plan for addressing the risk.

Appendices:

- Audit Framework Definitions
- Support and Distribution
- Statement of Responsibility

Executive Summary

Overview

As part of the 2017-18 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place for Strategic Asset Management at Somerset County Council.

The Council's Corporate Property Group is part of the Business Development Service and is headed by Claire Lovett. The Group provides the lead on strategic property issues relating to the County Council. Its activities are overseen by the Asset Strategy Group (ASG) with the support of the Asset Management Group (AMG). The current structure has only been in place since April 2017, and during this time undergone more restructure.

A new version of the Corporate Asset Management Plan is currently being written with publication planned for August 2018. This will reflect the Asset Rationalisation programme, a key element of the Corporate Property Group's activities. This reflects a much-changed approach and focus - the programme includes a review of all property assets, which will inform a proposed programme of disposals over the period 2018-19 to 2019-20.

As part of Asset Rationalisation, a Corporate Landlord approach will be introduced; the key principle is that Council assets are treated as a corporate resource, and decisions on their use are based on an organisation-wide view. This will include centralisation of property budgets so these are all managed by the Corporate Property Group – this is planned for April 2019. A project will be used to oversee the Asset Rationalisation programme and the publication of the new Asset Management Plan.

Objective

To achieve effective and efficient management of the Council's assets which supports the delivery of the Council's priorities. As part of this, ensure that the programme of asset rationalisation, the new approach to estate optimisation and the review of the Corporate Asset Management Plan is fully delivered in a timely fashion.

Significant Findings

Finding:	Risk:
• There may be insufficient staff resource in the Corporate Property Group to deliver the new Asset Rationalisation programme and the new Asset Management Plan. • The current arrangements for the Asset Strategy Group and the Asset Management Group may not ensure effective monitoring of the above initiatives.	The Asset Rationalisation programme and the new Asset Management Plan may not be completed, and planned revenue savings and capital receipts may not be achieved.

Audit Opinion:	Partial

In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Successful completion of the Asset Rationalisation programme, including embedding Corporate Landlord principles, is essential to achieve planned revenue savings and capital receipts. The updated Corporate Asset Management Plan is also key and will underpin these initiatives and also support the other activities in the Corporate Property Group.

These new approaches were instigated by Corporate Property Group managers, who recognised the potential corporate benefits of these. Formal approval by members was given in November 2017, resulting in a challenging timescale for delivery for the Group.

Three priority-four recommendations have been made on this which are summarised in the significant findings section of the report. We judge that there is a high risk that the new initiatives will not be fully completed on time unless there is a robust review to examine the resilience of the Corporate Property Group to achieve the required milestones, with action being taken to correct any deficiencies identified. Adequate time must also be made available for effective governance of the project to help ensure project objectives are achieved.

Six further priority-three recommendations have been made to help strengthen controls and improve processes. This includes a recommendation on improving the processes for the disposal of assets – we found policies overdue for updating to be at draft stage, and limited testing on disposals found that records were not readily available. An internal review of disposal transactions performed in 2016 made eighteen recommendations and nine of these are not fully complete or have lapsed. This will be revisited in the next audit of this area which is planned for quarter three.

The four asset management weaknesses reported in the Healthy Organisation asset management review in 2016-17 have been revisited in this current audit. Progress has been made in all the areas.

We have assessed the three Corporate Property Group risks which were identified at the start of the audit as high, high, medium – these are set out in the table below. This assessment is based on the audit findings and is in line with the manager's assessment agreed at the start of the audit. The high-risk ratings reflect the strategic importance of the successful completion of the Asset Rationalisation programme.

Corporate Risk Assessment

Risks	Inherent Risk Assessment	Manager's Initial Assessment	Auditor's Assessment
1. Asset management strategies are not aligned to the Council's priorities, preventing the Council's priorities from being fully achieved.	**High**	**High**	**High**
2. Governance arrangements for the ongoing work on asset rationalisation and review of the Corporate Asset Management Plan are inadequate, so this work is not fully completed and implemented, and benefits are not realised.	**High**	**High**	**High**

3. Asset management controls lapse during the introduction of the Corporate Landlord approach.	High	Medium	Medium

Findings and Outcomes

Method and Scope

This audit has been undertaken using an agreed risk-based approach. This means that:

- the objectives and risks are discussed and agreed with management at the outset of the audit;
- the controls established to manage risks are discussed with key staff and relevant documentation reviewed;
- these controls are evaluated to assess whether they are proportionate to the risks and evidence sought to confirm controls are operating effectively;
- at the end of the audit, findings are discussed at a close-out meeting with the main contact and suggestions for improvement are agreed.

1	Risk 1 - Asset management strategies are not aligned to the Council's priorities, preventing the Council's priorities from being fully achieved.	**High**

As previously stated, a new version of the Corporate Asset Management Plan is currently being written by the Head of Corporate Property with publication planned for August 2018. This will reflect the new Corporate Landlord approach to asset management using a CIPFA model. The Plan will state the 'golden thread' connections to higher level Council strategies and will have a five-year time horizon with annual reviews. Approval will be by ASG before approval and sign off by members, and a project will be used to oversee the Plan's progress and publication.

1.1 Service Planning

Service plans are agreed annually at the Council and a comprehensive service plan template is used for this. The template directs service plan authors to state any linked strategies, plans and policies – in the template thirteen are named and can be selected. The addition of the new Asset Management Plan to this section would help ensure that this plan is considered by services and reduce the risk that service activities are not aligned with the Plan objectives.

1.1a	Proposed Outcome:	Priority 3

We recommend that the Head of Corporate Property ensures that the Asset Management Plan is added to the list of linked plans in the Service Planning template.

Action Plan:

Person Responsible:	Manager, Systems and Performance, Corporate Property	Target Date:	30th June 2018
Management Response:	We have raised this matter with the Planning and Performance Team and will meet with them shortly to discuss how this might be incorporated into Service and Commissioning Plans in future.		

1.2 Asset Strategy Group and Asset Management Group

These groups oversee the Corporate Property Group activities and will also provide the governance for the project for new Asset Management Plan, the Asset Rationalisation programme and the Corporate Landlord approach. Each group has terms of reference in place.

The groups have a range of responsibilities. To ensure that these are fully completed, a standing agenda/forward plan should be used for the meeting for both groups.

We examined the minutes for these groups and found that not all actions had been recorded and followed up at the next meeting.				
1.2a	Proposed Outcome:			Priority 3
We recommend that the Head of Corporate Property ensures that a standing agenda/forward plan is introduced for each group which includes all the items in the groups' terms of references. Any agreed actions should be fully recorded, with follow up of actions included in the standing agenda.				
Action Plan:				
Person Responsible:	Head of Corporate Property	Target Date:	14th May 2018	
Management Response:	This has been arranged and will be in place for the next meeting of the Asset Management Group on 14th May 2018.			

1.3	Corporate Property Group Documentation			
A schedule has been drawn up by the Corporate Property Group of all plans, policies, strategies, standards and procedures to summarise the status of each. Many documents are at draft stage or are still to be written. The list includes an activation target date for each document if required of either Spring or Summer 2018. We were advised that not all the dates will be achieved because of lack of officer time and the need to focus on higher-priority work. If authorised policies are not available there is a risk that required procedure may not be observed, and financial loss / reputational damage may result.				
1.3a	Proposed Outcome:			Priority 3
We recommend that the Head of Corporate Property ensures the schedule is updated with realistic, prioritised target dates, and ensures that completion of these is monitored by ASG / AMG as appropriate.				
Action Plan:				
Person Responsible:	Manager, Systems and Performance, Corporate Property	Target Date:	31st May 2018	
Management Response:	This action was delayed due to a restructure in the Corporate Property Group last year and a necessary re-prioritisation of work to cope with reduced resource but is now being dealt with.			

2	Risk 2: Governance arrangements for the ongoing work on Asset Rationalisation and review of the Corporate Asset Management Plan are inadequate, so this work is not fully completed and implemented, and benefits are not realised.	**High**

It is intended to use a project to ensure that the new Asset Management Plan, the Asset Rationalisation programme and the Corporate Landlord approach are all implemented / achieved as intended. The project will be managed by the Corporate Property Group and governed by the Asset Strategy and the Asset Management groups. A project outline is being written by the current Programme Manager for Asset Rationalisation who is in the Business Change team.

2.1	Resilience of the Corporate Property Group		
It is possible that there are inadequate staff resources to implement the project on time – this concern was expressed by Corporate Property Group managers and during the audit we were advised that some tasks have not been completed due to officers being too busy – this is reported further in paragraph 1.3. During the project initiation a realistic assessment of the required timing for project milestones and whether there is adequate officer resource available to achieve these should be performed. The outcome should be reported to ASG / AMG and corrective actions agreed and taken – this should be on a priority basis. Otherwise there is a risk that the project will overrun, and the required revenue savings and capital receipts are not achieved.			
2.1a	Proposed Outcome:		Priority 4
We recommend that the Head of Corporate Property ensures that a review of project milestones and staff resources is performed, the outcome taken to ASG / AMG; and any corrective actions are taken.			
Action Plan:			
Person Responsible:	Head of Corporate Property	Target Date:	25th July 2018
Management Response:	This is being worked on in discussion with the Programme Manager for the Asset Rationalisation/Estate Optimisation Programme. There has been a need to hold off on any formalised plan as funding for additional resource to support the programme is still unclear. However, the intention is to take a report to the next ASG meeting in July.		

We recognise that there is good-quality project methodology and documentation in place at the Council, and the Business Change team will be available in the early stages of the project to assist in the use and adaptation of these as necessary. Both these factors should benefit the project, and the additional audit findings and recommendations, which are set out below, are intended to complement what is already in place and/or planned.

2.2	Project Governance	
Project Governance will be performed by the Asset Strategy and the Asset Management groups. These Groups have key roles in ensuring that the project is successful. How the groups will monitor the project should be determined and included in the project outline. Whether the current meeting timetable will allow the project to be given adequate attention should be assessed - these groups already have a busy role. The possibility of sub-groups and more frequent meetings could be considered. The monitoring roles should be added to the terms of reference for each group and monitoring of the project be a standing agenda item (see paragraph 1.2). Monitoring should include milestones (with intermediate target dates if the action is long-term), budgets, project objectives and actions agreed at previous meetings. Resulting actions determined by the Groups should be fully recorded, including a named officer, in the meeting minutes and the project documentation should be updated accordingly. The project is not monitored by the Core Council Board, but the provision of a quarterly position statement to the Board would ensure additional monitoring independent from the two groups.		
2.2a	Proposed Outcome:	Priority 4

We recommend that the Head of Corporate Property ensures that an assessment of the Group meeting time available for project governance is performed, and if required, proposes remedial action for consideration by the ASG / AMG. The Head of Corporate Property should also ensure: • Governance details are included in the project outline. • The ASG and AMG terms of reference are updated to include the project monitoring role. • Milestones for long-term actions should include intermediate target dates. • Project monitoring is included as a standing item in the ASG and AMG agendas. • Resulting actions are fully recorded in the meeting minutes and the project documentation, assigned to a named officer, and monitored. • Quarterly position statements are submitted to the Core Council Board.
Action Plan:

Person Responsible:	Head of Corporate Property	Target Date:	31st May 2018
Management Response:	There has recently been discussion of the appropriate governance route for this activity. Impending changes in the way SOB and Commissioning Board operate mean that we are currently taking decisions about governance on a case by case basis, but we understand that this is likely to be resolved during May. This will provide a clearer gateway process for projects, but decisions will of course need to be taken under the standard scheme of delegation dependent upon the nature and value of each project. This can of course be recorded as part of the Programme paperwork. All other suggested actions are either now in place or in train.		

2.3	The Asset Management Plan	
The new Asset Management Plan will replace the 2014 version which is out of date. It will set out the new Corporate Landlord approach and provide clarity on the Asset Rationalisation programme. It is intended that this is published in August 2018. This is a key document and its progress up to publication should be monitored closely as part of the project.		
2.3a	Proposed Outcome:	Priority 4
We recommend that the Head of Corporate Property ensures that the project includes the publication of the Asset Management Plan, and its progress is monitored by ASG / AMG.		
Action Plan:		

Person Responsible:	Head of Corporate Property	Target Date:	31st August 2018
Management Response:	This is agreed and matches with the intentions of the programme, but has yet to be formally documented.		

2.4	Communication	
It is intended to include a section on communications in the project. This will be used to detail how information is provided about the new Asset Management Plan, the Asset Rationalisation programme and the Corporate Landlord approach, and should help ensure that staff and members understand the rationale and benefits of the new approach, reducing the risk of this not being fully complied with.		
2.4a	Proposed Outcome:	Priority 3
We recommend that the Head of Corporate Property ensures that the Communications section of the project is fully populated with detailed actions, responsible officers, milestones and monitoring.		
Action Plan:		

Person Responsible:	Manager, Systems and Performance Team, Corporate Property Group	Target Date:	30th June 2018
Management Response:	A communications plan for the programme is currently being developed with the support of the Business Change/Programme Team. Unfortunately, this resource may not be available to us for very long and this may delay completion.		

2.5	Corporate Landlord Steering Group			
A Corporate Landlord Steering Group has been recently set up and has met twice. How this group will assist in the delivery of the project should be determined, and its role included in the project.				
2.5a	Proposed Outcome:			Priority 3
We recommend that the Head of Corporate Property reviews the role of the Corporate Landlord Steering Group to ensure it assists the project delivery. The Group should be included in the project, and terms of reference for the group written.				
Action Plan:				
Person Responsible:	Manager, Systems and Performance Team, Corporate Property Group	Target Date:	31st May 2018	
Management Response:	This is agreed and underway.			

3	Risk 3 - Asset management controls lapse during the introduction of the Corporate Landlord approach.	**Medium**

3.1	Disposal of Assets			
There are several documents on the disposal of assets, we found these to be comprehensive but still at draft stage and not approved. These documents reflect the new Corporate Landlord approach. Completion and approval of these documents will be covered by the recommendation on updating the Corporate Property Group documentation in paragraph 1.3a. We also performed testing on a sample of disposals and found that evidence to support the valuation and authorisation of some of these was not available. An internal review of disposal transactions performed in 2016 made eighteen recommendations and we found that nine of these are not fully complete or have lapsed.				
3.1a	Proposed Outcome:			Priority 3
We recommend that the Head of Corporate property ensures that evidence to demonstrate that disposals have been processed in line with requirements is retained and available. The recommendations in the 2016 internal review should be revisited and implemented as required.				
Action Plan:				
Person Responsible:	Head of Corporate Property	Target Date:	30th June 2018	
Management Response:	A checklist and guidance have been prepared and implementation now needs to be brought forward.			

4	Healthy Organisation Asset Management Review 2016-17 Follow Up

The weaknesses identified in the Healthy Organisation asset management review in 2016-17 have been revisited in this current audit. In the 'summary assessment' section of the 2016-17 report, four weaknesses were identified and reported. These are stated below, with an assessment of the current position.

4.1 The Asset Management Plan

The previous review found:
The Corporate Asset Management Plan is in the process of being updated. Until this is complete there is a risk that strategic direction in relation to assets will not be fully aligned with corporate priorities.

Findings in this review:
The Asset Management Plan update remains incomplete, although progress has been made, and a target date is set for August 2018. This will be included in the project monitoring to help ensure it is published on time.

4.2 Maintenance Strategy

The previous review found:
There isn't currently a developed maintenance strategy, and this will be a priority area of work now that the Southwest One contract has come to an end.

Findings in this review:
The Maintenance Strategy has not been fully completed, although a draft version is available. It is intended that this strategy will form part of the Asset Management Plan, so will be subject to the same monitoring to help ensure completed by August 2018.

4.3 Benefit Realisation

The previous review found:
It is recognised that work is required to demonstrate benefit realisation in relation to assets. This is needed to ensure that value is achieved through investment, deployment and effective utilisation of assets.

Findings in this review:
There are some processes in place now, examples include the Occupancy Studies Programme; work in the One Public Estate (OPE) Programme to ensure any MTFP savings are captured and tracked; and the Corporate Property Group monthly balanced scorecard is used to monitor a range of performance indicators.
The new central accounting system for properties which is part of the new Corporate Landlord approach is planned for April 2019 - as part of this, how budgets can be allocated to individual properties is being examined. This approach will help quantify the value achieved through the investment, deployment and effective utilisation of assets.

4.4 Disposals

The previous review found:
There have been legacy weaknesses with the retention of evidence to support the decisions made regarding disposals. This has been investigated internally and recommendations have been made to improve the audit trail going forwards.

Findings in this review:

As reported in paragraph 3.1, new good-quality policy documents on the disposal of assets are in place but are not approved. Testing on a sample of disposals found that evidence to support the valuation and authorisation of some of these was not available. Nine of the eighteen recommendations made in the internal review referred to in the previous findings have been implemented, but work is required to implement the outstanding items, and an audit recommendation has been made in paragraph 3.1a which includes this issue.

Audit Framework and Definitions

Assurance Definitions	
None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Definition of Corporate Risks	
Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations	
When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.	
Priority 5	Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
Priority 4	Important findings that need to be resolved by management.
Priority 3	The accuracy of records is at risk and requires attention.
Priority 2 and 1 Actions will normally be reported verbally to the Service Manager.	

Support and Distribution

Report Authors

This report was produced and issued by:

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Alison Winn – Senior Auditor

Support

We would like to record our thanks to the following individuals who supported and helped us in the delivery of this audit review:

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Statement of Responsibility

Conformance with Professional Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Auditing Standards.

SWAP Responsibility

Please note that this report has been prepared and distributed in accordance with the agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person or organisation.

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Strategic Asset Management

Follow Up Report

Issue Date: 5 December 2018

Working in Partnership to Deliver Audit Excellence

Executive Summary

Audit Objective	Progress Summary				
To provide assurance that agreed actions to mitigate against risk exposure identified within the 2017/18 Partial opinion report have been implemented.		Complete	In Progress	Not Started	**Total**
	Priority 5	0	0	0	**0**
	Priority 4	1	2	0	**3**
	Priority 3	3	2	1	**6**
	Total	**4**	**4**	**1**	**9**

Audit Conclusion

This is a follow up of the Strategic Asset Management audit which was performed in March 2018 and where an overall assessment of Partial Assurance was awarded. The audit focussed on three risk areas:

1. Asset management strategies are not aligned to the Council's priorities, preventing the Council's priorities from being fully achieved – rated high risk in the audit.
2. Governance arrangements for the ongoing work on Asset Rationalisation and review of the Corporate Asset Management Plan are inadequate, so this work is not fully completed and implemented, and benefits are not realised – rated high risk in the audit.
3. Asset management controls lapse during the introduction of the Corporate Landlord approach – rated medium risk in the audit.

In the audit, two areas were specifically identified as high risk and three high-priority recommendations were made. The weaknesses identified were:

- There may be insufficient staff resource in the Corporate Property Group to deliver the new Asset Rationalisation programme and the new Asset Management Plan.
- The current arrangements for the Asset Strategy Group and the Asset Management Group may not ensure effective monitoring of the above initiatives.

It is acknowledged that the period following the issue of the audit report in May was one of considerable change at the Council with the Financial Imperative Programme, put in place to address the Council's financial pressures, being the main corporate priority. As part of this, the priority for the Corporate Property Group was to ensure capital receipts targets were achieved. Also, during this period the membership of the Asset Strategy Group changed significantly.

The implementation of the recommendations made in the original audit was assessed and results are tabulated in the above section. Overall, four of the nine recommendations were found to be completed; four are in progress and one is not started. Within this, two of the three priority-4 recommendations are in progress, and the other completed.

The risk ratings made in the previous audit have been re-assessed following this review, and the two risks which were assessed as high are now assessed as medium. Details are as follows:

Risk one has been assessed as medium (was high). This reflects the progress made on the Asset Management Plan (AMP) which is due to be published early in 2019. An outline version is in place which contains links to the County Vision and Business Plan; and monitoring of the publication of the AMP is performed by the Asset Strategy Group (ASG) and also by the Strategic Commissioning Group. However, we did find that many Corporate Property Group policies were at draft stage and need to be submitted for approval by members, and the ASG standing agenda requires improvement to ensure that the Group's important core functions are all performed as required.

Risk two has been assessed as medium (was high). The issue of whether the Corporate Property Group is adequately resourced to implement the Asset Rationalisation Programme has not been assessed due to the changes at the Council outlined above, and it is important that this area is now examined. However, it is clear that progress has been made. Some elements of the programme of Place Based reviews have been delayed because of the Financial Imperative Programme – these need to be re-scheduled and progress monitored.

Risk three has been assessed as medium (was medium). Disposals have not been tested for compliance with the required procedure in this review. It is noted that there is now a checklist in use, and there is good-quality guidance to officers. However, as stated previously, many documents are at draft stage - this includes the Disposals Policy which has not been approved by members.

All recommendations made in the original report have been discussed with the Head of Corporate Property. Recommendations which have not been fully completed have been updated and new target dates assigned. It has been agreed that the completion of these updated recommendations will be monitored by the ASG.

Scope

All recommendations in the previous review have been re-visited. Testing and examination of evidence to support the implementation of the recommendations has focussed on the three priority-4 recommendations made. Standard practice for Swap follow-up audits is that the assessment of the implementation of the priority-three 3 recommendations is based on information provided by the responsible manager. However, this review has been carried out at the same time as the Healthy Organisation review of Asset Management and so some testing of the priority-3 recommendations has been performed.

Findings and Outcomes

Objective:
To achieve effective and efficient management of the Council's assets which supports the delivery of the Council's priorities. As part of this, ensure that the programme of asset rationalisation, the new approach to estate optimisation and the review of the Corporate Asset Management Plan is fully delivered in a timely fashion.

1.	Risk 1 - Asset management strategies are not aligned to the Council's priorities, preventing the Council's priorities from being fully achieved.

1.1 Finding and Action

Issue – Service Planning	Recommendation
Service plans are agreed annually at the Council and a comprehensive service plan template is used for this. The template directs service plan authors to state any linked strategies, plans and policies – in the template thirteen are named and can be selected. The addition of the new Asset Management Plan to this section would help ensure that this plan is considered by services and reduce the risk that service activities are not aligned with the Plan objectives.	We recommend that the Head of Corporate Property ensures that the Asset Management Plan is added to the list of linked plans in the Service Planning template.

Management Response		
We have raised this matter with the Planning and Performance Team and will meet with them shortly to discuss how this might be incorporated into Service and Commissioning Plans in future.	Priority Score	**Priority 3**
Follow Up Action	Follow Up Status	**Complete**
The Head of Corporate Property advised that this recommendation is now complete, and the 2019-20 service planning template will include the Asset Management Plan. The Asset Management Plan is also referred to in the County Vision and Business Plan.	Revised implementation date	Not applicable
	Revised responsible officer	Not applicable

1.2	Finding and Action
Issue – Asset Strategy Group and Asset Management Group	**Recommendation**
These groups oversee the Corporate Property Group activities and will also provide the governance for the project for new Asset Management Plan, the Asset Rationalisation programme and the Corporate Landlord approach. Each group has terms of reference in place. The groups have a range of responsibilities. To ensure that these are fully completed, a standing agenda/forward plan should be used for the meeting for both groups. We examined the minutes for these groups and found that not all actions had been recorded and followed up at the next meeting.	We recommend that the Head of Corporate Property ensures that a standing agenda/forward plan is introduced for each group which includes all the items in the groups' terms of references. Any agreed actions should be fully recorded, with follow up of actions included in the standing agenda.

Management Response		
This has been arranged and will be in place for the next meeting of the Asset Management Group on 14th May 2018.	Priority Score	**Priority 3**
Follow Up Action	**Follow Up Status**	**In progress**
We found that there is a standing agenda in place for the Asset Management Group (AMG) which includes all required items and with standing agenda items clearly denoted. This has not been fully completed for the Asset Strategy Group (ASG). Actions are clearly recorded and assigned to the officer responsible for completion, and review of actions is ensured by the inclusion in the standing agenda of the item *Notes from previous meeting.*	Revised implementation date	31 January 2019
	Revised responsible officer	Manager, Systems and Performance, Corporate Property

1.3	Finding and Action
Issue – Corporate Property Group Documentation	**Recommendation**
A schedule has been drawn up by the Corporate Property Group of all plans, policies, strategies, standards and procedures to summarise the status of each. Many documents are at draft stage or are still to be written. The list includes an activation target date for each document if required of either Spring or Summer 2018.	We recommend that the Head of Corporate Property ensures the schedule is updated with realistic, prioritised target dates, and ensures that completion of these is monitored by ASG / AMG as appropriate.

We were advised that not all the dates will be achieved because of lack of officer time and the need to focus on higher-priority work. If authorised policies are not available there is a risk that required procedure may not be observed, and financial loss / reputational damage may result.	

Management Response		
This action was delayed due to a restructure in the Corporate Property Group last year and a necessary re-prioritisation of work to cope with reduced resource but is now being dealt with.	Priority Score	**Priority 3**
Follow Up Action	Follow Up Status	**In progress**
The schedule of Corporate Property Group documents has been updated, but monitoring is not included in the ASG standing agenda. Corporate Property officers do monitor progress on the documents and a project plan is to be written which can be used by the ASG to monitor, and to schedule approval of documents in the Cabinet forward plan.	Revised implementation date	31 January 2019
	Revised responsible officer	Manager, Systems and Performance, Corporate Property

2. Risk 2: Governance arrangements for the ongoing work on Asset Rationalisation and review of the Corporate Asset Management Plan are inadequate, so this work is not fully completed and implemented, and benefits are not realised.

2.1 Finding and Action

Issue – Resilience of the Corporate Property Group	Recommendation
It is possible that there are inadequate staff resources to implement the project on time – this concern was expressed by Corporate Property Group managers and during the audit we were advised that some tasks have not been completed due to officers being too busy – this is reported further in paragraph 1.3. During the project initiation a realistic assessment of the required timing for project milestones and whether there is adequate officer resource available to achieve these should be performed. The outcome should be reported to ASG / AMG and corrective actions agreed and taken – this should be on a priority basis. Otherwise there is a risk that the project will overrun, and the required revenue savings and capital receipts are not achieved.	We recommend that the Head of Corporate Property ensures that a review of project milestones and staff resources is performed, the outcome taken to ASG / AMG; and any corrective actions are taken.

Management Response		
This is being worked on in discussion with the Programme Manager for the Asset Rationalisation/Estate Optimisation Programme. There has been a need to hold off on any formalised plan as funding for additional resource to support the programme is still unclear. However, the intention is to take a report to the next ASG meeting in July.	Priority Score	**Priority 4**
Follow Up Action	Follow Up Status	**In progress**
An actual formal review of review of project milestones and staff resources as set out in the recommendation has not been performed. The membership of the ASG changed significantly in July; and with the Financial Imperative work the main corporate priority, the Head of Corporate Property determined the review should be delayed. It is now planned to take the review to the next ASG meeting in 2019.	Revised implementation date	31 January 2019
	Revised responsible officer	Head of Corporate, Property

2.2 Finding and Action

Issue – Project Governance	Recommendation
Project Governance will be performed by the Asset Strategy and the Asset Management groups. These Groups have key roles in ensuring that the project is successful. How the groups will monitor the project should be determined and included in the project outline. Whether the current meeting timetable will allow the project to be given adequate attention should be assessed - these groups already have a busy role. The possibility of sub-groups and more frequent meetings could be considered. The monitoring roles should be added to the terms of reference for each group and monitoring of the project be a standing agenda item (see paragraph 1.2). Monitoring should include milestones (with intermediate target dates if the action is long-term), budgets, project objectives and actions agreed at previous meetings. Resulting actions determined by the Groups should be fully recorded, including a named officer, in the meeting minutes and the project documentation should be updated accordingly.	We recommend that the Head of Corporate Property ensures that an assessment of the Group meeting time available for project governance is performed, and if required, proposes remedial action for consideration by the ASG / AMG. The Head of Corporate Property should also ensure: • Governance details are included in the project outline. • The ASG and AMG terms of reference are updated to include the project monitoring role. • Milestones for long-term actions should include intermediate target dates. • Project monitoring is included as a standing item in the ASG and AMG agendas. • Resulting actions are fully recorded in the meeting minutes and the project documentation, assigned to a named officer, and monitored. • Quarterly position statements are submitted to the Core Council Board.

The project is not monitored by the Core Council Board, but the provision of a quarterly position statement to the Board would ensure additional monitoring independent from the two groups.	

Management Response		
There has recently been discussion of the appropriate governance route for this activity. Impending changes in the way SOB and Commissioning Board operate mean that we are currently taking decisions about governance on a case by case basis, but we understand that this is likely to be resolved during May. This will provide a clearer gateway process for projects, but decisions will of course need to be taken under the standard scheme of delegation dependent upon the nature and value of each project. This can of course be recorded as part of the Programme paperwork. All other suggested actions are either now in place or in train.	Priority Score	**Priority 4**
Follow Up Action	Follow Up Status	**In Progress**
The project governance has changed since the issue of the audit report. It is still overseen by the ASG, but the Council's Strategic Commissioning Group also performs high-level monitoring of the project. A formal report on the Group meeting time available has been delayed for the same reasons stated in paragraph 2.1. Progress on the project was discussed at the July ASG, and it was agreed that Project Monitoring would be added to the ASG standing agenda. This has not been completed yet and the project was not included in the ASG November agenda. We found that there is good reporting to the ASG on the individual elements of the project, this is ensured by these items being included in the standing agenda. There is also monthly reporting to the Strategic Commissioning Group. The Head of Property advised that there is no project/programme management support available to assist in project monitoring. Findings for the recommendation individual bullet points are as follows: • *Governance details are included in the project outline* – this has not been done – the Head of Corporate Property advised that this is a resource issue, and there is no project/programme management support available. • *The ASG and AMG terms of reference are updated to include the project monitoring role* – there is no specific mention of the project monitoring role in the ASG's updated terms of reference, although the role is captured in the description of the Group's Purpose/Function. • *Milestones for long-term actions should include intermediate target dates* – this has not been completed due to resource issues. • *Project monitoring is included as a standing item in the ASG and AMG agendas* – The ASG standing agenda	Revised implementation date Revised responsible officer	31 January 2019 Head of Corporate Property

requires updating as previously stated. • *Resulting actions are fully recorded in the meeting minutes and the project documentation, assigned to a named officer, and monitored* – this is now done and the standing agenda item on the notes from the previous meeting ensures actions are monitored. • *Quarterly position statements are submitted to the Core Council Board* – no longer applicable, monitoring is now performed by the ASG. The recommendation has been updated as follows: The Asset Strategy Group standing agenda item for the Asset Management Plan will be expanded to clarify that this item includes the monitoring of CPG activities.		

2.3 Finding and Action

Issue – The Asset Management Plan	Recommendation
The new Asset Management Plan will replace the 2014 version which is out of date. It will set out the new Corporate Landlord approach and provide clarity on the Asset Rationalisation programme. It is intended that this is published in August 2018. This is a key document and its progress up to publication should be monitored closely as part of the project.	We recommend that the Head of Corporate Property ensures that the project includes the publication of the Asset Management Plan, and its progress is monitored by ASG / AMG.

Management Response		
This is agreed and matches with the intentions of the programme but has yet to be formally documented.	Priority Score	**Priority 4**
Follow Up Action	Follow Up Status	**Complete**
The progress of the Asset Management plan is overseen by the ASG. This function is included in the Group's terms of reference and is a standing agenda item for the Group.	Revised implementation date	Not applicable
	Revised responsible officer	Not applicable

2.4 Finding and Action

Issue – Communication	Recommendation
It is intended to include a section on communications in the project. This will be used to detail how information is provided about the new Asset Management Plan, the Asset Rationalisation programme and the Corporate Landlord approach, and should help ensure that staff and members understand the rationale and benefits of the new approach, reducing the risk of this not being fully complied with.	We recommend that the Head of Corporate Property ensures that the Communications section of the project is fully populated with detailed actions, responsible officers, milestones and monitoring.

Management Response		
A communications plan for the programme is currently being developed with the support of the Business Change/Programme Team. Unfortunately, this resource may not be available to us for very long and this may delay completion.	Priority Score	**Priority 3**
Follow Up Action	Follow Up Status	**Not implemented**
The Head of Corporate Property advised that this recommendation has not been implemented due to there being no project resource available, although there will be communication as required. In view of this, and the priority-three rating of the recommendation, it will not be progressed any further.	Revised implementation date	Not applicable
	Revised responsible officer	Not applicable

2.5 Finding and Action

Issue – Corporate Landlord Steering Group	Recommendation
A Corporate Landlord Steering Group has been recently set up and has met twice. How this group will assist in the delivery of the project should be determined, and its role included in the project.	We recommend that the Head of Corporate Property reviews the role of the Corporate Landlord Steering Group to ensure it assists the project delivery. The Group should be included in the project, and terms of reference for the group written.

Management Response		
This is agreed and underway.	Priority Score	**Priority 3**
Follow Up Action	Follow Up Status	**Complete**
The Head of Corporate Property advised that this recommendation is complete; the Steering Group serves a useful purpose - it meets on a monthly basis; there is freeform discussion and brainstorming; with minutes recorded and actions assigned to individuals. Currently there is no plan to set a formal term of reference although this might change in the future if deemed necessary.	Revised implementation date	Not applicable
	Revised responsible officer	Not applicable

3.	Risk 3 - Asset management controls lapse during the introduction of the Corporate Landlord approach.

3.1	Finding and Action		
Issue –Disposal of Assets		Recommendation	
There are several documents on the disposal of assets, we found these to be comprehensive but still at draft stage and not approved. These documents reflect the new Corporate Landlord approach. Completion and approval of these documents will be covered by the recommendation on updating the Corporate Property Group documentation in paragraph 1.3a. We also performed testing on a sample of disposals and found that evidence to support the valuation and authorisation of some of these was not available. An internal review of disposal transactions performed in 2016 made eighteen recommendations and we found that nine of these are not fully complete or have lapsed.		We recommend that the Head of Corporate property ensures that evidence to demonstrate that disposals have been processed in line with requirements is retained and available. The recommendations in the 2016 internal review should be revisited and implemented as required.	
Management Response			
A checklist and guidance have been prepared and implementation now needs to be brought forward.		Priority Score	**Priority 3**
Follow Up Action		Follow Up Status	**Complete**
The Head of Corporate Property advised that this recommendation is complete. There is a checklist and guidance in place to ensure the correct process is undertaken. Reports on disposals are regularly taken to the ASG and the Senior Leadership Team and the Strategic Commissioning Group.		Revised implementation date	Not applicable
		Revised responsible officer	Not applicable

Audit Framework and Definitions

Assurance Definitions	
None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Categorisation of Recommendations	
When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.	
Priority 5	Findings that are fundamental to the integrity of the unit’s business processes and require the immediate attention of management.
Priority 4	Important findings that need to be resolved by management.
Priority 3	The accuracy of records is at risk and requires attention.

Authors and Distribution

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Report Authors

This report was produced and issued by:

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Alison Winn	Senior Auditor

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Peter Lewis	Director of Finance
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Somerset County Council
Audit Committee
31 January 2019

Healthy Organisation Report

Service Director: Peter Lewis, Interim Director of Finance
Lead Officer: Peter Lewis, Interim Director of Finance
Author: Lisa Fryer, Assistant Director – SWAP Audit
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Cabinet Member: Cllr Mandy Chilcott for Resources
Division and Local Member: All

1. Summary/link to the County Plan

1.1. The Healthy Organisation review is a strategic governance review across the key corporate areas of the Council including finance, performance and governance.

1.2. The report provides an assessment of progress made since the first Healthy Organisation review performed in 2016/17.

1.3. Effective Governance has a direct link with the County Vision and Business Plan and all the priorities contained within.

2. Issues for consideration

2.1. Members are asked to consider the findings and conclusions as outlined in this report.

2.2. Members are asked to consider and support the proposals for further audit work as detailed in Appendix A as an approach when setting the Internal Audit Plan for 2019/2020.

3. Background Information

3.1 An overall medium assurance opinion was given in respect of the 2016/17 review. The termination of the South West One contract, as well as significant financial pressures were the main contributing factors to the opinion given. Areas for attention were highlighted in the report and these have been monitored by the Governance Board, as well as being the subject of further audit work.

3.2 This year's review assessed progress made since the last report and a medium assurance opinion is offered once more. The review was undertaken at a time when the primary focus of the Council was addressing the shortfall in financial resources needed to secure a sustainable future. Although we have seen evidence of progress being made across themes, resources have been diverted to deliver the Financial Imperative Programme (FIP), to both identify and implement the savings needed. To achieve this, delivery of non-FIP related work has had to slow or stop temporarily and this has reduced the capacity to implement a number of the improvements agreed in the previous report.

3.3 This review has been undertaken at other partner sites. The table below compares Somerset County Council to other local authorities where this review has been carried out. It demonstrates that the assurance given at Somerset is consistent with other authorities where this review has been undertaken.

	Somerset CC	**Dorset CC**	**Wiltshire Council**	**Mendip DC**	**South Somerset DC**	**North Dorset DC**	**East Devon DC**
Date of review	**2018/19**	2015/16	2015/16	2017/18	2016/17	2016/17	2016/17
Assurance Level	**Medium**	Medium	Medium	Medium	Medium	Medium	High
Theme:							
Corporate Governance	Green	Green	Amber	Green	Green	Amber	Green
Financial Management	Amber	Amber	Amber	Green	Green	Red	Green
Risk Management	Amber	Green	Amber	Amber	Amber	Red	Green
Performance Management	Green	Amber	Amber	Amber	Green	Green	Green
Commissioning and Procurement	Amber	Amber	Amber	Amber	Amber	Red	Amber
Programme and Project Management	Green	Green	Amber	Green	Green	Amber	Amber
ICT	Amber	Amber	Amber	Amber	Amber	Amber	Amber
People Management	Green	Amber	Green	Amber	Amber	Green	Green
Asset Management	Amber	Amber	Green	Amber	Amber	Green	Green

4. Management Response

4.1. During 2018/19 the Council has been tacking several challenging issues:

- addressing the issues underlying the Grant Thornton adverse Value for Money conclusion;
- continuing to drive improvements through Children's Services;
- focusing on managing down the projected overspend on the Council's revenue budget;
- delivering a robust and balanced budget for 2019/20;
- delivering savings across all services, while managing demand.

4.2. All of these, and service challenges, have made it difficult to address all of the issues identified in the last Healthy Organisation report. It is therefore pleasing that in a number of areas, improvements have been made.

4.3. It is noted that within the Financial Management assessment there are two “reds”: financial resilience and value for money, both of which have had significant focus in 2018/19 and will continue to do so in 2019/20. It is disappointing that the area of risk management has moved from “green” to “amber”; it is acknowledged that this important, underpinning area of activity is not yet embedded within the Council’s day to day thinking. Improvements have been made in the last two or three months, but not enough to influence this rating positively. This work will continue, and with greater focus, in 2019/20.

4.4. The Performance Team has already put in place the monitoring regime to track progress against the actions needed to address areas where improvements are required. Initial population of the action tracker is planned for 25 January and will cover matters such as:

- The senior responsible officer (SRO) for the action;
- Any target or milestones that are being worked towards including details around the revisiting by SWAP
- The overall RAG of the action
    - Green = on target / good progress made
    - Amber = at risk of missing target / concerns around progress
    - Red = set to miss target / action has not progress appropriately
- The overall Direction of Travel of the action
    - Up = Progressing well / better than expected
    - Stable = Neither better than expected nor worse than expected. Little movement in period.
    - Down = Progress has slipped / reversed.
- Suitable commentary around the current situation, milestones, next steps, concerns etc.

4.5. This monitoring regime will be routinely scrutinised by the Governance Board and the Senior Leadership Team to ensure that progress is being made, which will hopefully ensure an improved assessment next time.

5. Consultations undertaken

5.1. This report has been agreed with all theme leads and approved by SCC’s Governance Board.

6. Implications

6.1. All ‘areas for attention’ have been mapped to the 2019/20 Internal Audit Plan within Appendix A, to provide assurance that these frameworks have strengthened as agreed.

7. Background papers

7.1. Healthy Organisation Final Report 2018/19.

Note: For sight of individual background papers please contact the report author.

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Healthy Organisation – A Strategic Review

Final Report

Issue Date: 11th January 2019

Working in Partnership to Deliver Audit Excellence

Contents

Executive Summary

Overview

The concept of a Healthy Organisation review was developed by the South West Audit Partnership and the West of England Chief Internal Auditors Group to provide an objective assessment of the management control framework or 'health' of an organisation.

The review framework assesses against nine corporate themes; Corporate Governance; Financial Management, Risk Management, Performance Management, Commissioning and Procurement, Information Management, Programme & Project Management, People Management and Asset Management. A Red, Amber and Green (RAG) rating is applied to each theme reviewed. Together, these nine themes contribute towards an overall assessment and understanding of the Council as a 'Healthy Organisation'.

For each of the corporate themes, the strength of the management control framework in place was assessed against a benchmark model by identifying the presence, or otherwise, of key controls. This included the use of assurance from other sources, such as external audit, as well as recent internal audit reports. The work was carried out during 2018 with testing completed by the end of November 2018. A senior manager from SCC was appointed as a key contact for each theme and outcomes were agreed with them ahead of producing this overall report.

The focus of the SCC Internal Audit Plan is towards the higher risk areas of the Council. The range of services delivered by the Council, by itself and in partnership with others, is very large and therefore this approach makes the best use of the audit days available. This does mean, however, that we may not achieve a balanced view of risk management across the organisation. Each audit report includes an assurance rating and as a consequence of our risk based approach, there is a relatively high number of partial assurance opinions. As the Healthy Organisation review is a strategic overview across the Council, it will help ensure that we all have a balanced view of the corporate control framework in operation across the organisation. It should be noted though that the review has not checked for 'compliance' with the control framework at a service level.

To stay 'healthy', the Council, like all organisations, must undergo periods of change to remain current, but such change will introduce uncertainty. The existing control framework itself will be challenged by the new demands brought about by the very change needed to move the Council forward. At the start of this change, this framework is in part unproven. Consequently, all healthy organisations must move between periods of green and amber as they set new priorities which are then subsequently reflected in their governance and service structures. This lifecycle is an ongoing, iterative process.

A Healthy Organisation review was first carried out at Somerset County Council in 2016/17. An overall Medium Assurance opinion was given. The termination of the South West One contract, as well as significant financial pressures were the main contributing factors to the opinion given.

All areas for attention in the original review were assigned to a senior manager in the report and these have been monitored by the governance board using a Healthy Organisation scorecard. In addition, audit work has been carried out in both 2017/18 and 2018/19 covering key areas of weaknesses. This year's review provides an assessment of progress made against the last report.

Significant progress has been reported in two areas with both Performance Management and People Management moving to 'Green' this time. Key actions agreed within the last report were found to have been addressed, including the roll out of an updated performance management framework and a new People Strategy.

Other themes reported as 'Amber' last time have remained so. Risk management has moved from 'Green' to 'Amber'. The most significant reason for this has been the focus of the Council during 2018 to addressing the shortfall in financial resources needed to secure a sustainable future for the Authority. The Financial Imperative Programme (FIT) has been set up to identify and implement the savings needed to achieve this. Although we have seen evidence of progress being made across themes, more recently as resources have been diverted to deliver the FIT Programme, delivery of non-FIT related work has often slowed or has been stopped temporarily.

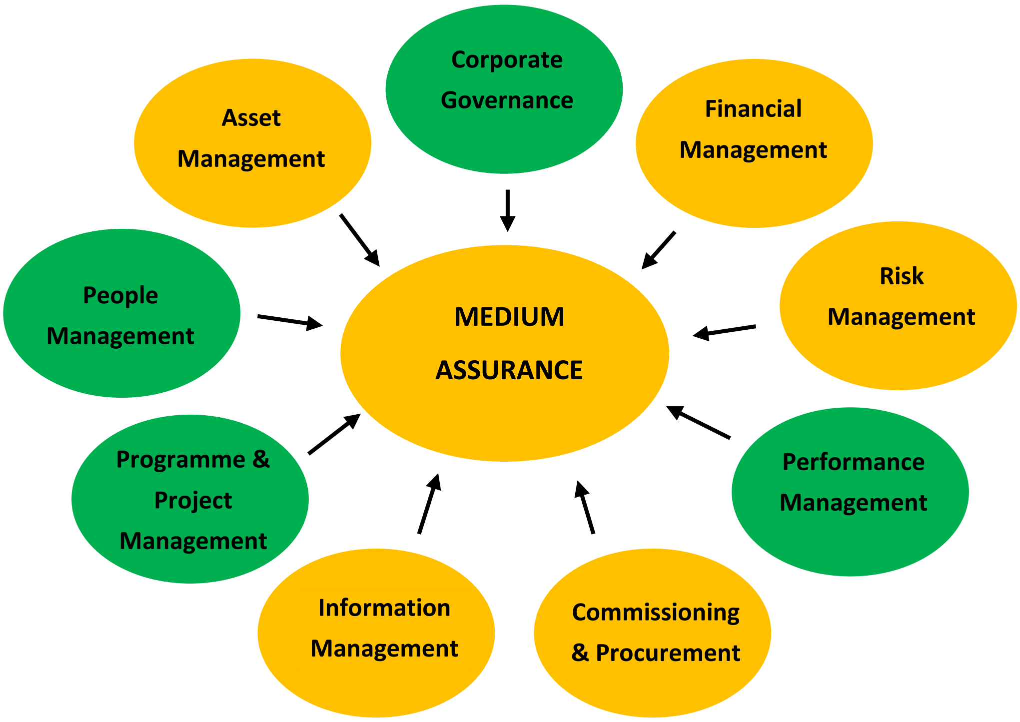
This report identifies those areas which will support the Council to move to 'Green' and are key to its success in doing so. Most of these 'areas for attention' have already been recognised as such by services. This report should be used to update the Healthy Organisation dashboard to allow progress to continue to be monitored. In addition, to provide assurance that improvements have been put in place, all areas for attention will be included in the 2019/20 internal audit plan; either as a separate audit or as part of a Healthy Organisation follow-up review planned for Autumn 2019.

Following the section on overall assurance below, each theme is summarised with a management overview and beyond this more detailed findings for each theme have been provided. Appendix A then maps areas requiring attention to the 2019/20 Internal Audit Plan.

Audit Assurance:	Medium

The assurance for each of the nine themes referred to above have been reviewed and depicted in the following chart. This indicates an overall **Medium Assurance** opinion. As outlined above, the ongoing financial related pressures and the focus of council resources on the Financial Imperative Programme, slowing progress in some key areas, have led to this conclusion.

Overall assurance graph



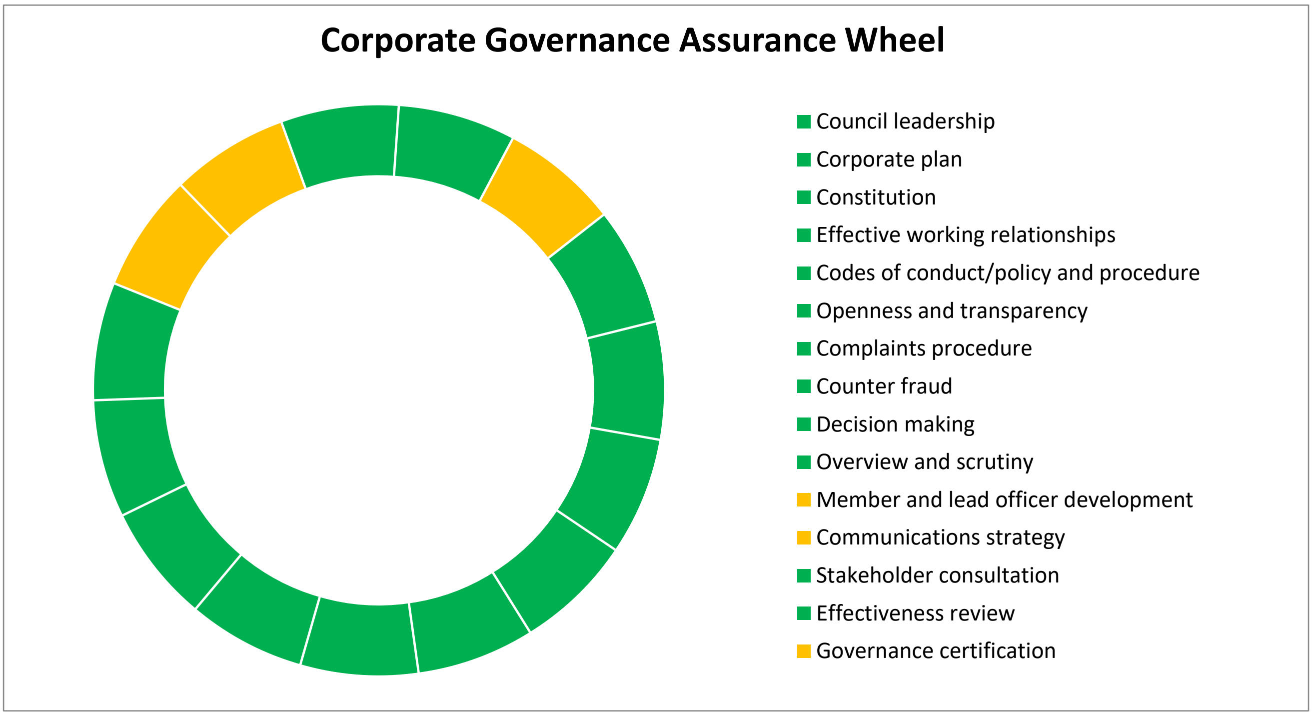
R/A/G Rating Key:

RED	*(Low Assurance / High Risk)*
AMBER	*(Medium Assurance /Medium Risk)*
GREEN	*(High Assurance / Low Risk)*

Summary Assessment by Theme

1. Corporate Governance	GREEN

Good Corporate Governance will facilitate effective management that can deliver long term success and performance of an organisation. Corporate Governance refers to the strategic (rather than operational) management practices and values and beliefs by which the Council operates. It balances accountability and the interests of all its stakeholders, including service users, the wider public and business community, management, Members and staff across the Council. It provides the framework for achieving the Council's goals in every respect including service delivery objectives, preservation of reputation and accountability, together with the values and culture in which services are delivered. Many of the elements of a good corporate framework should be replicated in structures and processes within service levels.



The **Green** RAG rating has been assigned because of the strong control framework in place in relation to Corporate Governance.

AREAS OF STRENGTH

- A sound constitution, framework for leadership and decision making.
- Overview and scrutiny provided by the Audit, Standards and three scrutiny committees.
- A new medium term Somerset Vision and Business Plan for 2018/19, building on the existing County Plan.

- A risk based internal audit plan that is regularly reported upon and includes a robust system for monitoring high priority actions.
- An established complaints process.
- An established member induction training programme and development strategy.
- Consultation and engagement published on the SCC website.
- The Council has an Anti-Fraud and Corruption Strategy and participates in the National Fraud Initiative.

AREAS FOR ATTENTON

- A framework for Senior Management Training and Development has now been developed. Although it has been piloted, at the time of this review it had not been officially launched across the organisation.

- The Council's branding is currently under review, with branding guidelines dating back to 2012. Progress is slow due to the need for the Financial Imperative work to take precedence.

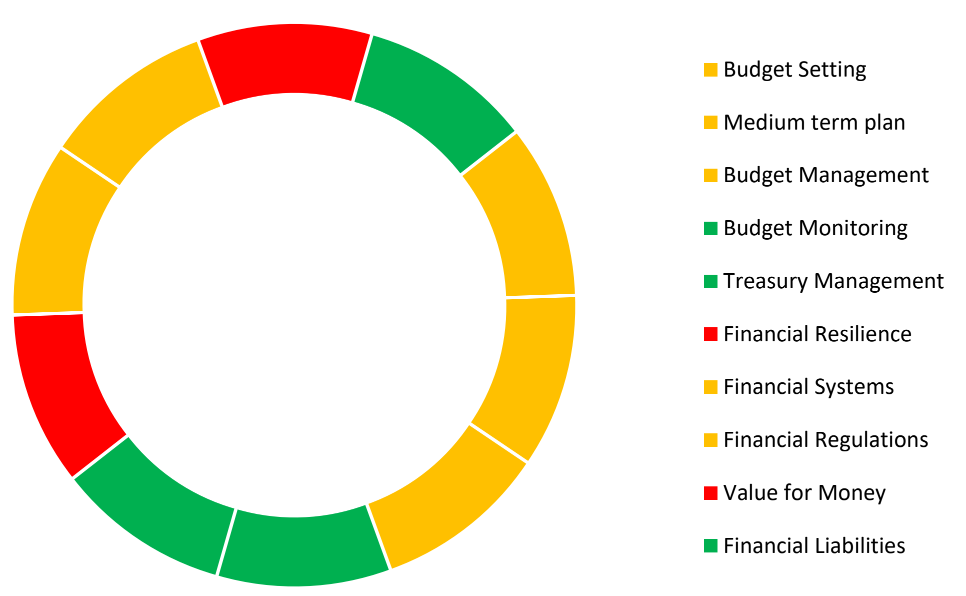
- The Annual Governance Statement (AGS) is a review of the effectiveness of governance arrangements. The format of the action plan is changing and will form part of the Governance Board scorecard in the future. The current plan has just three actions outstanding, but we have been unable to obtain evidence of the successful completion of all other previous actions, which covered seven pages.

- The Employee Standards of Conduct is overdue for review and has not been updated since September 2015. There are plans to align the Officer Code more closely with the Member Code, but there is insufficient opportunity to do so until Financial Imperative work has concluded.

- The Consultation Toolkit is dated November 2014 and, therefore, should be revisited to ensure it remains reflective of current requirements.

2. Financial Management	AMBER

Effective Financial Management is the bedrock of any successful organisation and is vital to the ongoing ability of local authorities to deliver services that the public wants. Assessing the organisations approach and delivery in this area goes to the heart of its ability to consult and listen to its communities, work effectively with Cabinet/Executive and Scrutiny functions. It will require an approach at both Corporate and Service levels that ensures it both involves, engages and challenges those who are accountable.



The focus of the whole council this year has been working towards addressing the shortfall in financial resources to secure a sustainable future for the Authority. Action taken to date has included rebasing the 2018/19 budget, introduction of the Financial Imperative Programme and improved budget monitoring. Much work is still needed to address the future years funding gap and the depleted level of reserves. An **Amber** RAG rating recognises both the effort that is being applied but also the challenge that still remains.

AREAS OF STRENGTH

- The Council has implemented a Financial Imperative Programme to identify opportunities for savings in order to reduce funding gaps in 2018-19 and 2019-20.

- The revenue budget has been revised during the year which has enabled the Children's Services budget to be rebased.

- Clear arrangements are in place for monitoring, updating and reporting the in-year financial position. The frequency of reporting to both Members and the Senior Leadership Team (SLT) has increased this year.

- The recommendations made by Grant Thornton in relation to the clarity of reporting have been implemented with additional detail now included in budget monitoring reports.

- An unqualified audit opinion and annual governance statement from the External Auditors on the 2017/18 financial statements.

- A comprehensive set of Financial Regulations and Financial Procedures.

- Annual Benchmarking of Treasury Management, with results at least in line with other contributing Local Authorities.

- Financial liabilities are identified and managed proactively.

AREAS FOR ATTENTON

- A Medium-Term Financial Planning (MTFP) audit was performed in 2017-18 and a partial opinion was reported that included significant weaknesses around this process.

- The current MTFP and Capital Strategy do not clearly link to the new the Joint Somerset Vision, County Council Vision and Business Plan.

- The use of service plans as a financial management tool has not been successful and a new approach is needed.

- It is acknowledged that the key focus of the Council is to address the funding gap; however, at the time of this review an initial assessment estimated a £19m shortfall for 2019-20. Since then, further detailed analysis has identified a gap of £15m that now needs to be addressed through service proposals for change.

- In November 2018, the Council reported that the sum predicted to be available in the General Reserve at the end of March 2019 is £7.8m, just 52% of the recommended figure of £15m.

- A SWAP audit of Debt Management was awarded partial assurance, and the follow-up review in 2016/17 reported that ten recommendations remained outstanding. An SAP ICT Control audit also gave a partial assurance opinion.

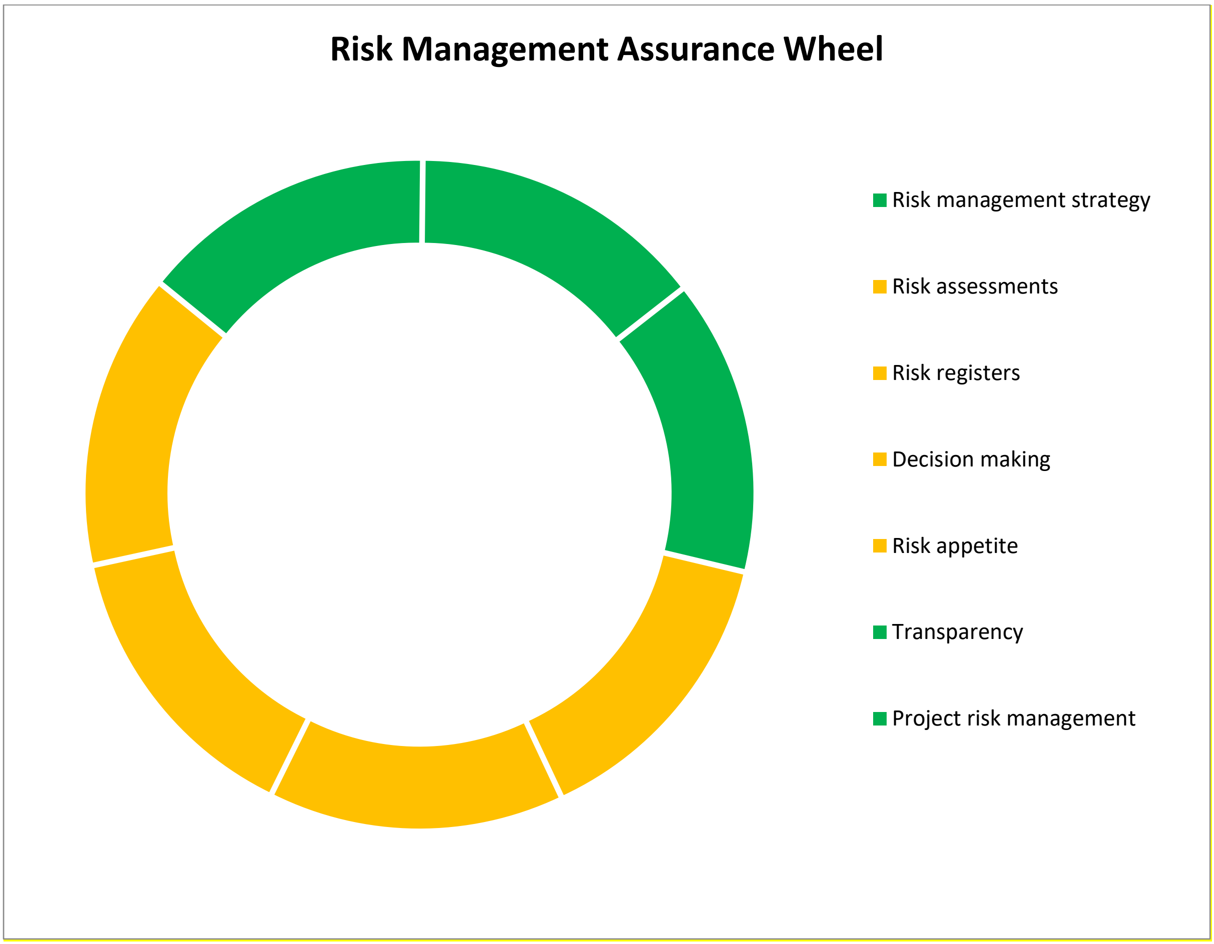
- For 2017-18, Grant Thornton provided a 'qualified adverse' conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

- A draft Value for Money Strategy has been produced but, at the time of reporting, has not yet been approved or implemented.

- The Financial Procedures have not been updated since May 2015 and therefore require update. Corporate guidance for cash handling is in the process of being developed with a launch planned for January 2019.

3. Risk Management	**AMBER**

Effective Risk Management forms a key aspect of assurance and governance for an organisation. Organisations which can demonstrate and operate under a structured and active risk management approach are far more likely to be able to focus upon their key priorities and outcomes and, in doing so, take informed and robust decisions.



There is an agreed Risk Management Strategy and risk is reported to Members and SLT. Despite good practice in parts of the Council, weaknesses have been identified that have resulted in the award of an **Amber** RAG rating. Fully describing risks and completing subsequent updates, with mitigating actions to demonstrate active risk management across the Council, was not fully embedded.

AREAS OF STRENGTH

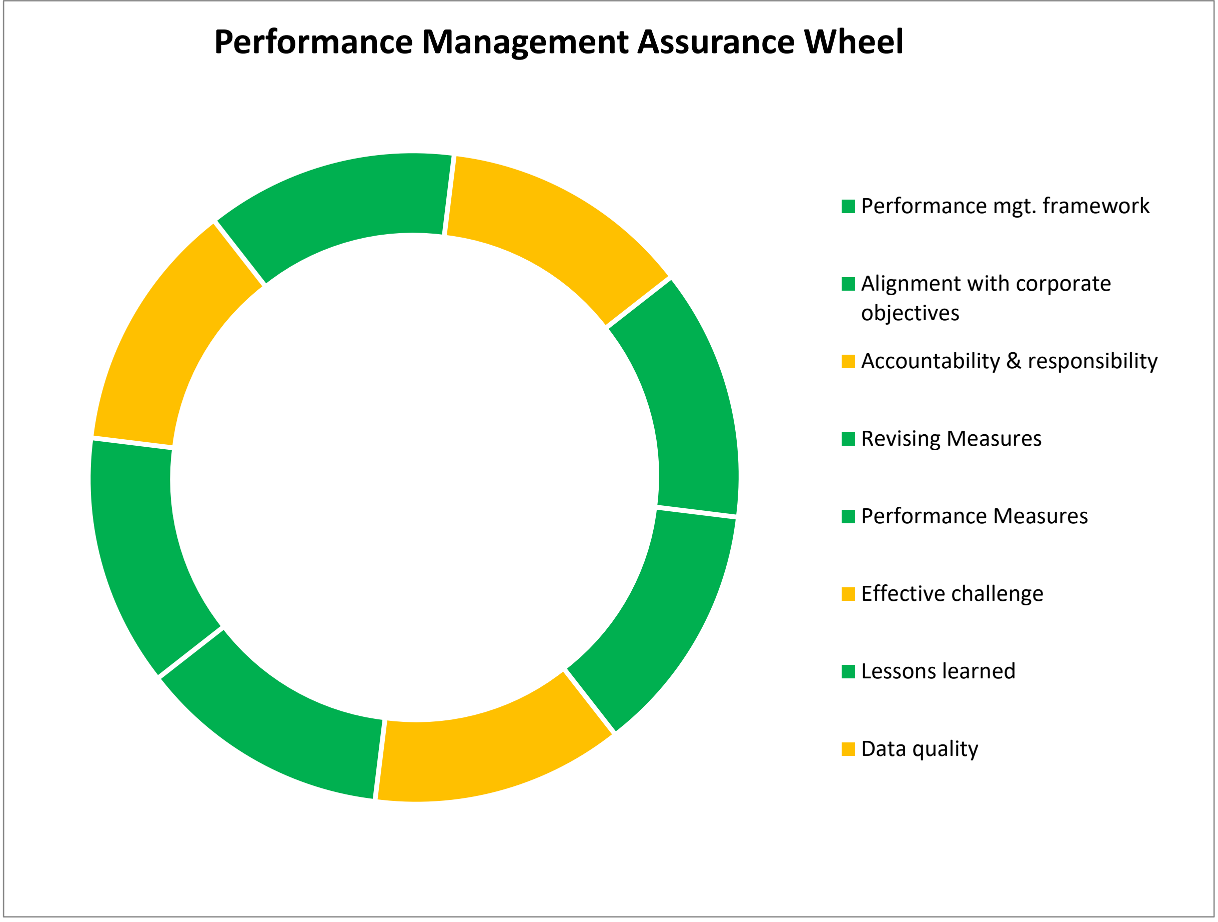
- An approved Risk Management Policy and Strategy.
- A Strategic Risk Management Group (SRMG) with Members acting as risk 'champions' to help provide scrutiny and challenge.
- A Corporate Risk Register that includes risks that link to the County Plan as well as other strategic risks.
- Members receive a risk update on a quarterly basis.
- A risk priority matrix in place to assess risk against likelihood and impact.
- A committee report template requiring all key and non-key decisions to be supported by an assessment of risk.
- There is a corporate system 'JCAD' used to assign and monitor risks.
- The Council's Risk Management Strategy makes specific reference to managing risks in programmes and projects.

AREAS FOR ATTENTON

- Details of risks are not always fully populated in JCAD or kept up-to-date by risk owners to provide ongoing evidence of mitigating action. There was reduced assurance of active risk management, as the updating of JCAD is often driven by the Principal Risk Officer rather than the risk owner themselves or from challenge from their management teams.
- Although risk management is built into commissioning, operational and service plans, further development is needed to ensure that these are fully described and match to risks recorded in JCAD.
- Several service risks have been reported as being above the Council's risk tolerance for a significant period and further work is required to assess the existence and effectiveness of mitigating actions in place.
- The information on risk assessment provided to decision makers is limited and could be improved by ensuring that inherent and residual risks are captured along with the actions that have been put in place to move between the two.

4. Performance Management	GREEN

Performance Management is an essential element of the governance framework which provides a transparent platform, upon which the service is accountable to its citizens and service users for the effectiveness of its service provision and delivery of its published objectives. To be effective, the Performance Management Framework needs to provide accurate and timely information; to facilitate informed and transparent decision making and prompt corrective actions where service delivery strategies appear not to be achieving their intended outcomes.



Performance Management is established council-wide, supported by the Planning and Performance Team. A **Green** rating has been given; this reflects recent improvements made – the updated Performance Management Framework; the new suite of performance indicators; and the new corporate performance reporting system. These now align clearly with the Council's Business Plan with the linkage demonstrated by the Golden Thread.

AREAS OF STRENGTH

- A Performance Management Framework which links each performance measure to corporate objectives and provides clear guidance.
- A new corporate performance reporting system and a new suite of indicators which align with the Strategic Outcomes and Priorities in the Business Plan.
- A council-wide system for monthly performance review.
- Review of performance measures via the annual service planning process.
- Clear information provided in the corporate performance reports to help identify under-performing areas.
- Performance information used to inform future plans; this process is set out as a key theme - 'Plan', 'Do', 'Review' and 'Revise' - in the Performance Management Framework.

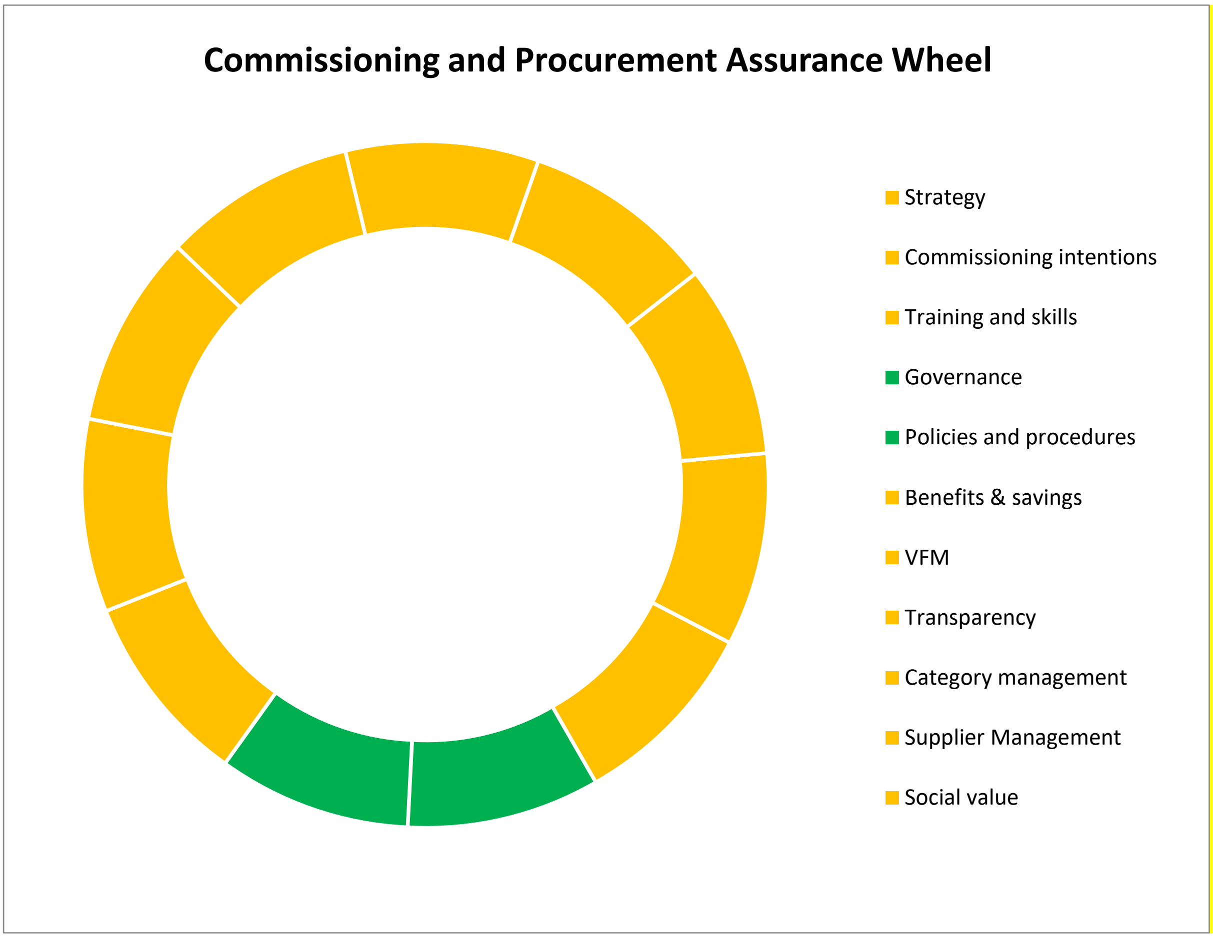
AREAS FOR ATTENTON

- The Performance Management Framework requires updating to reflect the new reporting system which has just been introduced, including the full Chief Executive role. A formal system for regular review and update of the Framework is also required to ensure the information is up-to-date.
- A full version of the Business Plan should be published on the Council's website, and information to clarify the link between the County Vision and the Business Plan should also be provided.
- The officer responsible for each performance measure is not clearly identified.
- The escalation system where performance is below required standards requires expansion to include how corrective action should be agreed, recorded and monitored.
- Corporate performance reports should contain previously stated actions to ensure these are fully monitored.
- The Data Quality Strategy should be implemented and embedded promptly.

5. Commissioning & Procurement	AMBER

Assessing Procurement & Commissioning activity of a Local Authority is a critical determinant in establishing its effectiveness in both being able to deliver benefit for its community but also in showing whether it can maximise Value For Money (VFM) for its taxpayers.

Successful organisations understand the complex needs of their service users and design services which consider the effectiveness of its internal provision against the market place; to ensure taxpayers get the best value for money and the local economy is supported. The activity is complex and risky and, therefore, clear strategies, policies and plans are required which can be measured with appropriate targets that give the right level of assurance.



It is recognised that a significant amount of work has taken place over the last two years in relation to both Commissioning and Procurement. The results of this can be seen above in relation to Governance and Policies and Procedures, both of which are fundamental to the delivery of effective procurement and commissioning activities. The Amber RAG rating has been given in recognition that this work is ongoing and needs to continue to further strengthen control frameworks, and to ensure that commissioning and good procurement practice is fully embedded across the Council. Given the progress seen to date, there is good reason to believe that this will be achieved.

AREAS OF STRENGTH

- An up-to-date Commissioning Vision & Operating Model is in place and is available to staff.
- Commissioning plans are produced on an annual basis and most services have produced new plans for 2018/19 using a corporate template.
- Courses covering commissioning, procurement, social value and contract management are available.
- A Strategic Commissioners Group with representation from all service areas is in place and provides oversight of the commissioning process.
- The Council's Scheme of Delegation and Contractual Procedural Rules set out the levels of decision-making authority required and the process by which procurement activity should take place.
- A specialist procurement team is in place to support and advise services.
- A Commissioning Gateway requires completion of a self-assessment at each stage of the commissioning cycle before progression to the next stage.
- Members of the Cabinet hold responsibilities for oversight of commissioning activity. A Link Member for the procurement function is also in place.
- The Commercial & Procurement and Commissioning Development teams both have performance scorecards in place which are reported to Senior Leadership Team.
- Commissioning guidance and Contract Procedural Rules are up-to-date and available through the SCC Intranet.
- A Contract Manager's Group is in place and is attended by commissioners and led by the Commercial Contract Management team. The Commercial & Procurement team are also represented at both the Commissioning Board and Strategic Commissioners Group.
- A corporate approach to contract management has been developed over the last two years and is now in the process of being embedded across the organisation.
- The Commercial & Procurement service maintain a benefits tracker which is used to record anticipated savings and benefits from procurement activity.
- The Council maintains a Corporate Contract Register which can be used to identify the most significant contracts by value.

- SCC has a Social Value Policy which has been published on its website. Guidance is available to staff via the Intranet. An e-training course is also available.

AREAS FOR ATTENTON

- The Corporate Procurement Strategy has not been updated since the last Healthy Organisation review and is now due for review.

- All commissioning and procurement related strategies and service plans require review to align with the new Somerset Vision and Business Plan.

- Service planning for 2018/19 is not complete as work was suspended for the duration of the FIT Programme to allow officers to focus on delivering savings.

- The SCC Market Position Statement has remained at draft stage since it was issued in 2016.

- Skills assessments for both procurement and commissioning need to be completed.

- The Council's Financial Management System, SAP, currently does not allow spend against specific contracts to be recorded and monitored.

- Planned commercial and third party savings have not all been delivered as planned. As reported under the financial management sections of this report, the themed approach to the MTFP has now been dropped. New savings targets for the Commercial & Procurement service are in the process of being agreed.

- There is currently no agreed method within the organisation for reporting value for money performance. A Value for Money Strategy has been drafted but has yet to be adopted.

- The Council publishes all contract opportunities with a value exceeding £10,000 on the Supply the South West Portal; however, there is a Local Government Transparency Code requirement to publish all opportunities with a value above £5,000.

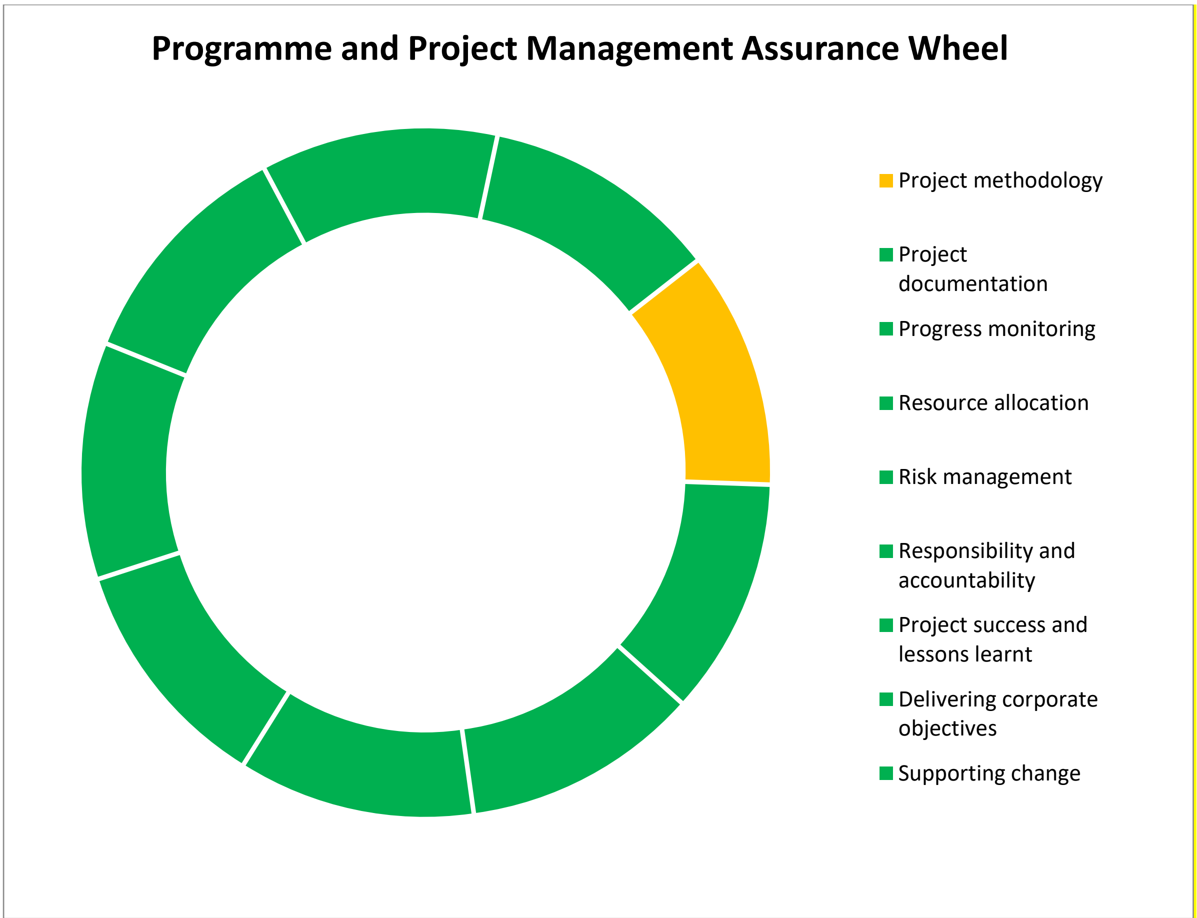
- Differences were identified between the published version of the Council's contract register and the internal version of the register.

- Although the foundations of category management are in place, this has not been fully established at SCC.

- Weaknesses identified in relation to assessing supplier resilience. Financial viability is assessed prior to award, but there is no specific process to assess viability during the contract.

6. Programme & Project Management	GREEN

Effective Programme and Project Management forms a key aspect of assurance and governance for an organisation. Organisations which can demonstrate and operate under a structured and active approach are far more likely to be able to focus their efforts and successfully achieve the delivery of anticipated outcomes and their associated benefits. It is important that programmes and projects are clearly defined and resourced. Equally they need to demonstrate a clear link to the delivery of corporate aims and objectives and be adequately governed.



This review focused on the delivery of projects that form part of the Core Council Programme which are considered to be those of most significance corporately. The RAG ratings given are reflective of this. The **Green** RAG rating has been assigned because of the strong control framework in place in relation to the Core Council Programme. Less assurance can be given in relation to projects outside of this and planned improvements, which would determine the methodology to follow for all projects, has been delayed.

AREAS OF STRENGTH

- Project guidance and templates are readily available to SCC staff via the Intranet.

- A documented methodology is in place to establish the need for Project Management Office (PMO) support for given projects and programmes.

- E-learning is in place to support project management.

- Regular monitoring reports are presented to both Members and SLT.

- Each Core Council Programme will have a project board that will monitor progress.

- The Project Management team focus currently is the Council's most important project, FIT.

- The Council's Risk Management Strategy makes specific reference to managing risks in programmes and projects.

- Quarterly audits have been introduced to review the quality of risk management undertaken in relation to projects.

- Benefits realisation processes are employed in core council programmes, and E-learning modules also provide reference to this area.

- A lessons learnt exercise was carried out reviewing projects undertaken over the previous three years and this was presented to the Senior Leadership Team.

AREAS FOR ATTENTON

- It was reported as part of the last Healthy Organisation review that some projects remain 'unknown' corporately and, therefore, may take place outside of the established framework. Work is ongoing with the Commissioning Development Team to align the Commissioning Gateway and Project Management processes to help address this.

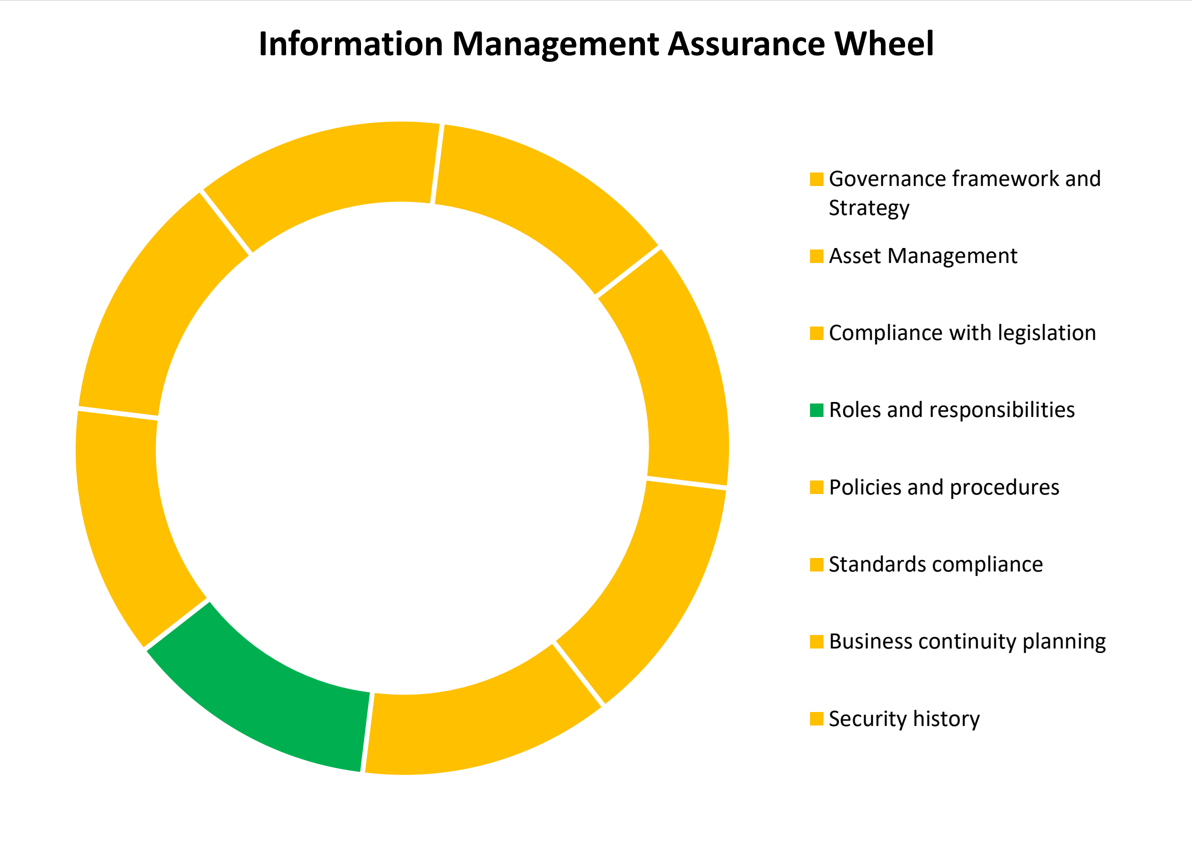
- A Project Mobilisation Toolkit is being developed which will determine the importance of the project to the Council and the project requirements will be reflective of this. The current involvement of the project management team with the Financial Imperative work is impacting significantly here and, therefore, this work will not be completed until FIT work is concluded.

- Standard project documentation does not mandate a requirement for risk assessment or ongoing risk management. The Project Mobilisation Toolkit which is being developed will make risk management responsibilities clear.

- The Core Council Board has been disbanded while FIT is in progress. The impact of this is reduced by the alignment of projects with FIT and continued production of the dashboard to help support ongoing project monitoring; however, during this time there is no capacity for further support.

7. ICT	AMBER

Information Management is an important aspect of governance for an organisation. Effective Information Management will facilitate and support efficient working, better decision-making, improved customer service and business transformation to facilitate the delivery of key priorities and objectives.



At the time of the first Healthy Organisation review, two years ago, the ICT team, environment and services being delivered were going through a major period of change as the delivery of the Council's ICT had been brought back in-house from South West One (SWO). More recently further change has resulted from the Financial Imperative work and has included the loss of the Head of the Service. Although there is evidence that work has taken place and is ongoing in relation to the governance and control framework, at the time of this review this work was not complete. An **Amber** rating has, therefore, been given.

AREAS OF STRENGTH

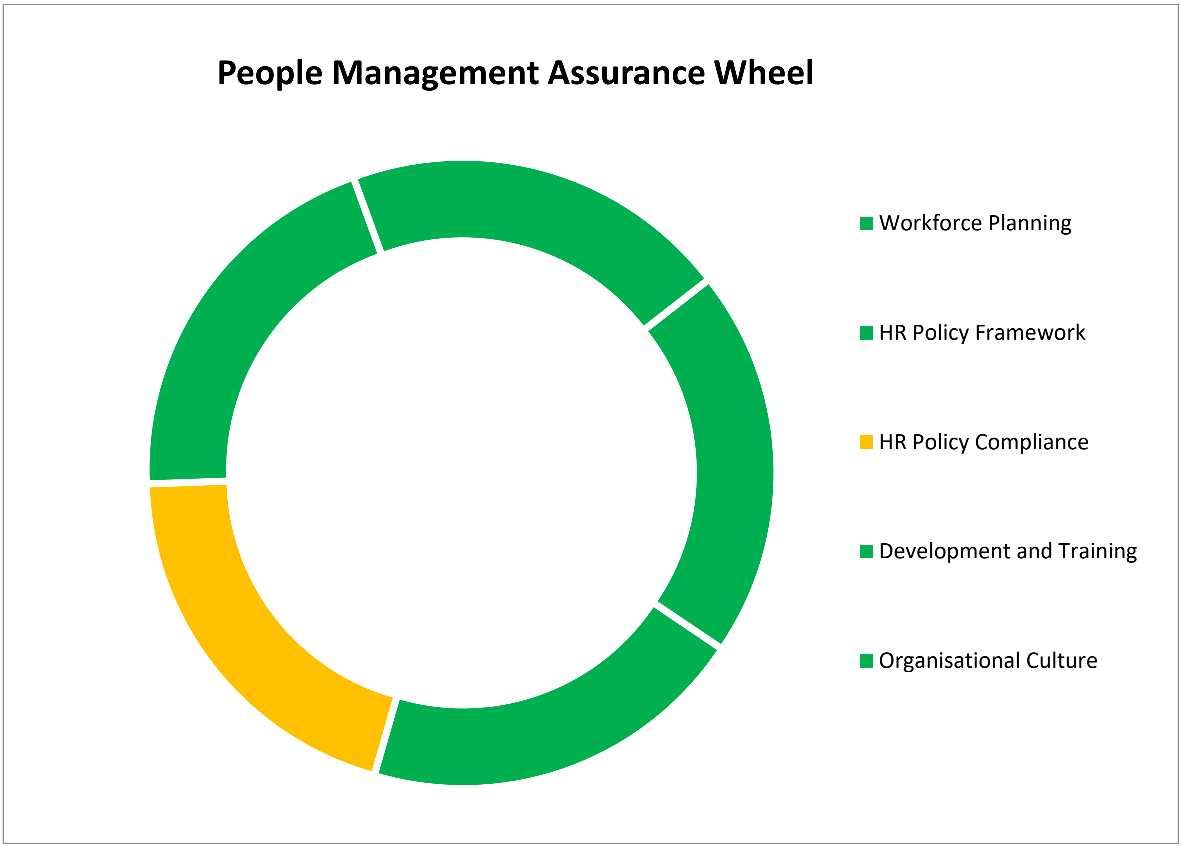
- Information governance policies have all been rewritten to reflect the new General Data Protection Regulations.
- The officers of the Council are well trained in the areas associated with data protection.
- Organisational structure charts are available for strategic and operational roles and reflect restructuring that has taken place.
- The Council has current PSN connection compliance across its network.
- Contingencies are in place for outages both in the form of Business Continuity and Disaster Recovery Plans.
- There is a critical application list held by ICT.
- The Council has information security policies that give assurance in this area.

AREAS FOR ATTENTON

- The current ICT Strategy needs to be updated to link to the Council's new vision. This work is in progress and will also underpin the creation of a Digital Transformation Strategy for SCC.
- Partial assurance was awarded previously in relation to Hardware and Software Management. The follow-up audit finalised earlier in 2018 reported insufficient progress being made. Further work has since been carried out by the service which will be reviewed by audit in 2019/20.
- Although work is ongoing, the Council is currently failing to comply with the Data Protection Act requirement to deal with Data Subject Access Requests without unreasonable delay, and within a 40-day period.
- The exercise to establish and agree a full suite of ICT policies is not yet fully complete.
- The Council is still not compliant with the Payment Card Industries Digital Security Standard (PCI-DSS) although approval to purchase a solution is about to be sought.
- There is currently a lack of assurance that all critical systems can be recovered from back-up.
- Service desk records are not routinely analysed and used to facilitate continual service improvement to help mitigate the likelihood of similar incidents happening again.

8. People Management	GREEN

Effective People Management forms a key aspect of assurance and governance for an organisation. Organisations which can demonstrate and operate under a structured and active approach are far more likely to be able to focus resources against key priorities and, as a direct result, deliver improved outcomes.



An overall **Green** RAG rating has been assigned to this theme – this reflects the strong control framework in place.

AREAS OF STRENGTH

- The People Strategy has been updated this year following wide consultation with staff and now links to the Council Vision and Business Plan.

- A focussed approach to workforce planning has been taken - there is a good-quality Workforce Development Strategy in place for Children's Services, and activity on workforce planning initiatives in Adult and Children's Services were observed. There is also a Young People Strategy. A comprehensive workforce planning guidance document that can be used across the authority is also available.

- Clear and comprehensive HR policies are in place and readily available to staff.

- HR performance results are reported via a Workforce dashboard which is updated on a monthly basis.

- There is an on-line learning platform and feedback on all courses is sought. Feedback indicates that a high percentage of staff feel adequately trained for their roles and undertake some learning and development activity.

- Staff appear to be well-engaged. Information is regularly provided to staff with additional messages sent, and face to face meetings held, when required. Feedback from staff is encouraged and is formally sought via regular staff surveys.

AREAS FOR ATTENTON

- Workforce Plans are not in place for all services.

- HR policies have not been updated to reflect the actions in the new People Strategy.

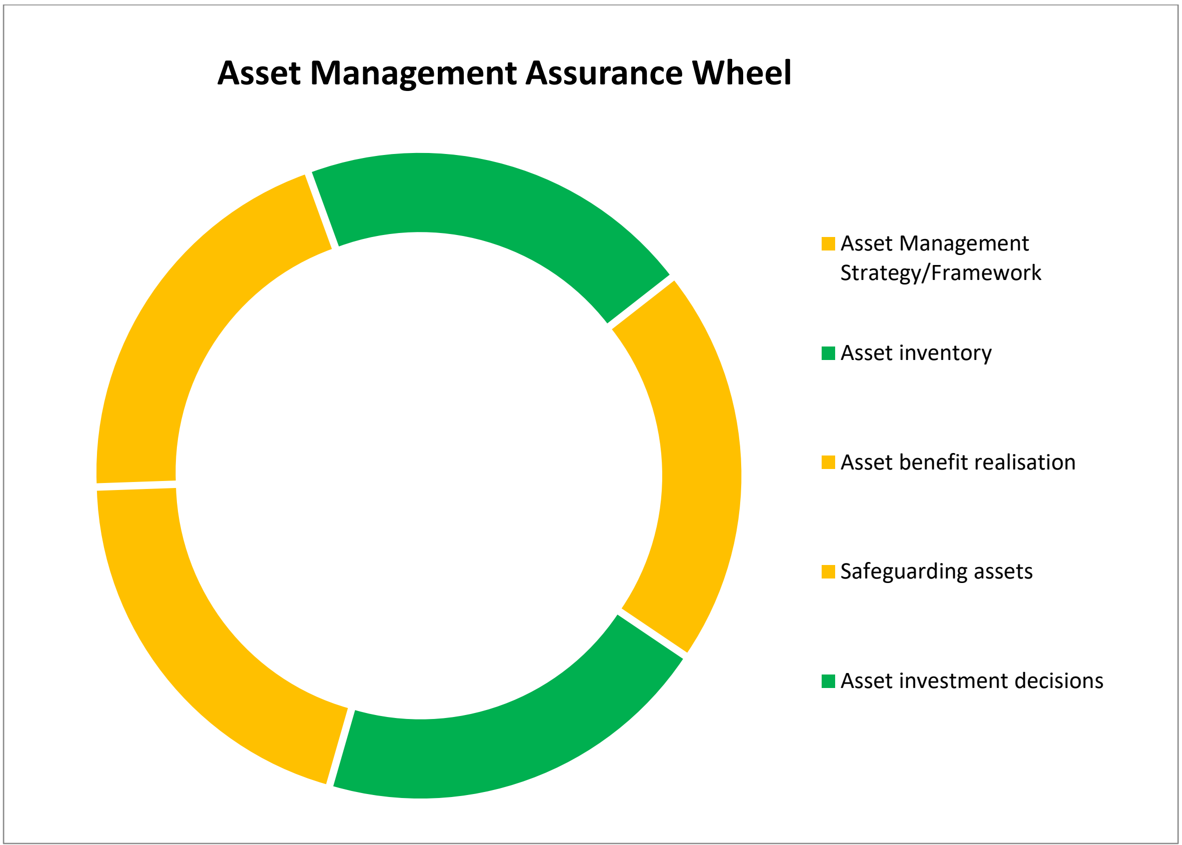
- There is no direct measurement of compliance with policies. Indirect measurement via performance monitoring is carried out, but performance measures are not linked to policies.

- No corporate HR performance targets are set and there is no formal monitoring of the results at senior management level.

- Performance Management could be expanded to include the effectiveness of training courses.

9. Asset Management	AMBER

Effective Asset Management forms a key aspect of assurance and governance for an organisation. Organisations which can demonstrate and operate under a structured and active approach are far more likely to be able to focus resources against key priorities and, as a direct result, deliver improved outcomes.



In terms of Asset Management, this review has focused on SCC building assets.

An overall Amber RAG rating has been assigned to this theme. This reflects that three of the five controls examined were found to require some improvement. These are in the process of being addressed by ongoing initiatives, led by the Corporate Property Group, which will result in a corporate approach being adopted in relation to assets held.

AREAS OF STRENGTH

- The Corporate Asset Management Plan is currently being updated and is due to be published in early 2019 when it will be fully approved, link to the County Vision, and be monitored by the Asset Strategy Group.

- The Asset Strategy Group (ASG) provides a strategic framework for managing the Authority's asset portfolio and agreeing capital investment proposals. Membership includes both Members and representatives from the Senior Leadership Team.

- The register of land and building assets is held on the Atrium system and includes good detail.

- There is a robust system for the valuation of assets which is performed in line with Chartered Institute of Public Finance Accountants (CIPFA) methodology and reported to the External Auditor.

- The centralisation of budgets, a key feature of the corporate landlord approach, is on target to start in the 2019-20 financial year.

- There is regular, formal reporting of a wide range of Corporate Property Group (CPG) performance measures and progress on the application of the corporate landlord approach, which includes MTFP savings, is reported to Senior Leadership Team and Members.

- The Asset Rationalisation Programme provides a robust review of assets to help ensure there is a sound basis for retention or disposal of council properties.

- A robust process is followed for capital bids which ensures there is adequate justification, scrutiny and approval for acquisitions made.

AREAS FOR ATTENTON

- Publication of the Corporate Asset Management Plan has been delayed and is currently planned for early 2019.

- Many CPG policies are at draft stage and require updating and/or approval. These include the Disposal Policy and the Repairs and Maintenance Policy.

- Currently there is no reconciliation of the Atrium data with the Financial asset register. The Head of Corporate Property advised this will take place from April 2019.

- The programme of Placed Based reviews has been delayed awaiting the outcome of the Council's Financial Imperative Programme. It is important that this is re-started promptly.

Detailed Assessment

1. Corporate Governance

Service Leadership
The overall direction of the Council is set by the Leader of the Council and Cabinet with the Senior Leadership Team. The Full Council appoints the Leader of the Council for a period of four years. The Cabinet forms part of the Council's executive arrangements and it comprises the Leader of the Council, the Deputy Leader together with six Cabinet Members. The Cabinet is appointed by the Leader of the Council.

The Council's Constitution sets out the framework for leadership, including schemes of delegation, and the allocation of power and responsibility. One of the purposes of the Council's Constitution is to set out how the Council operates and how decisions are made.

As part of the Council's Finance Imperative Programme, Senior Leadership meetings take place every week, chaired by the Chief Executive and include all Directors and Lead Commissioners. Terms of Reference reflect their strategic leadership role and responsibility for delivery of the County Plan priorities. The meetings are minuted and actions assigned.

Corporate Plans
The County Plan 2016-20 drives the Council's activities over the medium term and provides strategic direction for the Council across the key service areas.

In May 2018 Council Members approved a broader, longer term Vision for Somerset that focuses on 'improving lives' in the County. It is recognised that the timescale for delivery of the vision will be over more than one Administration Term. This covers the whole of the County and sectors rather than being limited to just the Council itself. The Vision approved was a draft version. The intention was to keep this a "live" document while further consultations and engagement takes place.

The Vision has been shared with key partners such as the Police, other Somerset Councils and the voluntary sector. There were also a number of events and opportunities for staff and partners to influence the Vision including a round of Leader and Chief Executive Road shows for staff and a strategic partners event held in January 2018.

A 2018-19 Business Plan has been produced and agreed to deliver the County Council Vision. It contains four strategic outcomes that show what the Council will focus on. Beneath each strategic outcome sits four key priorities, supported by more specific objectives and links to other strategic plans.

The County Plan, the Vision and the Business Plan have all been published on the Council's external website and the intranet.

Constitution
The Council has a long-established Constitution which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. The Constitution is available on the Council's website. The Constitution is reviewed annually by the Monitoring Officer and any changes are recommended to Constitution and Standards Committee and Full Council.

Effective Working Relationships
The Member/Officer Protocol that forms an appendix to the Constitution covers the underlying principles of Member/Co-opted Member/Officer relationships, including mutual respect, inappropriate use of position and personal and family relationships. This is also covered by guidance to officers available on the intranet.

Members are encouraged to raise concerns as and when they arise. Exit interviews were also conducted in April 2017 for Members who did not stand for election.

Codes of Conduct
The Council is bound by the codes of conduct for Members and officers alike. The Code of Conduct for Members and Co-opted members is set out in Part 2 section C of the Constitution. This closely matches the standards laid down in the Local Authorities Order 2007. The Standards of Conduct for Council Officers is available on the Extranet.

The Employee Standards of Conduct was last updated in September 2015. There are plans to align the Officer Code more closely with the Member Code, but this will not take place until early 2019 when the FIP work has addressed the Council's financial challenges in 2018/19. Whilst there are clearly plans to complete this review at this stage, the Officer Code remains overdue for review.

Member training covers the Code of Conduct and they are required to sign a declaration stating that they will conform with the Code. Staff inductions also cover this area.

Openness & Transparency
Committee meetings are open to the public unless exempt or confidential information is being discussed. Members of the public can find out about the business to be considered and may attend to make a statement, ask a question or present a petition where the agenda makes such provision.

For six years from the date of the decision. the Council makes the following information available for public inspection, via its website:

- Minutes of Council, Committee or Cabinet meetings;
- Records of Cabinet, joint and individual Cabinet Member decisions;
- Officers decisions (for Key Decisions / and decisions delegated by Cabinet or an individual Cabinet member only);
- A non-confidential summary of any minute(s) / decision record (s) containing exempt or confidential information;
- Agendas; and any relevant reports.

Consultation and engagement is covered on the website. This includes details of current and past consultations.

Details on how to access the Freedom of Information Scheme is also included on the website.

Complaints Procedure
The Council's Complaints Procedure is published on the website. This includes in detail what will be done when a complaint is made, and how they are reported.

The Council has a Whistleblowing Policy and this was reviewed and approved in February 2016 and is available to staff on the intranet. Officers are currently reviewing this policy with the aim of bringing a refreshed policy forward for approval in 2019.

Counter Fraud Policy
The Council has an Anti-Fraud and Corruption Strategy in place that includes Anti Bribery and Anti Money Laundering considerations. Annually in January a fraud update is given to the Audit Committee.

The Council receives information on potentially fraudulent activity through the National Fraud Initiative (NFI). Data is compiled every two years and submitted to the NFI for analysis and, where appropriate, further local investigation undertaken.

Decision Making
At a Corporate level, the decision-making policy and procedures are set out in the Constitution, as part of the Scheme of Delegation. The Officers Scheme of Delegation is reviewed annually by the Monitoring Officer and approved by the Chief Executive. Committees have clear Terms of References. Decision making is a transparent process and records of the decisions that have been reached by committees or key decisions taken by officers are available for examination by the public via the organisation's web pages.

Overview & Scrutiny
Overview and scrutiny is provided by the Audit Committee, the Constitution & Standards Committee and the three Scrutiny Committees: Children and Families, Adults and Health and Policies and Place.

The Constitution outlines the Terms of Reference for all of the above committees.

Member & Officer Induction and Development
A Member Development Strategy is in place that covers induction and ongoing training of Members.

Following election, all Councillors receive an induction much of which is mandatory to ensure Members have the necessary skills and understanding to carry out their role.

Since the last Healthy Organisation review, a framework for Senior Management Training and Development has been developed by the Council. It has already been piloted within Adult Services. To support the framework and provide development opportunities a supporting toolkit has also been developed. At the time this review was carried out the framework had yet to be officially launched and because of this we have given an Amber RAG rating to this area.

Communication
A Communications Operations Manager is in post and there is a communications team.

As was reported as part of the last Healthy Organisation review, the Council does not have an approved Marketing and Communications Strategy. There are however some relevant guidance documents in place. This is not thought to be an area of high risk by SCC as communication processes are judged to be working satisfactorily without a strategy. Given other greater priorities, this means currently there are no plans to implement one.

The communications team are also in the process of reviewing the Council's branding and all associated guidance, but the Financial Imperative work is currently taking precedence.

As a result of the above the Amber RAG rating remains unchanged.

Stakeholders/Community/Service Users Consultation
Consultations are an important way of gauging opinion on proposals to change the way services are delivered. There is a Consultation Toolkit, published on the Intranet. This includes a consultation template that must be completed and approved prior to a consultation starting. The Toolkit also gives guidance on planning and carrying out consultations and helps ensure that corporate and statutory guidelines are met.

The Toolkit, however, is dated November 2014 and, therefore, should be revisited to ensure it remains reflective of current requirements.

Effectiveness & Governance Certification
The Annual Governance Statement (AGS) is an annual review of the effectiveness of governance arrangements and is part of the Annual Report and accounts. It considers the views of Internal Audit and External Audit, as well and other relevant agencies and officer groups.

Agreed improvements to governance arrangements are documented in an action plan and this is monitored by the officer Governance Board. This year, the format of the action plan will change and will be included within the Governance Board scorecard. The action plan reviewed during the first Healthy Organisation review had seven pages of actions. The current plan has just three actions outstanding, but we have been unable to obtain evidence of the successful completion of all other previous actions. For this reason, we have given an Amber RAG rating to this area.

2. Financial Management

Budget Setting

Both revenue and capital budgets are approved by Cabinet and Full Council each year.

The budget setting process uses the forward year projections that are produced from the MTFP process. An MTFP audit was performed in 2017-18, with a partial opinion and some significant weaknesses reported; including a lack of clear accountability and ownership of agreed cross-cutting savings proposals, mismatches between themed savings proposals and those put forward in the MTFP, and accepted savings proposals not always supported by clear evidence or unachievable. These findings, however, were not delivered before the 2018-19 budget was approved by the Full Council.

In light of projections; which indicated a significant revenue budget overspend; the Council implemented a Financial Imperative Programme to identify savings opportunities and to establish a sustainable position. As part of this the Council is revising its approach to financial planning and has implemented more stringent controls and monitoring for savings proposals and the budget as a whole.

Due to budgetary constraints, a largely 'cash frozen' approach was applied previously, with overall funding levels set centrally and services were able to determine themselves the breakdown of the budget taking into account anticipated pressures. This approach has been updated this year and, at Month 6, the revenue budget was revised with anticipated underspends reallocated to areas of overspend, and the Children's services budget rebased.

Services have been asked to identify future budget pressures and this has led to the estimation of a £19m funding gap for 2019-20. In December 2018 a report, which outlines how the MTFP for the financial years 2019/20 to 2021/22 has been developed, was presented to the Cabinet. The report includes an overview of funding assumptions, service pressures that have been identified for this period (including savings that were agreed previously but have now been deemed unachievable), indicative budgets for 2018-19 and options to manage the reserve position. The report confirms there is a £28m shortfall for this time period, with a £15m gap for 2019-20. The Senior Leadership Team is currently working on proposals to address this funding gap. These will be reviewed by the Council's scrutiny committees and Cabinet, before the 2019-20 budget is approved by Full Council in February 2019.

An internal audit of the new MTFP process is scheduled to commence in January 2019.

Medium Term Financial Planning

The Council maintains an MTFP that aims to align revenue resources to the agreed priorities of SCC. This is reviewed each year as part of the budget setting process.

The Council also has a Capital Strategy with a core objective being to maintain investment in assets to enable the delivery of statutory and core services over the medium term. The current strategy was approved in 2015 and is now due for review.

Since the 2018-19 budget was approved, the Council has introduced the Joint Somerset Vision, County Council Vision and Business Plan, which effectively replace the County Plan. The current

MTFP states its main objective is to support the achievement of the County Plan, but it does not clearly link to the new visions. Revised versions of the MTFP and Capital Strategy will need to clearly support achievement of the Council's new visions.

Since the last Healthy Organisation review, SCC has adopted a commissioning driven approach to the MTFP process. As referred to in the budget setting section, an audit of the MTFP process was carried out in 2017/18 and significant weaknesses were reported. This review was finalised after the 2018-19 budget had been set.

Service planning templates continue to be used as part of the MTFP process; however, the template has not been used by all service areas and, as of August 2018, a service plan for Children's Services was not in place; though a number of strategies have been published. As part of the Financial Imperative Programme, service planning was suspended to allow responsible managers to focus on identifying savings opportunities. The Governance Board has reviewed the submitted service plans and, in June 2018, concluded that, due to a number of gaps and a lack of financial detail, the use of service plans as a financial management tool has failed. A new approach will therefore be needed to ensure the future sustainability of the Council.

In 2018-19 the Council has implemented a Financial Imperative Programme which has the aim of identifying opportunities for savings to reduce funding gaps in 2018-19 and 2019-20. As of October 2018, the Council is projecting a funding gap of £19m in 2019/20, £7m in 2020/21 and £2m in 2021/22, and is now going through the process of creating a new MTFP to address these gaps.

Budget Management

The revenue budget has been overspent in the last two financial years, by £7m in 2016/17 and by £2.18m in 2017/18. These overspends have contributed to a reduction in the general reserve below the desired threshold of £15m. Children's services, encompassing both operations and commissioning, was significantly overspent in both years despite the use of contingency funds.

Taking into account the savings that have already been delivered in-year, the latest available projections for 2018/19 indicate that there will be a revenue budget overspend of £2.37m for 2018/19. This is a significant reduction following implementation of savings proposals agreed by Cabinet in September 2018. The uncommitted contingency budget is currently £3.4m, meaning the revenue budget will be balanced if these projections become reality. We were advised in November 2018 that the Council is moving towards containing expenditure within the set budget.

An anticipated overspend of £1.4m for the Capital Investment Programme was reported at the end of 2017-18; however, the latest available projections indicate the overspend will now be £0.11m.

Budget Monitoring

Revenue monitoring reports are produced each month and distributed to service directors and finance strategic managers. In light of the financial challenges facing the Council, monthly reports are now also produced for Cabinet and the Council's scrutiny committees. Control totals have been prepared and presented to Senior Leadership Team on a weekly basis since May 2018.

A number of recommendations relating to the clarity of reporting was made by Grant Thornton during reporting of the 2017/18 accounts. These have been taken on board by the Council and additional detail has been added to subsequent budget monitoring reports.

A finding of the previous Healthy Organisation review was that it takes around three weeks to produce revenue budget reports following month end, which creates a risk of delayed decision making where corrective action is required. The timescales for producing these reports has not changed; however, as part of the ongoing Financial Imperative Programme, the frequency of financial reporting has increased. Monitoring of the delivery of planned savings is undertaken by the Senior Leadership Team on a weekly basis to ensure savings are on track.

Treasury Management

The Treasury Management Strategy sets out the Council's planned approach to managing the risks associated with investment and borrowing. The Strategy is approved by the Council on an annual basis. For several years the Council's low-risk managed strategy had consistently delivered greater returns on investments than known risk-free alternatives.

The Council can benchmark its performance against other local authorities who use the same treasury advisor, Arlingclose. Data provided by Arlingclose shows that the Council has a higher average return rate than these other authorities.

Financial Resilience

A report on the Adequacy of Reserves and Balances is presented to Cabinet and Full Council every year and sets out the minimum level of reserves required for financial resilience. For several years, the desired minimum general reserve level has been set at £15m. The report for 2018-19 recognises that reserves are currently below this level and includes a commitment to set aside £2m each year to replenish the reserve.

In the 2017/18 outturn, the Council reported that the general reserve balance was £12.2m, with an additional balance of £6.3m in earmarked reserves. In November 2018, the Council reported that the sum predicted to be available in the general reserve at the end of March 2019 would be £7.8m, just 52% of the recommended figure of £15m.

In their 2017-18 report, Grant Thornton stated that the Council has the second lowest level of combined general and earmarked reserves among the 27 county councils in England; the lowest being Northamptonshire County Council, which has issued a section 114 notice in the last year.

Another specific concern reported by Grant Thornton was the negative earmarked reserves totalling -£20.4m, reducing the actual value of the earmarked reserves to only £2.8m. These include service overspends from 2017-18 which, at that point, had not been charged to the general reserve but have since been applied (-£7m); operating accounts for services such as Support Services for Education and Dillington House (-£0.5m); the Learning Disabilities Equalisation Reserve (-£4.9m); the Repairs & Maintenance Fund (-£3.4m); and balances relating to Dedicated Schools Grant (-£4.6m). It should also be noted that some positive earmarked reserves, such as the reserve held for the Somerset Rivers Authority, are ringfenced and, therefore, cannot be drawn on if an emergency were to occur. The December 2018 Cabinet report identifies an overall deficit of £8.08m for earmarked reserves. A recommendation made in the Grant Thornton report is for the Section 151 Officer to clearly consider and justify the appropriateness of holding negative reserve balances. This will also need to be considered for the 2019/20 adequacy of reserves and balances report.

The general reserve position is now being reported more regularly through published budget monitoring reports, though we found this is not included on all quarterly budget monitoring reports.

Financial Systems
The Council has used SAP, a well-established accounting system, since 2010. The key financial control reviews carried out by SWAP in 2017-18 - Creditors and Payroll – were given reasonable assurance. A Main Accounting review has not been carried out since 2014-15; however, substantial assurance was given for the most recent review.

Weaknesses have, however, been identified in Debt Management and in SAP ICT Controls and this has contributed to an Amber rating. A review of Debt Management completed in 2016-17 resulted in a partial assurance opinion and the subsequent follow up carried out in 2017-18 identified that 10 recommendations were outstanding. Our review of SAP ICT Controls identified issues relating to management of leavers and dormant users, that user privileges are not regularly reviewed to confirm they are still appropriate, and that there are no minimum password requirements for accounts which do not have single sign on access.

Grant Thornton, the Council's External Auditors, gave an unqualified audit opinion on the 2017-18 financial statements.

Financial Regulations
The Council has three main corporate policies which define expectations and procedures for financial management. These are the Financial Regulations, Financial Procedures and Code of Practice for Income Management. All three policies are accessible to officers, and the Regulations and Code of Practice have both been reviewed in the last two years. Specific guidance is produced for maintained schools to whom responsibility for their budget is delegated, and this guidance is updated annually.

The Financial Procedures have not been updated since May 2015 and therefore require a review. Similarly, corporate guidance for cash handling is not currently in place, though this is expected to be launched from December 2018.

Value for Money
The Council's external auditors, Grant Thornton produce a Value for Money (VFM) conclusion as part of the annual audit process.

For 2017-18, Grant Thornton provided a 'qualified adverse' opinion, on the basis that the financial health of the organisation deteriorated due to continued overspending, which has placed additional pressures upon the Council's reduced reserves. The risk of the Council running out of money within the next three years without sufficient action to address spending is noted in the report.

Seven recommendations were raised by Grant Thornton in their end of year report. These recommendations have been added to the Council's risk management system, JCAD, and updates on progress are being reported at every Audit Committee meeting. In their most recent Audit Committee report, Grant Thornton stated that they were encouraged by recent actions taken by the Council which have led to reductions in the projected 2018/19 overspend.

The Council has developed a Value for Money Statement and there is some evidence that the Council has undertaken benchmarking against other local authorities. For instance, CIPFA data has been used to compare the Council's costs and performance for individual service areas against national comparators as part of the Financial Imperative Programme.

In our last Healthy Organisation review, we reported that the Council was in the process of producing and implementing a corporate strategy for Value for Money. A review of this was scheduled for 2017/18; however, insufficient progress had been made for the audit to take place. A draft strategy has since been produced but, at the time of reporting, has not yet been approved.

Future financial liabilities

SCC maintains a Partnership Register which is updated annually and contains information on budget arrangements for existing partnerships. The annual review identifies any additional costs to be taken account of in the future.

A Contracts Register sets out the expected annual costs of contracts held.

Legal Services provide information on contingent legal liabilities as part of the year-end accounts production. This is audited as part of the annual external audit process.

3. Risk Management

Risk Management Strategy

The Council has a Risk Management Policy and Strategy that is approved by Cabinet following consideration by the Audit Committee. The current strategy was approved in October 2016 and is, therefore, due for a review.

There is a Strategic Risk Management Group (SRMG) chaired by the Director of Finance and Performance that meets monthly. Membership is made up of senior management from across the Council acting as risk ‘champions’, to help provide scrutiny and challenge.

Risk Registers

The Corporate Risk Register includes risks that link directly to the County Plan as well as other strategic risks. Members receive a risk update on a quarterly basis.

The Council’s risk register is held on JCAD, which is a risk management software package. Reports are run from JCAD to provide regular management information and risk forms part of the performance scorecard.

Every risk is allocated a risk owner. Risk Owners are responsible for monitoring and challenging performance of the risks they own.

Details of risks are not always fully populated in JCAD or kept up-to-date by risk owners to provide ongoing evidence of mitigating action. There was reduced assurance of active risk management, as the updating of JCAD is often driven by the Principal Risk Officer rather than the risk owner themselves, or from challenge from their management teams. As a result, this section has been assessed as Amber.

Risk Appetite

SCC has a risk priority matrix in place to assess risk against likelihood and impact. This uses a RAG model and is used to define frequency of review and to determine when further escalation is required.

The Council's tolerance level is set by the SLT, any risk with a combined score of 16 or more (4x4 red) is deemed to be "out of tolerance" and is reported to the SRMG who will escalate these risks to the SLT for consideration and management direction.

A significant number of risks has been reported as being above the Council's risk appetite for a significant period and further work is required to assess the existence and effectiveness of mitigating actions in place. These risks are effectively being tolerating by the Council. It is for this reason that an Amber rating has been given.

Project Risk Management

The Council’s Risk Management Strategy makes specific reference to managing risks in programmes and projects. The Business Change Intranet site also provides a link to the Corporate Risk Management Approach.

Risk Assessment

Risk Assessment is a defined step in the risk management process covered by the Risk Management Strategy and Policy.

Risk Management is built into Commissioning, Operational, and Service plans. This includes templates and guidance. Routine service planning has been suspended during FIT.

An Amber rating has been given because, although risk management is built into the above plans, further development is needed to ensure that these are fully described and match to risks recorded in JCAD. In addition, without the formal service planning, there is an increased possibility that new risks will not be picked up by services for recording in JCAD.

Decision Making

The Standard Committee report template requires all key and non-key decisions to be supported by an assessment of risk. However, the information on risk assessment provided to decision makers was found to be limited and not consistent with the corporate risk scoring approach in place that considers the inherent and residual risks, along with the actions that have been put in place to move between the two. The Risk Management Framework also does not require these risks and associated actions to be captured and monitored through JCAD.

Transparency

The Strategic Risk Management Plan and Policy is available on the Intranet and JCAD. It is available to the Public through the relevant Cabinet and Audit Committee reports, where updates are reported.

All key and non-key decisions made by committees are supported by an assessment of risk.

Risk is reported regularly to the SLT and included as part of the performance dashboard.

Although assessed as Green overall, one area of improvement is in relation to benchmarking. The Council is a member of ALARM, the public risk management association, and this organisation could be used to carry out such a review.

4. Performance Management

Performance Management Framework

The Performance Management Framework has been refreshed this year. It explains clearly the current Golden Thread following the new County Vision and Business Plan introduction in May. The Framework provides detailed information on Performance Management and includes links to supporting information and a section 'Performance Management and me', which sets out how different staff roles contribute to Performance Management.

There are plans for the refreshed Framework to be promoted to staff in the near future. Before this, some updating of the Framework is required to reflect the new reporting system which has just been introduced, including the full Chief Executive role. A formal system for regular review and update is also required to ensure the information in the Framework is up-to-date.

Alignment with Corporate Objectives

The system for performance reporting has recently changed with new reports better reflecting the Golden Thread.

A new suite of indicators designed to align with the Strategic Outcomes and Priorities in the Business Plan is almost finalised. This will provide clear linkage between individual indicators and the Business Plan.

The County Vision and Business Plan are currently available on the Council's website as a 'web' version and the Strategic Outcomes and Priorities information is not visible. A full version, plus a portable document format (PDF) option, should be published to ensure full information is available to external stakeholders. Information to clarify the link between the County Vision and the Business Plan should also be provided.

Accountability and Responsibility

All services have monthly meetings where the performance results are reviewed. Children's Services and Adult Social Care in particular appear to have robust performance monitoring via the respective Quality and Performance Review Meetings (QPRM) and Performance Improvement Meetings (PIMS) systems.

The officer responsible for each performance measure is not clearly identified in the scorecards used to report results.

Revising Performance Measures

Performance measures are reviewed annually as part of the service planning process. The recent exercise to revise performance measures to align these with the new County Vision and the County Business Plan further demonstrates the commitment to revising performance measures when this is required.

Effective Challenge and Performance Reporting

The new-style reports contain good detail on the individual measures - RAG ratings; previous results; and ‘direction of performance’ arrows are included, and there is clear linkage between the measures and the four Strategic Outcomes stated in the Business Plan. This should assist in the interpretation of the data and identification of required improvements.

Reports would benefit from the inclusion of actions stated in previous reports, so these can be commented on and monitored. The report format and guidance should be updated to include this requirement.

The escalation system in the Performance Management Framework sets out clearly when and how under performance should be escalated. Expansion of the system to include how corrective action should be agreed, recorded and monitored would be beneficial.

Lessons Learned

Performance information is used to inform future plans; this process is set out as a key theme - 'Plan', 'Do', 'Review' and 'Revise’ - in the Performance Management Framework.

Data Quality

A Data Quality Strategy is currently being developed which will incorporate data quality, data sharing and data transparency. The Governance and Quality section of the Strategy states that:

- an individual at top management level who has overall strategic responsibility for data quality will be identified;
- a responsible officer will be allocated to each key performance indicator;
- Roles and responsibilities in relation to data quality will be clearly defined and will be incorporated, where appropriate, into job descriptions and considered as part of the performance appraisal system.

It is important that the Strategy is implemented and embedded promptly.

5. Commissioning and Procurement

Strategy
An up-to-date Commissioning Vision & Operating Model is in place and is available to staff. The model clearly outlines the links between commissioning activity and the County Plan, as well as the importance of achieving value for money.

The Corporate Procurement Strategy has not been updated since the last Healthy Organisation review in 2016 and is now due for review. This work has been scheduled and will be carried out with input from the Procurement Policy and Performance Group.

This year, the Council has developed a new Joint Somerset Vision, which states its top level priorities which can be delivered through partnership, as well as a new County Council Vision and a supporting Business Plan, which includes objectives the Council can deliver itself. In light of these changes, existing strategies and service plans will require review and amendment to ensure they fully align with the new strategic priorities.

Commissioning Intentions
Commissioning plans are produced on an annual basis and most services have produced new plans for 2018/19 using a corporate template. However, service planning has been suspended for the duration of the FIT Programme to allow officers to focus on delivering necessary savings. A service plan for the Children's Service is currently being produced, though some service aims are outlined in the multiagency Children & Young People's Strategy.

Commissioning plans are readily available internally; however, they are not published to the market. An overarching Market Position Statement (MPS) was produced in 2016 and is available on the Council's website; however, it is still labelled as draft. Due to restrictions in resource we have been advised it is unlikely this document will be updated; however, there are plans to publish specific Statements for the Adults and Children's Services.

The Council has produced a new Business Plan which sets out the steps it deems necessary to achieve its new County Council Vision. This has been published on the Internet and provides an indication of areas where the Council will require external suppliers to deliver its aims.

Training and Skills
Procurement and Commissioning strategies set out, at a high level, the skills and competencies required to deliver services effectively. A Commissioning Skills Framework has been agreed; however, due to the ongoing FIT process an assessment against the organisation's skill base has not yet been completed.

A skills assessment for procurement staff was completed in 2016 but has not since been refreshed. Though there is training available; focusing on transactional procurement; strategic procurement training is still to be developed. As part of the Council's agreed savings programme, the Commercial & Procurement Service is to be restructured and the current intention is to identify training requirements for the new structure through this process.

E-learning for commissioning, procurement and social value are in place, and a variety of face-to-face courses concerning commissioning and contract management have now been launched. In addition, there are plans to launch a course focusing on supplier viability. The Council also takes part in the Somerset Commissioning Academy, a local version of the government's Commissioning Academy which gives commissioners real project-based experience and the opportunity to work alongside public sector partners. At the time of writing two cohorts have completed the Academy programme, with a third cohort currently in progress.

Governance

A Strategic Commissioners Group with representation from all service areas is in place and has the responsibility of providing oversight of the commissioning process.

In 2018 the Council launched the Commissioning Gateway. This requires commissioners to complete a self-assessment at each stage of the commissioning cycle before they can progress to the next stage. The Gateway has been integrated into the Financial Imperative Programme, and, as of December 2018, 68 commissioning activities have gone through this process. Significant activities have to be endorsed by the Strategic Commissioners Group.

The Council's Scheme of Delegation and Contractual Procedural Rules set out the levels of decision making authority required for commissioning and procurement activity.

Members of the Cabinet are responsible for oversight of commissioning activity. A link member for the procurement function is also in place.

The Commercial & Procurement and Commissioning Development teams both have performance scorecards in place which are reported to SLT. The Commercial & Procurement scorecard reports the value of savings and waivers approved throughout the year.

Policies and Procedures

Commissioning guidance is available through the SCC Intranet and the Commissioning Operating Model & Vision has been reviewed in the last year.

The Contract Procedural Rules were last approved in 2017 and set out the framework in which procurements are to take place.

The process for waivers is defined in the Contract Procedural Rules and there is now a requirement for any waiver requests to be approved by the Strategic Commissioning Group.

There is no specific policy in place for sustainable procurement, though it is referred to in the current Procurement Strategy and the Contract Procedural Rules.

Benefits and Savings

There are strong working relationships between service commissioners and procurement officers. A Contract Manager's Group is in place and this is attended by commissioners and led by the Commercial Contract Management team. The Commercial & Procurement team are also represented at both the Commissioning Board and Strategic Commissioners Group.

The Commercial & Procurement service maintain a benefits tracker which is used to record anticipated savings and benefits from procurement activity, including social value.

A corporate approach to contract management has been developed over the last two years and is now in the process of being embedded across the organisation.

The Council's Financial Management System, SAP, is not currently set up to allow spend against specific contracts to be recorded and monitored. This means there is a risk that the Council is unable to identify a breach of procurement regulations in the event actual spend varies by more than 10% from the agreed value, which could leave the council open to challenge.

Commercial and third party spend was the second largest themed savings area for the council, with the planned saving between 2017/18 and 2020/21 being £6.5m. We were unable to identify any instances where savings achieved for this theme have been reported in the public domain, however we have been provided with information suggesting the total saved for the theme in 2017/18 was £1.24m against a published target of £2.8m. As reported under the financial management sections of this report, the themed approach to the MTFP has now been dropped. New savings targets for the Commercial & Procurement service are in the process of being agreed.

Value for Money
Procurement and commissioning documentation make consistent references to the need to consider Value for Money.

The Council has a Value for Money Statement which defines value for money, but there is currently no agreed method within the organisation for monitoring or reporting of value for money performance.

A Value for Money Strategy has been drafted but, at the time of reporting, has not yet been adopted.

Transparency
The Contract Procedural Rules confirm the requirement to publish contract opportunities via the Supply the South West Portal (Pro-Contract) and Contracts Finder when specified thresholds are met. However, there are some inconsistencies between these thresholds and thresholds noted on the Council's website.

The published version of the Council's Contracts Register can be accessed via the Supply the South West Portal. An internal version of the register is also maintained. The internal contract register was compared to the version published on the portal and some discrepancies were identified. The Contracts Register is currently being updated and all contracts meeting agreed thresholds need to be added to Contracts Finder.

The Council's website confirms it publishes all contract opportunities with a value exceeding £10,000 on Supply the South West; however, this currently falls short of the requirement to publish all opportunities and contracts with a value above £5,000, as stipulated in the Local Government Transparency Code.

Category Management

The current Procurement Strategy outlines the importance of category management to the organisation. As reported earlier, this Strategy is now due for review.

There is evidence that category management has been considered and foundations for this are in place. All the Council's expenditure is linked to one of three overarching spend categories, which are led by strategic managers. A category spend analysis is also completed on an annual basis; however, there are no savings or performance targets based on categories in place.

We have been advised that there will not be sufficient resource available in the Commercial & Procurement service going forward to fully facilitate category management.

Supplier Management

Currently, there is no complete list of the most significant contracts to the Council. Under the new approach to contract management, contract managers are required to complete a tiering assessment based upon three criteria (financial value, importance to the customer, complexity of management), with contracts designated as tier one being the most significant to the Council. This approach is currently being embedded and, as such, there is no full list of tiered contracts. In November 2018, the Commercial & Procurement service issued a request to all members of the Strategic Commissioners Group and Contract Manager's Group to provide updated details and complete tiering assessments, so these can be added to the contract register.

Weaknesses have been identified in relation to assessing supplier resilience. Financial viability is assessed prior to award, but there is no specific process to assess viability during the contract. The Council does require suppliers to submit business continuity plans as part of the procurement process. Through attendance of the Corporate Contract Manager's Group, we have learned that it is not common practice to test how effective the submitted plans are.

A formal supplier management framework is not currently in place and we have been advised there will not be sufficient capacity in the Commercial & Procurement service to introduce such a framework.

Social Value

SCC has a Social Value Policy which has been published on its website and is therefore readily available to prospective suppliers. Guidance is available to staff via the Intranet and a social value training course is available on the e-Learning Centre.

The Social Value Policy sets potential measures and indicators, although there are currently no specific targets in place for social value or a defined method for capturing this across the organisation. This could, however, be potentially facilitated through the Commissioning Gateway.

6. Project and Programme Management

Project Methodology
Project guidance and templates are readily available to SCC staff via the Intranet. E-learning is also in place to support project management.

It was reported as part of the last Healthy Organisation review that some projects fall outside of the core council programme; are not a major project or may be 'unknown' corporately and, therefore, may take place outside of this framework. Work is ongoing with the Commissioning Development Team to align the Commissioning Gateway and Project Management processes to help address this.

A Project Mobilisation Toolkit is being developed which will determine the importance of the project to the Council and the Project requirements will be reflective of this. The current involvement of the project management team with the Financial Imperative work is impacting significantly here and therefore this work will not be completed until FIT work is concluded. Given that the Project Mobilisation Toolkit remains in progress and work with Commissioning is ongoing, an Amber RAG rating has been given to this section.

Project Documentation
Key documents needed including Project Initiation Document, Programme Definition Document and Outline Business Case proformas are provided by the PMO.

Progress Monitoring
Quarterly monitoring reports are presented to both Cabinet and the Scrutiny Committee. This is set to change to align with the monthly financial reporting to Cabinet.

Performance exceptions are reported to SLT every two weeks.

Previously, monitoring was the responsibility of the Core Council Board, but this has been disbanded whilst FIT is in progress. The dashboard, however, continues to be produced and each project has been reviewed to map it to an appropriate FIT stream.

Guidance is also provided on governance of projects outside of the Core Council Programme and this includes monitoring arrangements.

Resource Allocation
The existence of the Project Management Office is a 'pool' of specialist resource. The team are now fully engaged in the Financial Imperative work. This does restrict resources available for other work but, given that this is of the greatest significance corporately, means that this specialist resource is being used where most needed.

Risk Management at Project Level
The Council's Risk Management Strategy makes specific reference to managing risks in programmes and projects. The Business Change Intranet site also provides a link to the Corporate Risk Management Approach.

Previously, not all risks detailed in project and programme documentation were found to be recorded using the Corporate Risk Management System (JCAD). Work has been ongoing to improve project risk management, including the introduction of quarterly quality audits to review the completeness and quality of risk recording, as well as evidence of risk monitoring. Two sets of quality audits have now been completed and there is evidence of improvement.

Responsibility and accountability

The key roles and accountabilities including the sponsor, the project manager, finance and HR contact are covered by standard project templates.

As reported above, there is a strong governance structure for the core programme at Member and SLT level.

Project Success and Lessons Learnt

Benefits realisation processes are employed in core council programmes and E-learning modules also provide reference to this area.

In the previous report, past programme weaknesses relating to organisational ownership of changes were acknowledged. These have declined since this time with improved early assessment helping to ensure that only projects with clear and well aligned objectives are approved. A lessons learnt session was delivered to the SLT in February 2018 which considered both what went well, and less well, over the previous three years to help drive improvements moving forwards.

Delivering Corporate Objectives

SLT and Elected Member oversight of core council programmes help ensure that the objectives of the programmes are linked to corporate objectives on an ongoing basis.

The PMO categorise programmes and projects to ensure that the limited resource is directed to programmes with the greatest and most significant links to the Council's objectives. The score matrix template is completed with the project lead to assess corporate significance of the project, with reference to the Council's strategic priorities.

Standard templates, including the business case, refer to how the programme/project can demonstrate support of the County Plan and corporate priorities.

Supporting Change

There are references within the Change Toolkit to ensure Organisational Development are involved in projects where appropriate, as well as a consideration of communication needed.

The ongoing FIT work illustrates this well, with HR part of the core group and a specific Key Line of Enquiry for workforce impacts. In terms of communication, this has been ongoing with staff, delivered from the very top of the organisation.

7. Information Management

Governance Framework and Strategy

There is strong governance within the ICT service line of the Council which helps ensure that the ICT Strategy stays aligned to the needs of the business and corporate objectives.

The ICT Strategy has not been updated in a continuous manner along with the changing needs of the Council. This is especially evident during this time of immense change and the transfer of ICT provision from SWO to SCC is not reflected within the current strategy.

Although the ICT Strategy has not yet been updated, a new transformation document has been started (though not yet published) that gives the strategy for transformation.

Asset Management

Some areas of asset management are covered in the acceptable use policies given out during the induction of new staff. Some new asset management documentation has been written by and for SCC, although the majority of the process documentation available is as per SWO.

Much work has taken place during the transition project to understand the software licensing position. Microsoft and SAP are now known to be compliant; however, there are still other applications deployed where the licensing position is yet to be fully understood.

In terms of hardware, there has been a lack of documentation regarding the assets disposed of by SWO. This has contributed to a difficulty in establishing the full inventory of ICT assets and also has created a risk that items disposed of may not have been done so in line with the Data Protection Act.

Compliance with Legislation

The officers of the Council are well trained in this area during induction training and especially in the areas associated with data protection as this is the area most likely to cause significant financial or reputational loss to the Council.

The Council has a current certification for the use of the Public Services Network (PSN) which is a legal requirement. All relevant changes arising as a result of the move from SWO to SCC has been checked against PSN compliance ahead of implementation.

It is understood that legislation does not stand still and there is a good awareness of upcoming changes to legislation and how this may impact the Council in the future. This proactive approach to changes in legislation will mean the Council is much less likely to suffer significant financial or reputational losses due to breaches of the law.

Roles & Responsibilities

Organisational structure charts are available for both strategic and operational roles. All strategic roles are currently filled with SCC, contractors or partner supplier staff. Initial indications on the ending of the SWO contract show that all significant roles will be filled in the structure and no major skill gaps are forecast.

Organisational change will continue to take place following the return of staff from SWO. This will include the reduction of transitional partner resources such as Microsoft staff, the reduction/removal of contractors currently in strategic manager and project manager roles and staff reductions brought about by the council-wide need to make significant savings.

Information Policies & Procedures.
The staff coming back from SWO will transfer back with the knowledge of the SWO policies and so the likelihood of them putting the Council at risk from ignorance is reduced. Policies will need to be rewritten and approved to reflect in-house delivery of ICT services and this exercise remains ongoing.

Standards Compliance
The Council has current PSN connection compliance across its network.

The Council is actively moving towards compliance with the Payment Card Industries - Digital Security Standard. (PCI-DSS) but has yet to be awarded accreditation.

Business Critical Systems & Business Continuity Planning
There is a critical application list and the list is held by ICT and the civil contingencies team. Although this list exists and has recently been checked by stakeholders, a definition of a critical application has yet to be clearly defined.

Contingencies are in place for outages of these applications both in the form of Business Continuity Plans (BCP) and Disaster Recovery (DR). The majority of the BCPs have been reviewed and updated in the last year.

County Hall though is a single point of failure for communications and authentication giving a risk that if communications and/or authentication is lost at County Hall, irrespective of the availability of the rest of the ICT systems, services will not be available.

Security History
The Council has a good record of information/cyber security and has not previously had any significant breaches. The Council does have a Security Incident Policy, plus information security policies that give further assurance in this area, including a form to report data breaches that ensures the requisite information is captured.

8. People Management

Workforce Planning

The Council's People Strategy has been updated this year following consultation with staff and links to the Council Vision and Business Plan.

A good-quality Workforce Development Strategy is in place for Children's Services, and there is a Young People Strategy which examines how the Council's workforce can better reflect Somerset's population by employing more young people. In Adult Social Care, a Workforce Board has been formed – development of a Workforce Plan is in progress, and workforce planning initiatives are in place.

A comprehensive workforce planning guidance document is available to use across the Authority.

Workforce planning is less established in other service areas, although some work has been started in Economic and Community Infrastructure (ECI). There is no over-arching corporate workforce plan in place as priority has been given to Children's Services and Adult Social Care, where there is the most need for workforce planning.

HR Policy Framework

Numerous HR policies are in place and readily available to staff. We found these to be clear and comprehensive, and include all expected policies such as Recruitment, Health and Safety and Performance Management. Guidance documents are also available. The policies are updated to reflect legislative changes and are approved by the HR Policy Committee.

The policies have not been updated to reflect the actions in the new People Strategy.

HR Policy Compliance

An HR Workforce Dashboard is used to report on key indicators on a monthly basis. There are 25 measures, and many of these link to HR policies, for example Disability, Appraisals and Apprenticeships. Children's Services and Adult Social Care results are reported at monthly service meetings.

The availability of HR policies and guidance documents to all staff, plus the allocation of an HR Advisor to each service, are controls which should assist compliance.

There is no direct corporate measurement of compliance with policies; and any links between performance results and policy are not highlighted.

No corporate HR performance targets are set and there is no formal monitoring of the results at senior management level.

Development and Training

The Council has an on-line Learning Centre which hosts training courses and records face-to-face training and other functions such as appraisals. Feedback on all training is invited and this is used by training providers and services to assess and shape future training.

In the most recent Staff Engagement survey (July 2018), results indicated that staff felt they have the skills to do their job effectively (90.7%); and most (93.4%) had undertaken some Learning and Development in the last 12 months. The results indicate that a high proportion of staff feel adequately trained for their roles and do undertake some learning and development activity.

The HR Performance Dashboard reports the number of courses completed, but the measurement of the effectiveness of training could be expanded to include participant satisfaction levels and/or feedback on course suitability.

Organisational Culture
Information is regularly provided to staff through staff newsletters and the monthly Core Brief. There are additional communications for Adult Social Care and Children's Services which include changes to practice and policy.

Annual staff surveys are performed on three themes - Staff Engagement; Communication and Working Well.

The updated People Strategy was written after a series of workshops with over 700 staff.

Meetings are held to communicate important messages; this was evidenced by the recent 'Roadshows' held by the Chief Executive and the Director of HR and OD on the Council's current financial situation.

9. Asset Management

Asset Management Strategy / Framework
Progress has been made on the Corporate Asset Management Plan, but its publication has been delayed because of the change in membership of the Asset Strategy Group (ASG) and the focus on the Council's Financial Imperative Programme. Prior to publication, the Plan will be reviewed by the Asset Strategy Group before being submitted for approval by Members. The Plan will have a five-year time horizon and will be subject to an annual review. Monitoring will be by the ASG.

The target date for activation of the Plan is now early 2019. This should be completed promptly to ensure that the actions taken in relation to the Council's property assets is as required.

The Plan will include links to other relevant CPG policies. Some of these are also at draft stage such as the Disposals Policy and the Asset Maintenance Policy and these require updating and/or approval by Members.

Asset Inventory
The register of land and building assets is held on the Atrium system and includes good detail. The information is published on the Council's website annually under its publication scheme.

There is a robust system for the valuation of assets, which is performed in line with CIPFA methodology and reported to the External Auditor.

Currently, there is no reconciliation of the Atrium data with the Financial asset register. The Head of Corporate Property advised this will take place from April 2019.

Review of Assets
The centralisation of budgets, a key part of the corporate landlord approach, is on target to start in the 2019-20 financial year. This will overcome the current issue that the CPG do not have control of the many property budgets which are held by services.

A wide-range of performance measures are reported on a monthly basis to the Corporate Performance Team via the CPG scorecard. One wide measure *Application of the corporate landlord approach,* which includes MTFP savings, is reported in the monthly Corporate Performance report to SLT and Members. Empty Properties and the associated costs are monitored on a monthly basis.

The Asset Rationalisation Programme, which includes a programme of Place Based reviews, provides a robust review of assets; however, the Financial Imperative Programme has led to delays in some elements of the programme of Place Based reviews – these need to be re-scheduled and progress monitored.

Safeguarding Assets
Two CPG initiatives mentioned in the above paragraphs - the centralisation of budgets and the asset rationalisation programme - will be key in the identification of assets which are obsolete, misused or misappropriated. As stated above, the Financial Imperative Programme has led to delays in some elements of the programme of Place Based reviews.

Assets are insured against misuse and/or misappropriation under the Council's Crime Insurance Policy.

There are good-quality policies and guidance on disposals, but some of these key documents require updating and/or approval by Members.

Asset Investment Decisions

There is a robust process for capital bids. This includes the application form where information on a range of factors is required including financial, legal and risk implications. The bids are scrutinised by SLT and ASG before the Capital Investment Programme is approved by Members.

Appendix A - Mapping Areas for Attention to 2019/20 Internal Audit Plan

Theme	Area for Attention	Inclusion in 2019/20 Plan	Owner	Date of Audit Work
Corporate Governance	Training Programme for Senior Managers A framework for Senior Management Training and Development has now been developed. Although it has been piloted, at the time of this review it had not been officially launched across the organisation.	HO Follow-up audit	HR and OD Director	Q3
Corporate Governance	Branding Guidelines The Council's branding is currently under review, with branding guidelines dating back to 2012.	HO Follow-up audit	Service Manager - Communications Operations	Q3
Corporate Governance	Annual Governance Statement Action Plan The format of the action plan is changing and will form part of the Governance Board scorecard in the future. The current plan has just three actions outstanding, but we have been unable to obtain evidence of the successful completion of all other previous actions, which covered seven pages.	HO Follow-up audit	Strategic Manager Financial Governance and ECI	Q3
Corporate Governance	Employee Standards of Conduct This is overdue for review and has not been updated since September 2015. There are plans to align the Officer Code more closely with the Member Code.	HO Follow-up audit	Governance Manager	Q3
Corporate Governance	Consultation Toolkit The Consultation Toolkit is dated November 2014 and therefore needs to be revisited to ensure it remains reflective of current requirements.	HO Follow-up audit	Consultation Manager	Q3
Finance Management	Agreement of a Sustainable MTFP Strategic financial planning and the MTFP process to agree a sustainable budget over the medium term.	MTFP and savings audit	Interim Director of Finance	Q4 2018/19
Finance Management	Service Planning The use of service plans as a financial management tool has not been successful and a new approach is needed.	Service Planning – embedding new model	Strategic Manager – Customers and Communities	Q2
Finance Management	Rebuilding Reserves In November 2018, the Council reported that the sum predicted to be available in the general reserve at the end of March 2019 is £7.8m, just 52% of the recommended figure of £15m.	HO Follow-up audit	Director of Finance	Q3

Theme	Area for Attention	Inclusion in 2019/20 Plan	Owner	Date of Audit Work
Finance Management	Debt Management – Partial Opinion A SWAP audit of Debt Management was awarded partial assurance, and the follow-up review in 2016/17 reported that 10 recommendations remained outstanding.	Debt Management Follow-up	Strategic Management – Financial Governance and ECI	Q3 2018/19
Finance Management	SAP – ICT Controls – Partial Opinion A SAP ICT Control audit reported a partial assurance opinion.	SAP – ICT controls Follow-up	SAP Functional manager	Q4 2018/19
Finance Management	Value for Money Strategy A draft Value for Money Strategy has been produced but, at the time of reporting, has not yet been approved or implemented.	HO Follow-up audit	Strategic Finance Manager – Adults and Health, Children's and Finance Technical	Q3
Finance Management	Financial Procedures The Financial Procedures have not been updated since May 2015 and therefore require update.	HO Follow-up audit	Strategic Finance Manager – Adults and Health, Children's and Finance Technical	
Finance Management	Cash Handling Policy Corporate guidance for cash handling is not currently in place.	Cash Handling Audit	Strategic Finance Manager – Adults and Health, Children's and Finance Technical	Q4 2018/19
Risk Management	Completeness of Recording in JCAD Details of risks are not always fully populated in JCAD or kept up-to-date by risk owners to provide ongoing evidence of mitigating action.	Risk Management Audit	Risk Manager	Q4 2018/19
Risk Management	Recording Project Risks on JCAD Although risk management is built into commissioning, operational and service plans, further development is needed to ensure that these are fully described and match to risks recorded in JCAD.	Risk Management Audit	Risk Manager	Q4 2018/19
Risk Management	Risks above Risk Tolerance Several service risks have been reported as being above the Council's risk tolerance for a significant period and further work is required to assess the existence and effectiveness of mitigating actions in place.	Risk Management Audit	Risk Manager	Q4 2018/19

Theme	Area for Attention	Inclusion in 2019/20 Plan	Owner	Date of Audit Work
Risk Management	Risk Assessment for Decision Making The information on risk assessment provided to decision makers is limited and could be improved by ensuring that inherent and residual risks are captured along with the actions that have been put in place to move between the two.	HO Follow-up audit	Risk Manager	Q4 2018/19
Performance Management	Performance Management Framework The Performance Management Framework requires updating to reflect the new reporting system which has just been introduced, including the full Chief Executive role.	HO Follow-up audit	Strategic Manager – Customers and Communities	Q3
Performance Management	Business Plan Publication A full version of the Business Plan should be published on the Council's website, and information to clarify the link between the County Vision and the Business Plan should also be provided.	HO Follow-up audit	Strategic Manager – Customers and Communities	Q3
Performance Management	Accountability for Performance The officer responsible for each performance measure is not clearly identified.	HO Follow-up audit	Strategic Manager – Customers and Communities	Q3
Performance Management	Escalation Procedures The escalation system for underperformance requires expansion to include how corrective action should be agreed, recorded and monitored.	HO Follow-up audit	Strategic Manager – Customers and Communities	Q3
Performance Management	Corporate Performance Reporting Corporate performance reports should contain previously stated actions to ensure these are fully monitored.	HO Follow-up audit	Strategic Manager – Customers and Communities	Q3
Performance Management	Data Quality Strategy The Data Quality Strategy should be implemented and embedded promptly.	HO Follow-up audit	Strategic Manager – Customers and Communities	Q3
Commissioning and Procurement	Corporate Performance Strategy The Corporate Procurement Strategy has not been updated since the last Healthy Organisation review and is now due for review.	HO Follow-up audit	Strategic Manager - Commercial and Procurement	Q3
Commissioning and Procurement	Alignment with Corporate Priorities All commissioning and procurement related strategies and service plans require review to align with the new Somerset Vision and Business Plan.	HO Follow-up Audit	Strategic Manager - Commercial and Procurement	Q3

Theme	Area for Attention	Inclusion in 2019/20 Plan	Owner	Date of Audit Work
Commissioning and Procurement	Service Planning Service planning for 2018/19 is not complete as work was suspended for the duration of the FIT Programme to allow officers to focus on delivering savings.	Service Planning – embedding new model	Strategic Manager – Customers and Communities	Q2
Commissioning and Procurement	SCC Market Position Statement This has remained at draft stage since it was issued in 2016.	HO Follow-up Audit	Strategic Manager – Commissioning Development	Q3
Commissioning and Procurement	Skills Assessments Skills assessments for both procurement and commissioning need to be completed.	HO Follow-up Audit	Strategic Manager - Commercial and Procurement and Strategic Manager – Commissioning Development	Q3
Commissioning and Procurement	Contract Spend The Council's Financial Management System, SAP, currently does not allow spend against specific contracts to be recorded and monitored.	HO Follow-up Audit	Strategic Manager - Commercial and Procurement	Q3
Commissioning and Procurement	Commercial and Third Party Savings Planned Commercial and third party savings have not all been delivered as planned. As reported under the financial management sections of this report, the themed approach to the MTFP has now been dropped. New savings targets for the Commercial & Procurement service are in the process of being agreed.	MTFP and savings audit	Interim Director of Finance	Q4 2018/19
Commissioning and Procurement	Value for Money There is currently no agreed method within the organisation for reporting value for money performance. A Value for Money Strategy has been drafted but has yet to be adopted.	HO Follow-up Audit	Strategic Manager - Commercial and Procurement	Q3
Commissioning and Procurement	Published Contract Information The Council publishes all contract opportunities with a value exceeding £10,000 on the Supply the South West Portal; however, there is a Local Government Transparency Code requirement to publish all opportunities with a value above £5,000.	HO Follow-up Audit	Strategic Manager - Commercial and Procurement	Q3
Commissioning and Procurement	Contract Register Differences were identified between the published version of the Council's Contracts	HO Follow-up Audit	Strategic Manager -	Q3

Theme	Area for Attention	Inclusion in 2019/20 Plan	Owner	Date of Audit Work
	Register and the internal version of the register.		Commercial and Procurement	
Commissioning and Procurement	<u>Category Management</u> Although the foundations of category management are in place, category management has not been fully established at SCC.	HO Follow-up Audit	Strategic Manager - Commercial and Procurement	Q3
Commissioning and Procurement	<u>Supplier Resilience</u> Financial viability is assessed prior to award, but there is no specific process to assess viability during the contract.	HO Follow-up Audit	Strategic Manager - Commercial and Procurement	Q3
Programme and Project Management	<u>Aligning Commissioning Gateway and Project Management Process</u> Some projects that fall outside of the core council programme and are not a major project may be 'unknown' corporately and therefore may take place outside of this framework. Work is ongoing with the Commissioning Development Team to align the Commissioning Gateway and Project Management processes to help address this. A Project Mobilisation Toolkit is being developed which will determine the importance of the project to the Council and the Project requirements will be reflective of this.	Project Management – use of Project Mobilisation Toolkit	Strategic Manager – Business Change	Q4
Programme and Project Management	<u>Project Mobilisation Toolkit</u> Standard project documentation does not mandate a requirement for risk assessment or ongoing risk management. The Project Mobilisation Toolkit which is being developed will make risk management responsibilities clear.	Project Management – use of Project Mobilisation Toolkit	Strategic Manager – Business Change	Q4
Programme and Project Management	<u>Disbanding of Core Council Board</u> The Core Council Board has been disbanded while FIT is in progress.	HO Follow-up Audit	Strategic Manager – Business Change	Q3
ICT	<u>ICT Strategy</u> The current ICT Strategy needs to be updated to link to the Council's new vision. This work is in progress and will also underpin the creation of a Digital Transformation Strategy for SCC.	ICT Strategic Review	Strategic Manager – ICT Operations	Q1
ICT	<u>Hardware and Software Management</u> Partial assurance was awarded previously in relation to Hardware and Software Management. The follow-up audit finalised earlier in 2018 reported insufficient progress being made. Further work has since been carried out by the	Hardware and Software follow-up Audits	Strategic Manager ICT Operations	Q3

Theme	Area for Attention	Inclusion in 2019/20 Plan	Owner	Date of Audit Work
	service which will be reviewed by audit in 2019/20.			
ICT	DSAR Compliance Although work is ongoing, the Council is currently failing to comply with the Data Protection Act requirement to deal with Data Subject Access Requests without unreasonable delay, and within a 40-day period.	DSAR follow-up Audit	Strategic Manager ICT Operations	Q2
ICT	ICT Policies The exercise to establish and agree a full suite of ICT policies is not yet fully complete.	ICT Strategic Review	Strategic Manager – ICT Operations	Q1
ICT	PCI compliance The Council is still not compliant with the Payment Card Industries Digital Security Standard (PCI-DSS) although approval to purchase a solution is about to be sought.	PCI follow-up Audit	Strategic Manager ICT Operations	Q4
ICT	Back-ups There is currently a lack of assurance that all critical systems can be recovered from back-up.	Disaster Recovery Audit	Strategic Manager ICT Operations	Q4
ICT	Service Improvement Service desk records are not routinely analysed and used to facilitate continual service improvement to help mitigate the likelihood of similar incidents happening again.	HO Follow-up Audit	Strategic Manager ICT Operations	Q3
People Management	Workforce Planning Workforce plans are not in place for all services.	HO Follow-up Audit	HR and OD Director	Q3
People Management	HR Policies HR policies have not been updated to reflect the actions in the new People Strategy.	HO Follow-up Audit	HR and OD Director	Q3
People Management	Performance Measurement There is no direct measurement of compliance with policies. Indirect measurement via performance monitoring is carried out, but performance measures are not linked to policies.	HO Follow-up Audit	HR and OD Director	Q3
People Management	Performance Monitoring No corporate HR performance targets are set and there is no formal monitoring of the results at senior management level.	HO Follow-up Audit	HR and OD Director	Q3
People Management	Effectiveness of Training Performance Management should be expanded to include the effectiveness of training courses.	HO Follow-up Audit	HR and OD Director	Q3

Theme	Area for Attention	Inclusion in 2019/20 Plan	Owner	Date of Audit Work
Asset Management	Corporate Asset Management Plan Publication of the Corporate Asset Management Plan has been delayed and is currently planned for early 2019.	HO Follow-up Audit	Head of Property	Q3
Asset Management	Maintenance Strategy HR performance information produced does not clearly link to overall delivery of service and organisational objectives.	HO Follow-up Audit	Head of Property	Q3
Asset Management	Asset Reconciliation Currently there is no reconciliation of the Atrium data with the Financial asset register. The Head of Corporate Property advised this will take place from April 2019.	HO Follow-up Audit	Head of Property	Q3
Asset Management	Placed Based Reviews The programme of Placed Based reviews has been delayed awaiting the outcome of the Council's Financial Imperative Programme.	HO Follow-up Audit	Head of Property	Q3

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- **People Management** Chris Squire, HR and OD Director
- **Asset Management** Claire Lovett, Head of Property

Distribution List

The draft report was distributed to the above and the following will also receive a copy of the final report:

- Patrick Flaherty, Chief Executive
- Lizzie Watkins, Strategic Finance Manager Adults, Health and Childrens and Finance Technical

- Julian Gale, Strategic Manager Governance and Risk

Statement of Responsibility

Conformance with Professional Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Auditing Standards.

SWAP Responsiblity

Please note that this report has been prepared and distributed in accordance with agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person.

Somerset County Council
Audit Committee - 31 January 2019

Treasury Management Strategy Statement 2019-20

Cabinet Member: Cllr Mandy Chilcott – Cabinet Member, Resources
Division and Local Member: All
Lead Officer: Peter Lewis – Interim Director of Finance (Section 151 Officer)
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Summary:	The Council recognises that effective treasury management underpins the achievement of its business and service objectives and is essential for maintaining a sound financial reputation. It is therefore committed to driving value from all of its treasury management activities and to employing suitable performance measurement techniques, within the context of effective risk management. This report brings together the requirements of the Chartered Institute of Public Finance Accountants (CIPFA) Treasury Management in the Public Services Code of Practice Revised 2017 Edition (CIPFA TM Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities: Revised 2017 Edition (CIPFA Prudential Code). Whilst most of the requirements of the 2018 Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance are no longer relevant to Treasury Management Investments (it now overwhelmingly refers to non-treasury investments), it does adhere to MHCLG guidance to prioritise Security, Liquidity and Yield, in that order. The Council currently holds £324.55m of debt as part of its strategy for funding previous years' capital programmes. Of this, £159.05m is Public Works Loan Board (PWLB) debt, £108m is Lender Option Borrower Option (LOBO) debt, and a further £57.5m of fixed rate bank loans. As at 31st December the average rate paid on all debt was 4.66%. Investment balances for 2018-19 to the 31st December have ranged between £185m to £251m, averaging £218m. These balances include approximately £60m of cash held on behalf of other entities, just over £53m as at 31st December being for the Local Enterprise Partnership (LEP). An average rate of 0.95% has been achieved, yielding an annual income in excess of £2m. A new Investment Strategy paper covering non-treasury investments is to be presented separately at this meeting.
Recommendations:	The Committee is asked to consider and comment on this report. The Cabinet will be asked to endorse the following and recommend approval by Council on 20th February 2019:

	• To adopt the Treasury Borrowing Strategy (as shown in Section 2 of the report). • To approve the Treasury Investment Strategy (as shown in Section 3 of the report) and proposed Lending Counterparty Criteria (attached at Appendix B to the report). • To adopt the Prudential Treasury Indicators in section 4. The Cabinet will also be recommended: • To note the current Treasury Management Practices (TMPs) attached at Appendix D to the report.
Reasons for recommendations	Under new CIPFA guidance the Treasury Management Strategy (TMS) can be delegated to a committee of the Council under certain conditions. However, it is seen as a key element of the overall Capital Strategy and as that must be presented to the Full Council, it is regarded as appropriate that the TMS should be part of that process.
Links to Priorities and Impact on Service Plans:	Effective Treasury Management provides support to the range of business and service level objectives that together help to deliver the Somerset County Plan.
Consultations undertaken:	None

Financial Implications:	The budget for investment income in 2019-20 is £1.53m, based on an average investment portfolio of £160m at an interest rate of 0.95%. (These figures are net of balances held on behalf of external investors i.e. the Local Enterprise Partnership). The budget for debt interest paid in 2019-20 is £16.12m, based on an average debt portfolio of £356.3m at an average interest rate of 4.52%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.
Legal Implications:	Treasury Management must operate within specified legal and regulatory parameters as set out in the summary, and in more detail in the TMPs.
HR Implications:	None
Risk Implications:	The TMS is the Council's document that sets out strategy and proposed activities to conduct Treasury Management activity while mitigating risks. Appendix D, the Treasury Management Practices document gives detailed explanation of the policies and procedures specifically used in treasury risk management.
Other Implications (including due regard implications):	None
Scrutiny comments / recommendation (if any):	The Audit Committee is the body responsible for ensuring effective scrutiny of the treasury management strategy and policies.

1. Introduction and Background

Treasury management is the management of the Council's cash flows, borrowing and treasury investments, and the associated risks. The Council has significant debt and treasury investment portfolios and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Investments held for service purposes or for commercial profit, collectively referred to as non-treasury investments, are considered in a new report, the Investment Strategy.

Treasury risk management at the Council is conducted within the framework of the CIPFA Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Non-treasury investments are substantially covered by the 2018 Revised MCHLG guidance in the separate Investment Strategy.

Under Section 3 of the LGA 2003 (duty to determine affordable borrowing limit), a Local Council must have regard to the CIPFA Prudential Code. This code requires the setting of a number of Prudential Indicators, benchmarks within which Treasury and Investment Management, and Capital Financing are managed. The setting of Prudential Indicators for Treasury Management requires Authorities to recognise key implications of their borrowing and investment strategies. These relate to the affordability of overall borrowing limits, the maturity structure of borrowing, and longer-term investments.

In formulating the Treasury Management Strategy, and the setting of Prudential Indicators, Somerset County Council (SCC) adopts the Treasury Management Framework and Policy recommended by CIPFA. These can be found in Appendix A.

The current TMPs are attached for information as Appendix D to this report and set out the main categories of risk that may impact on the achievement of Treasury Management objectives. No treasury management activity is without risk. The successful identification, monitoring and control of risks are the prime criteria by which the effectiveness of its treasury management activities will be measured. The main risks to the Council's treasury activities are:

- Credit and Counterparty Risk (security of investments)
- Liquidity Risk (inadequate cash resources)
- Market or Interest Rate Risk (fluctuations in price / interest rate levels)
- Refinancing Risk (impact of debt maturing in future years)
- Legal & Regulatory Risk

The schedules to the TMPs provide details of how those risks are actively managed.

External Context

The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Council's treasury management strategy for 2019-20.

UK Consumer Price Inflation (CPI) for October was up 2.4% year-on-year, broadly in line with the Bank of England's (BoE) November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while wages, adjusted for inflation grew by 1.0%.

At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

Following the BoE's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the BoE expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee (MPC) continues to reiterate that any further increases will be at a gradual pace and limited in extent.

The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts. The BoE released its latest report on bank stress testing, illustrating that all entities included in the analysis were deemed to have passed the test once the levels of capital and potential mitigating actions presumed to be taken by management were factored in. The BoE did not require any bank to raise additional capital.

The Council's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The BoE's MPC has maintained expectations for slow and steady rate rises over the forecast horizon.

The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is struck, and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity (at the time of writing this commentary in mid-December). As such, the risks to the interest rate forecast are considered firmly to the downside.

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

An economic and interest rate forecast provided by Arlingclose is attached at Appendix C.

Internal Context
As at 31st December 2018 the external long-term debt portfolio of SCC stood at just over £324m as in the table below.

	Balance on 31-03-2018 £m	Debt Matured / Repaid £m	New Borrowing £m	Balance on 31-12-2018 £m	Increase/ Decrease in Borrowing £m
Short Term Borrowing	0.00	0.00	0.00	0.00	0.00
PWLB	159.05	0.00	0.00	159.05	0.00
LOBOs	113.00	5.00	0.00	108.00	-5.00
Fixed Rate Loans	57.50	0.00	0.00	57.50	0.00
Total Borrowing	**329.55**	**5.00**	**0.00**	**324.55**	**-5.00**

The investment portfolio at the same time stood at just over £191m, although approximately £60m of this was held on behalf of other entities, just over £53m being for the Local Enterprise Partnership (LEP).

	Balance as at 31-03-2018 £m	Rate of Return at 31-3-2018 %	Balance as at 31-12-2018 £m	Rate of Return at 31-12-2018 %
Short-Term Balances (Variable)	16.89	0.49	30.49	0.75
Comfund (Fixed)	179.68	0.69	151.15	0.94
CCLA Property Fund	10.00	4.22	10.00	4.07
Total Lending	**206.57**	**0.84**	**191.64**	**1.07**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while useable reserves and working capital are the underlying resources available for investment.

Statutory guidance is that debt should remain below the CFR, except in the short-term. The Council expects to comply with this in the medium term.

In the table below, as shown in the Capital Strategy, the ‘Assumed debt not yet taken’ row indicates that £91m of new borrowing could be needed by the end of March 2020. Timings of actual capital expenditure linked to the capital plan are not totally predictable, but it is envisaged that significant levels of borrowing may be necessary during 2019-20.

External Debt and the Capital Financing Requirement in £ millions

	31.3.2018 actual	**31.3.2019 forecast**	**31.3.2020 budget**	**31.3.2021 budget**	**31.3.2022 budget**
Short term debt	8.360	10.000	10.000	10.000	10.000
Long term debt *	316.101	309.606	306.483	301.285	294.708
Assumed debt not yet taken	0.000	21.792	90.985	139.723	181.355
PFI & leases	44.118	42.948	41.972	40.970	39.872
Total external borrowing	**368.579**	**384.346**	**449.440**	**491.978**	**525.935**
Capital Financing Requirement	**366.114**	**385.443**	**450.733**	**493.447**	**527.551**

*Reduces for Minimum Revenue Provision (MRP) & debt repayment

SCC has a projected cash income of approximately £800m for 2019-20.

These factors represent significant cash flow, and debt and investment portfolio management for the Council’s Officers. In the current financial and economic environment and taking into account potential influencing factors, it is imperative that the Council has strategies and policies in place to manage flows and balances effectively. The strategies and policies herein state the objectives of Treasury Management for the year and set out the framework to mitigate the risks to successfully achieve those objectives.

2. Borrowing Strategy

The Council currently holds £324.55m of loans, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in the table above shows that the Council may have a need to borrow up to £91m by the end of 2019-20.

Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

The Council will adhere to MHCLG guidance, which states "Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed".

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow shorter-term loans instead, i.e. from Local Authorities for 1-3 years, or PWLB for 5-10 years.

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal or short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2019-20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The use of Call Accounts and MMFs will continue for short-term liquidity; However, it may be appropriate and/or necessary to borrow short-term (1 week to 3 months) to cover cash flow fluctuations. Where this is deemed advantageous, short-term funds will be obtained from the money market using the services of a panel of money market brokers.

Sources of borrowing: Approved sources of borrowing are cited in the TMPs. Whilst all options will be considered, it is most likely that the primary source for borrowing will be the Public Works Loan Board (PWLB). It is envisaged that any new borrowing, should it be taken, will be in the short to medium-term periods (up to 25 years), as this is most compatible with the current maturity profile. Interest rates for these maturities are expected to remain lowest as the continued economic uncertainty necessitates lower interest rates for longer. Variable rate loans also currently mitigate the cost of carry. Shorter-dated Equal Instalment of Principal (EIP) loans are cheaper than loans paid on maturity and are repaid systematically in equal instalments over their life. Both will be actively considered, as will shorter dated loans (1-3 years) from other Local Authorities.

No new borrowing will be in the form of LOBOs. SCC will continue with the current policy not to accept any option to pay a higher rate of interest on its' LOBO loans and will exercise its own option to repay the loan should a lender exercise an option. SCC will also investigate opportunities to repay where a lender is looking to exit the LOBO by selling the loan. This would be undertaken in conjunction with our treasury advisors. SCC may utilise cash resources for repayment or may consider replacing any loan(s) by borrowing from the PWLB or other Local Authorities. Depending on prevailing rates and the amount to be repaid, new loans might be taken over a number of maturities. The 'Maturity Structure of Borrowing' indicators have been set to allow for this contingency strategy.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. Officers continually monitor repayment rates and calculate premiums to identify opportunities to repay or reschedule PWLB loans.

3. Investment Strategy

In 2018, the MHCLG issued revised Statutory Guidance on Local Government Investments (3rd Edition). It states "Investments made by local authorities can be classified into one of two main categories:

- Investments held for treasury management purposes; and
- Other investments.

"Where local authorities hold treasury management investments, they should apply the principles set out in the Treasury Management Code. They should disclose that the contribution that these investments make to the objectives of the local authority is to support effective treasury management activities. The only other element of this Guidance that applies to treasury management investments is the requirement to prioritise Security, Liquidity and Yield in that order of importance".

The changes made to the 3rd edition of this Guidance reflect changes in patterns of local authority behaviour. Some local authorities are investing in non-financial assets, with the primary aim of generating profit. Others are entering into very long-term investments or providing loans to local enterprises or third sector entities as part of regeneration or economic growth projects that are in line with their wider role for regeneration and place making.

In addition, the National Audit Office and the Public Accounts Committee have raised a number of concerns about local authority behaviour that this guidance aims to address. These are:

- Local authorities are exposing themselves to too much financial risk through borrowing and investment decisions;
- There is not enough transparency to understand the exposure that local authorities have as a result of borrowing and investment decisions; and
- Members do not always have sufficient expertise to understand the complex transactions that they have ultimate responsibility for approving.

This strategy applies only to investments held for treasury purposes. Any non-treasury investments are dealt with in a separate Investment Strategy (separate agenda item). The Council's treasury investments can be divided into two areas. Money that is lent to help smooth anticipated monthly cash flow movements, and funds which have been identified as not being immediately required (core balances), which can be lent over a longer timeframe. Total balances for 2018-19 to the end of November have ranged between £185m to £251m, averaging £218m to the 31st December 2018. These balances include approximately £60m of cash held on behalf of other entities, just over £53m being for the Local Enterprise Partnership (LEP).

If a passive borrowing strategy is adopted, i.e. internal borrowing to fund capital expenditure, investment levels will decrease. If Arlingcloses' 'cost of carry' and breakeven analysis determines that the Council borrows additional sums at long-term fixed rates in 2019-20 with a view to keeping future interest costs low, investment balances could possibly be higher.

Objectives: The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: If the UK enters into a recession in 2019-20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Investment strategy will largely be driven by the implementation of the borrowing strategy.

- If a passive borrowing strategy is adopted, investment levels will decrease. In this scenario, investments will need to be kept short to meet proposed capital spend. As currently, the majority of funds would likely be invested via short-term deposits with highly rated banks, local authorities, and the use of the money market funds, providing security via diversification, and liquidity.
- If ‘cost of carry’ and breakeven analysis suggests that the Council should borrow additional sums at long-term fixed rates in 2019-20, balances would increase, potentially significantly. In this case it may be more appropriate to diversify a proportion of investments into more secure and/or higher yielding asset classes during 2019-20.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Council’s “business model” for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Implementation: The Section 151 Officer (Director of Finance) under delegated powers will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. He in turn delegates responsibility for implementing policy to Treasury Management Officers. This is done by using only the agreed investment instruments, and credit criteria below and in appendix B. As is current procedure, the use of a new instrument or counterparty would be proposed in conjunction with the Council’s Treasury Advisors, Arlingclose and specifically authorised by the Section 151 Officer (Director of Finance).

Approved Investments: The list below shows currently approved instruments, with a brief description of current and potential investment instrument characteristics underneath.

- Business Reserve Accounts and term deposits.
- Deposits with other Local Authorities.
- AAA-rated Money Market Funds *
- The Debt Management Office (DMO)
- Variable Net Asset Value (VNAV) Money Market Funds.
- Gilts and Treasury Bills.
- Certificates of Deposit with Banks and Building Societies
- Commercial Paper
- Use of any public or private sector organisation that meets the creditworthiness criteria rather than just banks and building societies.
- Building Societies – Including unrated Societies with better creditworthiness than their credit rated peers.
- Corporate Bonds – Can offer access to high credit rated counterparties, such as utility, supermarket, and infrastructure companies.
- Covered Bonds and Reverse Repurchase Agreements (Repos) present an opportunity to invest short-term with banks on a secured basis and hence be exempt from bail-in
- Pooled Funds. These funds allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. Their values change with market prices, so will be considered for longer investment periods. It would be the Council's intention to be invested in Longer-dated Bond Funds or Equity Funds, and for Property Funds for 5 years plus.

* Following EU reform to the operation and management of Money Market Funds implemented during 2018-19, all non-government MMFs will have to convert from Constant Net Asset Value (CNAV) to LVNAV (Low Volatility Net Asset Value) or VNAV. Those used by SCC have convert to LVNAV. LVNAV funds have to operate within tighter requirements (e.g. tolerance of the fund's NAV deviating from £1 narrows from 99.5p to 99.8p; and higher liquidity requirements).

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

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in.

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

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent.

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

Pooled funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

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

Approved counterparties – Credit Rated: SCC maintains a restricted list of financial institutions to be used as counterparties, and in accordance with the credit criteria set out in appendix B. Any proposed additions to the list must be approved by the Section 151 Officer (Director of Finance).

Approved counterparties – Non-Credit Rated: As investment decisions are never made solely based on credit ratings, and some institutions may not have ratings at all, account will be taken of any relevant credit criteria in appendix B, and any other relevant factors including advice from our treasury advisors for the approval of individual institutions. Again, this will be specifically authorised by the Section 151 Officer (Director of Finance).

Credit rating: SCC has constructed and will maintain a counterparty list based on the criteria set out in Appendix B. The minimum credit quality is proposed to be set at A- or equivalent. The credit standing of institutions (and issues if used) will be monitored and updated on a regular basis.

SCC will continuously monitor counterparties creditworthiness. All three credit rating agencies' websites will be visited frequently, and all ratings of proposed counterparties will be subject to verification on the day of investment. (MHCLG guidance states that a credit rating agency is one of Standard & Poor's, Moody's Investor Services Ltd, and Fitch Ratings Ltd). All ratings of currently used counterparties will be reported to the monthly treasury management meeting, where proposals for any new counterparties will be discussed. New counterparties must be approved by the Section 151 Officer (Director of Finance) before they are used. Any changes to ratings that put the counterparty below the minimum acceptable credit quality whilst we have a deposit, or a marketable instrument will be brought to the attention of the Section 151 Officer (Director of Finance) immediately, and an appropriate response decided on a case-by-case basis. Sovereign credit ratings will be monitored and acted on as for financial institution ratings. Investment limits are set by reference to the lowest published long-term credit rating from the three rating agencies mentioned above. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

Other information on the security of investments: The Council understands that credit ratings are good, but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including those outlined below.

- Credit Default Swaps and Government Bond Spreads.
- GDP and Net Debt as a Percentage of GDP for sovereign countries.
- Likelihood and strength of Parental Support.
- Banking resolution mechanisms for the restructure of failing financial institutions, i.e. bail-in.
- Market information on corporate developments and market sentiment towards the counterparties and sovereigns.
- Underlying securities or collateral for 'covered instruments'.
- Other macroeconomic factors

It remains the Council's policy to suspend or remove institutions that still meet criteria, but where any of the factors above give rise to concern. Also, when it is deemed prudent, the duration of deposits placed is shortened or lengthened, depending on counterparty specific metrics, or general investment factors.

The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

Investment limits: Investment limits are set out in appendix B. In setting criteria in appendix B, account is taken of both expected and possible balances, the availability and accessibility of the various instruments to be used, and their security, liquidity, and yield characteristics.

Liquidity management: The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

4. Prudential and Treasury Management Indicators

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

The Authorised Limit and Operational Boundary are Prudential Indicators and are authorised by Full Council as part of the Capital Strategy. They are included here for information only. The 'Maturity Structure of Borrowing'', 'Principal sums invested for periods longer than a year', and 'Credit Risk' Indicators are specific Treasury Management Indicators and are to be adopted as per the recommendations set out in this paper.

Authorised limit and Operational Boundary: The Council is required to set an authorised limit and an operational boundary for external debt. In order that the preceding borrowing strategy can be carried out, the following Prudential Indicators have been proposed to Council in the Capital Strategy but are shown again here to give the full picture. (These figures rounded to nearest million)

	2019-20 £m	**2020-21 £m**	**2021-22 £m**
Authorised limit			
Borrowing	487	536	579
Other Long-Term Liabilities	54	54	54
Total	541	590	633
Operational boundary			
Borrowing	457	506	549
Other Long-Term Liabilities	47	46	45
Total	504	552	594

Maturity Structure of Borrowing: The Council has set for the forthcoming year, both the upper and lower limits with respect to the maturity structure of its borrowing. The calculation is the amount of projected borrowing maturing in each period, expressed as a percentage of the total projected borrowing. CIPFA Code guidance for the ‘maturity structure’ indicator states that the maturity of LOBO loans should be treated as if their next option date is the maturity date. The ‘maturity structure of borrowing’ indicators have been set with regard to this, and having given due consideration to proposed new borrowing, current interest rate expectations, and the possibility of rescheduling or prematurely repaying loans outlined in the borrowing strategy. The three shorter-dated bands have each increased by 5%, otherwise the bands and limits remain as for 2018-19 and are: -

	Upper Limit	Lower Limit
Under 12 months	50%	15%
>12 months and within 24 months	25%	0%
>24 months and within 5 years	25%	0%
>5 years and within 10 years	20%	5%
>10 years and within 20 years	20%	5%
>20 years and within 30 years	20%	0%
>30 years and within 40 years	45%	15%
>40 years and within 50 years	15%	0%
>50 years	5%	0%

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

The prime policy objectives of local authority investment activities are the security and liquidity of funds, and authorities should avoid exposing public funds to unnecessary or unquantified risk. Authorities should consider the return on their investments; however, this should not be at the expense of security and liquidity. It is therefore important that authorities adopt an appropriate approach to risk management with regards to their investment activities. Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Authorities should also consider carefully whether they can demonstrate value for money in borrowing in advance of need and can ensure the security of such funds. These principles should be borne in mind when investments are made, particularly for the medium to long term. It is proposed that SCC will have a rolling portfolio of cash deposits via the Comfund, including the possibility of some in excess of one year. Should the Council wish to diversify more into pooled funds, it would be the Council's intention to be invested in these for periods of 1-5 years plus. Therefore, a prudential indicator of £40m is deemed necessary for year 1, with anticipated reductions at this point, in years 2 and 3.

	2019-20	**2020-21**	**2021-22**
Prudential Limit for principal sums	**£m**	**£m**	**£m**
invested for periods longer than 1 year	40	40	40

The sums indicated in this indicator do not include any investment in non-Treasury Investments covered by a separate Investment Strategy.

Credit Risk Indicator: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating / credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk (in conjunction with Arlingclose) and will be calculated quarterly.

Credit risk indicator	**Target**
Portfolio average credit rating (score)	A (6.0)

CIPFA no longer recommends setting upper limits on fixed and variable rate exposures, so these are no longer calculated for this paper.

5. Other Matters

The CIPFA Code requires the Council to include the following in its treasury management strategy.

Derivative Instruments: The code requires that the Council must explicitly state whether it plans to use derivative instruments to manage risks. The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). However, the Council does not intend to use derivatives.

Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require Full Council approval.

External Service Providers: The code states that external service providers should be reviewed regularly and that services provided are clearly documented, and that the quality of that service is controlled and understood.

SCC recognises, as per CIPFA guidance, that, "the overall responsibility for treasury management must always remain with the Council". So as not to place undue reliance on treasury advisors and other external services, SCC has always sourced its own information, performed its own analysis of market and investment conditions, and the suitability of counterparties. It continues to do so through embedded practices, thereby maintaining the skills of the in-house team to ensure that services provided can be challenged, and that undue reliance is not placed on them.

Member Training: All public service organisations should be aware of the growing complexity of treasury management in general, and its application to the public services in particular. Modern treasury management, and particularly non-treasury investments demand appropriate skills.

The new Investment Strategy demands a greater level of understanding and involvement by members, and that document sets out the specific requirements for that purpose; However, there should still be an appropriate level of skills and understanding applied to the Treasury Management Strategy.

All SCC Members receive introductory training, which includes an overview of the treasury management function.

SCC Officers would be able and willing to provide a more detailed level of training, if Councillors thought that there would be no conflict of interest.

Through contacts with the CIPFA Treasury Management Forum and its independent Treasury Advisors, SCC could also facilitate training via an independent third party. SCC Officers also have contacts within a number of money market brokers and fund managers who could provide training.

As and when needed, information sheets could be prepared and made available to help keep members abreast of current developments.

Markets in Financial Instruments Directive II (MiFID II): As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could “opt up” to professional client status, providing certain criteria was met. This included having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the Council have at least a year’s relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The Council has met the conditions to opt up to professional status and has done so in order to maintain its erstwhile MiFID II status prior to January 2018. As a result, the Council will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

6. <u>Background papers</u>

Local Government Act 2003 – Guidance under section 15(1)(a) 3rd Edition, effective from 1 April 2018.

The CIPFA ‘Treasury Management in the Public Services’ Code of Practice Revised Edition 2017.

CIPFA Prudential Code for Capital Finance in Local Authorities: Revised Edition 2017.

Note: For sight of individual background papers please contact the report author.

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Appendix A

Treasury Management Policy Statement

Introduction and Background

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the code), as described in Section 5 of the Code

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management: -

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.

- Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council (i.e. Full Council Members) will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review, and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the Director of Finance as Section 151 Officer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Policies and Objectives of Treasury Management Activities

2.1 The Council defines its treasury management activities as: -

> *"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken, and the type of borrowing should allow the Council transparency and control over its debt.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

SCC Lending Counterparty Criteria 2019-20 Appendix B

The following criteria will be used to manage counterparty risks to Somerset County Council Investments for new deposits / investments from the time that the new Treasury Management Strategy is passed by Full Council at its meeting in February 2019.

Please note that the limits in this appendix apply only to Treasury Management Investments, not to those detailed in the Separate Investment Strategy.

Where deposits held were made under previous criteria, there will be no compulsion to terminate those deposits to meet new criteria, where a penalty would be incurred.

Deposits - Any Financial Institution that is authorised by the Prudential Regulation Authority to accept deposits, or is a passported EEA institution, which is entitled to accept deposits in the UK, or is a UK Building Society can be lent to, subject to the rating criteria below at the time of the deposit.

Unrated Building Societies
Unrated Building Societies as identified by Treasury Advisors can be used, with a maximum of £1m per Society and a maximum maturity of 1 year.

Marketable Instruments – Any bank, other organisation, or security whose credit ratings satisfy the criteria below: -

Rating of Counterparty or Security
Deposits or instruments of less than 13 months duration (Refer to long-term ratings)
Fitch A- or above
S&P A- or above
Moody's A3 or above

The maximum deposit / investment amount for any authorised counterparty or security that has as a minimum at least two ratings of the three above will be £20m. This is approximately 8.0% of maximum balance, 9.2% of average balance for the year to 31st December 2018-19. The % may be significantly less if borrowing up to the CFR is taken early in the year.

The maximum deposit / investment amount for any authorised counterparty or security that has as a minimum - Fitch AA-, S&P AA-, and Moody's Aa3, will be £25m. This is approximately 10.0% of maximum balance, 11.5% of average balance for the year to 31st December 2018-19. The % may be significantly less if borrowing up to the CFR is taken early in the year.

Deposits or instruments of more than 13 months duration (Refer to long-term ratings)
Fitch AA- or above
S&P AA- or above
Moody's Aa3 or above

The maximum deposit / investment amount for more than 13 months for any authorised counterparty or security that has as a minimum at least two ratings of the three above will be £10m. This figure is to be included in the overall figure above.

The allowed deposit amounts above are the single maximum per counterparty at any one time, and that counterparty or security must be rated as above or better by at least two of the three agencies. Short-term ratings will be monitored and considered in relative rather than absolute terms.

It remains the Council's policy to suspend or remove institutions that still meet criteria, but where any of the other factors below give rise to concern. Also, when it is deemed prudent, the duration of deposits placed is shortened or lengthened, depending on counterparty specific metrics, or general investment factors.
Where deposits held were made under previous criteria, there will be no compulsion to terminate those deposits to meet new criteria, where a penalty would be incurred.

Operational Bank Accounts
As the Council's current bankers, Nat West are currently within the minimum criteria. If they should fall below criteria, the instant access Call Account facility may still be used for short-term liquidity requirements and business continuity arrangements. This will generally be for smaller balances where it is not viable to send to other counterparties or in the event of unexpected receipts after the daily investment process is complete. Money will be placed in the instant access Nat West call account overnight.

Public Sector Bodies
Any UK Local Authority or Public Body will have a limit of £15m and a maximum maturity of 5 years.

The UK Government, including Gilts, T-Bills, and the Debt Management Office (DMADF) will be unlimited in amount and duration.

The table below gives a definition and approximate comparison of various ratings by the three main agencies: -

Definitions of Rating Agency Ratings

	Fitch		Moody's		S&P	
Short-Term	F1+	Exceptionally strong	P-1	Superior	A-1+	Extremely strong
	F1	Highest quality			A-1	Strong
	F2	Good quality	P-2	Strong	A-2	Satisfactory
	F3	Fair quality	P-3	Acceptable	A-3	Adequate
	B	Speculative	NP	Questionable	B and below	Significant speculative characteristics
	C	High default risk				
	(+) or (-)		(1,2, or 3)		(+) or (-)	
Long-Term	AAA	Highest quality	Aaa	Exceptional	AAA	Extremely strong
	AA	V High quality	Aa	Excellent	AA	Very strong
	A	High quality	A	Good	A	Strong
	BBB	Good quality	Baa	Adequate	BBB	Adequate capacity
	BB	Speculative	Ba	Questionable	BB and below	Significant speculative characteristics
	B	Highly Speculative	B	Poor		
	CCC	High default risk	Caa	Extremely poor		

Financial Groups
For Financial Groups (where two or more separate counterparties are owned by the same eventual parent company) investments can be split between entities, but an overall limit equal to the highest rated constituent counterparty within the group will be used.

Country Limits
Excluding the UK, there will be a limit of £30m. This is approximately 12.0% of maximum balance, 13.6% of average balance for the year to 31st December 2018-19. The % may be significantly less if borrowing up to the CFR is taken early in the year.

Money Market Funds
With regulatory changes now effected, previously titled Constant Net Asset Value (CNAV) Money Market Funds have been converted into Low Volatility Net Asset Value (LVNAV) funds. Any LVNAV Fund used must be rated by at least two of the main three ratings agency, and must have the following, (or equivalent LVNAV) ratings.

Fitch AAAmmf Moody's Aaa-mf Standard & Poor's AAAm

Subject to the above, deposits can be made with the following limits: -
The lower of £15m or 0.5% of the total value for individual Funds.
No more than 50% of total deposits outstanding are to be held in LVNAV MMFs.

VNAV Pooled Funds
Currently, not all Variable Net Asset Value (VNAV) Funds carry a rating. Many VNAV bond funds are not rated. Equity, multi-asset and property funds are also not credit rated. The decision to invest in a particular asset class or fund will be based on the evaluation of the risk/reward characteristics including volatility, expected income return and potential for capital growth.

No more than £30m of total deposits outstanding are to be held in VNAV Funds (excluding LVNAV MMFs).

Other Indicators
The Council will continue to use a range of indicators, not just credit ratings. Among other indicators to be taken into account will be: -

- Credit Default Swaps and Government Bond Spreads.
- GDP, and Net Debt as a Percentage of GDP for sovereign countries.
- Likelihood and strength of Parental Support.
- Banking resolution mechanisms for the restructure of failing financial institutions, i.e. bail-in.
- Share Price.
- Market information on corporate developments and market sentiment towards the counterparties and sovereigns.
- Underlying securities or collateral for 'covered instruments'.
- Other macroeconomic factors

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Appendix C

Arlingclose Economic Outlook & Interest Rate Forecast

Economic Outlook

The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019-20.

UK Consumer Price Inflation (CPI) for October was up 2.4% year on year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

While US growth has slowed over 2018, the economy continues to perform robustly. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the current 2%-2.25% in September. Markets continue to expect one more rate rise in December, but expectations are fading that the further hikes previously expected in 2019 will materialise as concerns over trade wars drag on economic activity.

Credit Outlook

The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

The Bank of England released its latest report on bank stress testing, illustrating that all entities included in the analysis were deemed to have passed the test once the levels of capital and potential mitigating actions presumed to be taken by management were factored in. The BoE did not require any bank to raise additional capital.

European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

Interest rate forecast

Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity *(at the time of writing this commentary in mid-December).* As such, the risks to the interest rate forecast are considered firmly to the downside.

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

The table below highlights the forecast for key benchmark rates

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.17**
Arlingclose Central Case	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.13**
Downside risk	0.00	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	**-0.85**
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	**0.17**
Arlingclose Central Case	**0.90**	**0.95**	**1.10**	**1.30**	**1.40**	**1.40**	**1.40**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.27**
Downside risk	-0.20	-0.45	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.76**
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.33**
Arlingclose Central Case	**1.15**	**1.25**	**1.35**	**1.50**	**1.70**	**1.60**	**1.50**	**1.40**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.40**
Downside risk	-0.35	-0.50	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.77**
5-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.15**	**1.25**	**1.35**	**1.50**	**1.50**	**1.40**	**1.35**	**1.35**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.33**
Downside risk	-0.50	-0.60	-0.65	-0.80	-0.80	-0.70	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.66**
10-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.50**	**1.65**	**1.70**	**1.80**	**1.80**	**1.75**	**1.75**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**
Downside risk	-0.55	-0.70	-0.70	-0.80	-0.80	-0.75	-0.75	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	**-0.71**
20-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**2.00**	**2.10**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.18**
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
50-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.90**	**1.95**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**1.99**
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Underlying assumptions:

- Our central interest rate forecasts are predicated on there being a transitionary period following the UK's official exit from the EU.
- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider that: 1) tight labour markets will prompt inflationary pressure in the future, 2) ultra-low interest rates result in other economic problems, and 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.
- Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.
- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but

more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.

- Cost pressures are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.

- Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening – previous hikes and heightened expectations will, however, slow economic growth.

- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our central case is for Bank Rate to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.

- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitionary period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

Capital Strategy 2019/20 - 2021/22

Lead Officer: Peter Lewis, Director of Finance
Author: Ben Bryant, Accountant, Corporate Finance
Contact Details: 01823-359576
Cabinet Member: Cllr Mandy Chilcott, Cabinet Member for Resources
Division and Local Member: All

1. Summary

1.1. The Capital Strategy provides an overview of Capital Expenditure, Capital Financing and Treasury Management, all of which contribute of the delivery of the County Vision. Furthermore, the non-Treasury investment proposal is aimed to produce a positive net revenue income stream for the Council which would contribute towards the delivery of all objectives.

1.2. This strategy brings together the statutory requirements of the Chartered Institute of Public Finance Accountants (CIPFA) and the CIPFA Prudential Code for Capital Finance in Local Authorities: Revised 2017 Edition (CIPFA Prudential Code).

2. Issues for consideration / recommendations

2.1. The Committee is asked to review the Capital Strategy 2019/20-2021/22 and the prudential indicators contained within, whether there are any suggestions for additional management actions or alternative options that they would like to recommend to the Cabinet.

3. Background

3.1. As is set out in the Capital Strategy attached to this report, it is a new requirement for 2019/20. The Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

3.2. The Strategy addresses the capital components of the wider financial strategies adopted by the Authority. It identifies the links and relationships that need to be made in considering and implementing the Capital Programme to support the Corporate Asset Management Plan objectives. This is done through the Medium Term Financial Plan (MTFP) and alerts services to the governance and control framework within which the investment planning and delivery takes place.

3.3. Perhaps of significant interest in this Strategy is the introduction of the proposal to consider non-treasury investments (Treasury Investments are dealt with in the Treasury Management Strategy Statement elsewhere on the agenda for the Cabinet meeting on 11 February). With central government financial support for local public services declining, the Council intends to explore investing in non-treasury investment options purely or mainly for financial gain. With this in mind a sum of £100m has been noted in the Capital

Programme as being identified for this purpose pending the appropriate strategy and governance being put in place.

3.4. The attached document sets out a range of considerations that should be taken into account in developing the Council's approach to non-treasury investments. This report then seeks delegated authority to the Section 151 Officer to engage with a small working group as part of the development and preparation of detailed proposals for the governance of non-treasury investments for consideration and agreement by the Council.

4. Consultations undertaken

4.1. The Capital Programme has been subject to Scrutiny (in December 2018), but this strategy has not been the subject of wider consultation at this time. It is proposed that, should it be necessary, there will be further consultation on non-treasury investments as the proposals are developed.

5. Implications

5.1. The Local Government Act 2003, section 15(1), requires a local authority "…to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify…".

The Secretary of State issued statutory guidance in 2018 regarding 'Local Government Investments' which came into effect from 1 April 2018.

For each financial year, a local authority should prepare at least one Investment Strategy. The Investment Strategy needs to be approved by the Full Council prior to the start of the financial year.

Where a local authority prepares a Capital Strategy in line with the requirements of the Prudential Code, a Treasury Management Strategy in line with the requirements of the Treasury Management Code, or any other publicly available document, the disclosures required to be included in the Investment Strategy can be published in those documents.

5.2. There are no specific financial or HR implications arising from this report.

6. Background papers

6.1. Treasury Management Strategy 2019/20 – presented at this Committee

6.2. Minimum Revenue Provision Statement – presented at this Committee

Note For sight of individual background papers please contact the report author

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Somerset County Council

Corporate Capital Strategy 2019/20– 2021/22

Capital Strategy Report 2019/20

Contents

1. Background and Context

This capital strategy is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

It addresses the capital components of the wider financial strategies adopted by the Authority. It identifies the links and relationships that need to be made in considering and implementing the Capital Programme to support the Corporate Asset Management Plan objectives. This is done through the Medium Term Financial Plan (MTFP) and alerts services to the governance and control framework within which the investment planning and delivery takes place.

The Capital Programme is the term used for the Council's rolling plan of investment in both its own assets and those of its partners. The programme spans multi-years and contains a mix of individual schemes, many spanning more than one year. Some schemes will be specific investment projects while others may provide for an overarching schedule of thematic works e.g. “Highways”.

Investing in assets can include expenditure on:

- Infrastructure such as highways, open spaces, coast protection;
- New build;
- Enhancement of buildings through renovation or remodelling;
- Major plant, equipment and vehicles;
- Capital contributions to other organisations enabling them to invest in assets that contributes to the delivery of the Council's priorities.

The Capital Programme is distinct from the Council's revenue budget which funds day-to-day services, but they are both linked and are managed together. This ensures they contribute to the Council's objectives set out in its County Plan and Corporate Asset Management Plan to achieve the most beneficial balance of investment within the resources available.

There is a strong link with the Treasury Management Strategy[1] that provides a framework for the borrowing and lending activity of the Council supporting the historic investment programme. Asset information can be obtained from the Corporate Property Group which manages the built estate as Corporate Landlord. Additional (non-property information) can be found within various service plans maintained by Services.

2. Capital Expenditure and Financing

[1] Treasury Management Strategy link: *to be added when approved at Full Council*

Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

The Council has the ability to set a de-minimis level to capture only significant assets, however does not opt to do so. This allows the Council to review every item of expenditure and capitalise as appropriate.

- For details of the Council's policy on capitalisation, see the accounting policy (No.14 PPE) within the annual statement of accounts: http://www.somerset.gov.uk/information-and-statistics/financial-information/budgets-and-accounts/

In 2019/20, the Council is planning capital expenditure of £196.230m. The following table shows our planned spend for the future:

Table 1: Estimates of Capital Expenditure in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Capital Expenditure	103.606	126.733	196.230	103.633	71.598

This table includes both the current approved capital programme and the proposed 2019/20 programme due to be put to Full Council on 20th February 2019. For example, the 2019/20 budget of £196.230m is made up of £106.829m current programme and £89.4m 2019/20 proposed new schemes.

Service managers bid annually to include projects in the Council's capital programme. Bids are collated by corporate finance who calculate the financing cost (which can be nil if the project is fully externally financed). The bids are appraised against a set criterion including a comparison of service priorities against financing costs. The Senior Leadership Team undertakes a final review before the draft capital programme is then presented to relevant Scrutiny Committee(s) prior to its consideration by the Cabinet in January for recommendation to Council in February each year.

For full details of the Council's 2019/20 capital programme, see the council's website at : http://democracy.somerset.gov.uk/ieListDocuments.aspx?CId=134&MId=731&Ver=4

All capital expenditure must be financed, either from external sources (government grants and other contributions such as S106 and CIL), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2017/18	2018/19	2019/20	2020/21	2021/22

	actual	forecast	budget	budget	budget
External sources	86.155	103.401	124.301	53.561	29.966
Own resources	5.550	1.540	2.736	1.335	0
Debt	11.901	21.792	69.193	48.737	41.632
TOTAL	**103.606**	**126.733**	**196.230**	**103.633**	**71.598**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Planned MRP budgets are as follows:

Table 3: MRP for the repayment of debt in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Own resources	0.000	1.039	2.269	3.910	4.927

- The Council's full minimum revenue provision statement is available here: *link to MRP statement going to audit committee in Jan19*

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP, lease principal repayments and capital receipts used to replace debt. The CFR is expected to increase by £66.924m during 2019/20. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
TOTAL CFR	**366.115**	**386.868**	**453.792**	**498.619**	**535.324**

Asset management: To ensure that capital assets continue to be of long-term use and support the county plan, the Council has an asset management strategy in place.

- The Council's asset management strategy can be read here: http://www.somerset.gov.uk/organisation/council-buildings/. This strategy is due for renewal and is planned to be updated during 2019.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £10.772m of capital receipts in the current financial year.

Table 5: Capital receipts in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget
TOTAL asset sales	7.799	10.772	9.850

Ministry of Housing, Communities and Local Government (MHCLG) have issued a ‘flexible use of capital receipts’ directive. This allows transformation projects which will save revenue budget to be funded from capital receipts. This directive was issued in 2016 and is extend until 2021/22. The Councils use and planned use of this can be found…*Summary to be presented to Cabinet [link]*

3. Treasury Management

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council’s spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

The budget for debt interest paid in 2019/20 is £16.12m, based on an average debt portfolio of £356.3m at an average interest rate of 4.52%. The budget for investment income in 2019/20 is £1.53m, based on an average investment portfolio of £160m at an interest rate of 0.95%. (These figures are net of balances held on behalf of external investors i.e. the Local Enterprise Partnership).

Borrowing strategy: The Council’s main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).

Projected levels of the Council’s total outstanding debt (which comprises borrowing, Private Financing Initiatives (PFI) liabilities, are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: External Debt and the Capital Financing Requirement in £ millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Short term debt	8.360	10.000	10.000	10.000	10.000
Long term debt *	316.101	309.606	306.483	301.285	294.708
Assumed debt not yet taken	0.000	21.792	90.985	139.723	181.355
PFI & leases	44.118	42.948	41.972	40.970	39.872
Total external borrowing	**368.579**	**384.346**	**449.440**	**491.978**	**525.935**
Capital Financing Requirement	**366.114**	**385.443**	**450.733**	**493.447**	**527.551**

*(reduces for MRP & debt repayment)

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2018/19 limit	2019/20 limit	2020/21 limit	2021/22 limit
Authorised limit - borrowing	415.631	486.981	536.356	578.973
Authorised limit - PFI and leases	53.948	53.972	53.970	53.872
Authorised limit - total external debt	469.579	540.953	590.326	632.845
Operational boundary - borrowing	385.631	456.981	506.356	548.973
Operational boundary - PFI and leases	47.948	46.972	45.970	44.872
Operational boundary - total external debt	433.579	503.953	552.326	593.845

4. Investment Strategy

Treasury investments: arise from receiving cash before it is paid out again. Investments made for service reasons or for the purpose of generating a positive income (net of costs) are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield; that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

This capital strategy contains the prudential indicators approved by the council. The Treasury management strategy contains further details on treasury investments criteria and governance. There are also 3 Treasury management indicators that are set out in section 4 of the TMS for the adoption by the authority.

- the treasury management strategy is here *to be added when approved at Full Council*

Non-Treasury investments: describing the Council's approach to this is a new requirement of the Ministry of Housing, Communities and Local Government (MHCLG) and is also an area that members have indicated that they wish to investigate.

With central government financial support for local public services declining, the Council intends to explore investing in non-treasury investment options purely or mainly for financial gain. With this in mind a sum of £100m has been proposed in the Capital Programme as being identified for this purpose pending the appropriate strategy and governance being put in place. With financial return being the main objective, the Council accepts that there will almost certainly be higher risk on non-treasury investments than with treasury investments, hence robust procedures are required to ensure that all investments are thoroughly understood and well managed.

To create an Investment Strategy (for non-treasury investments), the framework must include:

- Criteria for which 'assets' to invest in, including specification of the balance / mix of a portfolio (i.e. asset types);
- Clear governance arrangements and democratic accountability ensuring transparent and open decision making and rigorous due diligence (property, legal, financial);
- Clear long term corporate strategies to set Council priorities, including:
    - Setting out balance of focus on local economic prosperity v income generation
    - Management of existing property assets (i.e. sell or retain), where relevant;

- Adequate resource, mainly across finance, legal and property to:
    - carry out due diligence on potential opportunities
    - support activity to manage investments once made;
- Sufficient investment funds to support the set-up costs, and;
- Sufficient flexibility within the Council's resources, for example in regard of CFR headroom.

Options for investment opportunities include:

- Physical assets, such as property and land. The Council does not have any of these held for investment purposes at present, although assessment of existing assets for alternative use not yet been undertaken. While this asset type does present the opportunity for local growth stimulation as well as the income and growth potential, a large investment is needed to produce a diversified portfolio, there are considerable set up costs and the time lag to generating a return can be significant.
- Businesses, such as solar farms, an energy company or innovation companies. The Council invests in none of these at present. This investment type can be quicker to deliver a return (than property) and can still support local economic growth, but there are still challenges to find opportunities and the need to secure relevant expertise to appraise business cases.
- Financial, such as loans, banks or investment funds. This asset type is easier to invest with more predictable costs than the other classes, and there are in-house skills to handle these investments. This asset also presents the opportunity for more diversification and better liquidity, although returns can be more volatile and there are ongoing fees. The Council will also need to maintain a close watch on the headroom within its CFR to ensure that this is not breached.

Given that non-treasury investments will be a new approach for Somerset County Council, it is essential that there are carefully considered governance arrangements put in place to ensure that there is robust appraisal of any investments that may be made. Examples of the type of arrangements that may be considered include:

- Investment Board – comprising members, officers and professional advisers (as required) to review and provide views on potential investment decisions to be undertaken by either the Cabinet Member for Resources or the Section 151 Officer. This Board would need to meet regularly for the Cabinet Member or Section 151 Officer to be able to act swiftly on any opportunities presented to the Board;
- Gateway process – to determine whether to pursue a proposal. Clear criteria need to be pre-determined and rigorously applied (to minimise optimism bias);
- Cabinet / Cabinet Member for Resources / Section 151 Officer approval – the Councils constitution (Cabinet Scheme of Delegation) would need amending to clarify the proposed decision-making arrangements and any limits or internal consultation requirements prior to the exercise of delegated powers.

Depending on the assets that might be invested in, and particularly in regard of property investments, it may be necessary to have a:

- Shareholder Board - comprising members and professional advisers to ensure effective oversight of the property portfolio and alignment with corporate priorities;
- 'Property' Company – 'arms-length' company would be required to make any investments in properties for financial gain (rather than economic prosperity).

Some of the principal risks that the Council needs to address in formulating its approach to non-treasury investments are:

- Failing to identify realistic net gains – being over-ambitious could lead to investments with an inappropriate level of risk;
- Some investments will not pay back immediately, requiring an investment approach which is affordable in cash-flow terms;
- Not setting out clear parameters for investment areas (e.g. retail, commercial, residential portfolio mix);
- An inability to secure adequate commercial skills / resource to advise on the investment options;
- Allowing insufficient time to set up rigorous due diligence, governance and transparent democratic accountability;
- Not establishing 'smart' democratic processes to ensure investments can be approved at pace, and;
- The Government are taking steps to tighten this area of local authority investment – they have indicated they may go further in the near future.

In order that commercial investments remain proportionate to the size of the Authority, they will be subject to an overall maximum investment limit, which will be set by the Council in due course. At present the suggested indicative future value of these investments is £100m per the draft Capital Programme; there is no potential investment return built into the MTFP at this time apart from a notional £250k identified as a pipeline saving in 2020/21. If and when any income is built into the revenue budget, then contingency plans will need to be in place should expected yields not materialise.

It is proposed, in the covering report to this Strategy, that the Cabinet delegates authority to small working group of members and officers to create the necessary governance, systems and processes to ensure that the non-treasury investment approach can be realised within 2019/20.

5. Other long-term liabilities

In addition to debt of £368.579m detailed above, the Council is committed to making future payments to cover its pension fund deficit. This is reported in the 2017/18 accounts at £802.463m (as at 31/03/2018). It has also set aside £11.530m (as at 31/03/2018) to cover risks of insurance claims, business rate appeals and other legal claims. The Council is also at risk of having to pay for contingent liabilities but has not put aside any money because of the low risk and uncertainties around potential value.

Governance: Decisions on incurring new discretional liabilities will initially be considered by service managers for discussion with the relevant director. If it is recommended that the liability may be undertaken then the relevant director will consult with the Chief Finance Officer (S151 officer), Monitoring Officer and County Solicitor before any recommendation is made to the Senior Leadership Team prior to any decisions taken. Depending on the extent of the liability envisaged, it may be necessary to make a formal decision through a democratic process. The risk of liabilities crystallising and requiring payment is monitored by corporate finance and reported quarterly to audit committee. New liabilities exceeding £500m are reported to Cabinet and Full Council for approval.

- Further details on provisions and contingent liabilities are on pages 123 and 134 of the 2017/18 statement of accounts: http://www.somerset.gov.uk/information-and-statistics/financial-information/budgets-and-accounts/

6. Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 8: Prudential Indicator: Proportion of financing costs to net revenue stream

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Financing costs (£m)	19.930	24.315	23.266	26.661	28.922
Proportion of net revenue stream	6.39%	5.97%	6.91%	8.15%	8.60%

- Further details on the revenue implications of capital expenditure are on pages [X] to [X] of the 2019/20 revenue budget [link]

Sustainability: Due to the long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend into the future years. The Interim Finance Director is satisfied the proposed capital programme is prudent, affordable and sustainable. This follows scrutiny of all capital bids against set criteria:

Key	
Grant/ contribution funded	Fully financed from external funding (i.e. No SCC requirement)
Part funded - part debt financed	Significant external funding. Some requirement for SCC debt
Contractually committed schemes	Schemes underway with contracts. Revenue cost implications to withdraw
Statutory/compliance	Subject to value for money assessment before they are undertaken
Invest to save and reduce operational costs	Full business case provided to evidence payback vs debt costs
Invest to generate a net income stream	Full business case provided to evidence payback vs debt costs
Invest in wider economic growth	Full business case provided to evidence payback vs debt costs
Response to public/partner requests	Non statutory, with no external funding or direct payback
Discretionary schemes	Non statutory, with no external funding or direct payback

Only schemes that will have full approved funding in place are consider as part of the capital programme and the cost impact of borrowing forms part of the revenue medium term financial planning.

7. Knowledge and Skills

The Council employs professionally qualified and experienced staff in all positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Finance Officer will always be a qualified accountant with substantial experience and there is a range of significant experience and expertise within the Treasury Team. Where necessary, the Council pays for junior staff to study towards relevant professional qualifications, for example CIPFA.

Where the Council needs additional resources, external validation of officers work or where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing additional resources directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Somerset County Council
Audit Committee – Thursday 31 January 2019

Minimum Revenue Provision Statement 2018/19

Lead Officer: Peter Lewis, Director of Finance
Author: Paul Griffin, Accountant, Corporate Finance
Contact Details: 01823-359574
Cabinet Member: Cllr Mandy Chilcott, Cabinet Member for Resources
Division and Local Member: All

1. Summary

1.1. Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP).

1.2. This statement brings together the statutory requirements of the Chartered Institute of Public Finance Accountants (CIPFA) and under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended].

2. Issues for consideration / recommendations

2.1. The Committee is asked to review the Minimum Revenue Provision Statement 2018/19, whether there are any suggestions for additional management actions or alternative options that they would like to recommend to the Cabinet.

3. Background

3.1. The statutory guidance requires the Authority to approve an MRP Statement each year and recommends several options for calculating a prudent amount of MRP.

3.2. The appended report sets out the Authorities approach and the 2018/19 impact on the revenue budget.

4. Consultations undertaken

4.1. The MRP statement has been considered by Grant Thornton who have stated they are not minded to challenge the proposed policy. It however remains subject to full audit review during the 2018/19 statement of accounts inspection.

5. Implications

5.1. This statement is required under statutory legal guidance issued in Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended].

5.2. The financial implications of the statement directly impact the level of charge to the revenue budget.

5.3. There are no specific HR implications arising from this report.

6. Background papers

6.1. None

Note For sight of individual background papers please contact the report author

Minimum Revenue Provision Statement 2018/19

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended], local authorities are required to charge a Minimum Revenue Provision (MRP) to their revenue account in each financial year. Before 2008, the 2003 Regulations contained details of the method that local authorities were required to use when calculating MRP. This has been replaced by the current Regulation 28 of the 2003 Regulations, which gives local authorities flexibility in how they calculate MRP, providing the calculation is 'prudent'. In calculating a prudent provision, local authorities are required to have regard to statutory guidance (issued by the Secretary of State).

An underpinning principle of the local authority financial system is that all capital expenditure must be financed either from capital receipts, capital grants (or other contributions) or eventually from revenue income. The broad aim of prudent provision is to require local authorities to put aside revenue over time to cover their Capital Financing Requirement (CFR). In doing so, local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits (often referred to as 'useful economic life').

The guidance requires the Authority to approve an Annual MRP Statement each year and recommends several options for calculating a prudent amount of MRP.

Having reviewed the options suggested by the guidance and considered the historic information available to the authority for previous years capital expenditure funded from un-supported borrowing, the Authority proposes an MRP policy based on two distinct components:

1. An element based on the period the capital expenditure provides benefit to the authority, as per the maximum useful economic lives (UEL) in the table below:

ASSET CLASS	MAXIMUM UEL
Freehold Land	999 years
Freehold Buildings	99 years (dependant on specific-asset information provided by the Council's RICS qualified valuation team)
Leased Land	Length of lease term or asset UEL, whichever is lower
Leased Buildings	Length of lease term or asset UEL, whichever is lower
Plant & Equipment (owned)	10 years

Plant & Equipment (leased)	Length of lease term or asset UEL, whichever is lower
IT	7 years
Intangible (software licences)	Length of licence term
Infrastructure	64 years
Heritage	999 years
Assets Held for Sale	Dependant on the asset class prior to being reclassified as held for sale

For un-supported loans funded capital expenditure prior to 1st April 2018 there was no direct link between individual assets and their funding types, so it has not been possible for the authority to analyse the CFR (as at 31st March 2018) by specific loans-funded assets. It is the Council's intention to apportion the CFR balance (as at 31st March 2018) of £366.115m over the weighted average life (based on the useful economic lives) of the Council's entire asset portfolio – as reported in the 17/18 published accounts.

Any capital expenditure funded from un-supported borrowing post 1st April 18 will have a direct link to the benefit being received (asset) on the accounting system, it is therefore the Council's intention to put aside revenue for this element of the CFR on an asset by asset basis – having considered the useful economic lives in the table above.

Paragraph 40 of the statutory guidance suggests that the MRP should normally commence in the financial year following the one in which the expenditure was incurred, so capital expenditure incurred during 2018/19 will not be subject to a MRP charge until 2019/20.

2. An additional element to ensure the authority has enough put aside to meet the repayment dates of the loans when they fall due.

Paragraph 14 of the statutory guidance identifies a concern over an authorities' ability to fully provide for its debt based on current levels of MRP. As relying on continuing access to PWLB to repay debt when it falls due does not represent a prudent approach, we are planning to make an additional MRP payment of £0.400m each year (incrementally) over and above the MRP charge identified in point 1. This planned incremental increase each year will ensure we have enough put aside to meet the repayment dates of existing debt instruments when they fall due. This has been confirmed by a detailed review of the current debt maturity profile. We will continue to monitor the MRP and repayment profile of the Council's debt instruments, and if future borrowing creates a potential shortfall, we will increase the additional MRP accordingly to ensure significant provision is put aside.

NB. This proposal excludes leased assets, as their MRP requirement has been met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability when the rent is paid.

Based on the Authority's Capital Financing Requirement on 31st March 2018, the budget for 2018/19 MRP has been set as follows:

	31.03.2018 CFR £m	**2018/19 MRP £m**
Capital Expenditure		
Capital expenditure before 01.04.2018	366.115	1.039
Additional Contribution		
Additional Contribution (2018/19)	-	0.400
Total	**366.115**	**1.439**

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Audit Progress Report and Sector Update

Somerset County Council & Somerset Pension Fund
Year ending 31 March 2019

January 2019

Contents

Introduction

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Page 209

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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at January 2019

2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion was issued on the 30 July 2018.

We issued:

- An unqualified opinion on the Council’s financial statements; and
- A qualified (adverse) value for money conclusion on the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have issued all our deliverables for 2017/18, and issued the certificate on 26 November. Our Annual Audit Letter, summarising the outcomes of our audit was presented to the Audit Committee in September 2018.

2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we will discuss the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Value for Money

We continue to meet monthly with the Interim Director of Finance and his deputies to understand how the Council is responding to our VFM recommendations from last year. Our views to date are included within our Audit Plan which is a separate item on January’s Audit Committee agenda.

Other areas

Certification of claims and returns 2017/18

We have completed the certification of the teachers’ pension return on behalf of the Teachers Pension Agency.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our next event is our Chief Accountants workshop for key officers which is taking place in February. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter for Council and Pension Fund Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council and Pension Funds 2018-19 financial statements.	January 2019	Complete
Pension Fund Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Pension Funds 2017-18 Financial Statements	January 2018	Complete
Interim Audit Findings (Council and Pension Fund) We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Not yet due
Audit Findings Report (Council and Pension Fund) The Audit Findings Report will be reported to the July Audit and Governance Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Audit and Governance Committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

Scoping Sprint

This took place in October. Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council), the subsequent discussion brought many perspectives but there was a strong agreement about the need to do things differently that would create and support a caring society. Grant Thornton will now take forward further discussions around three particular themes:

1. Ethics and philosophy: What is meant by care? Should the state love?
2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

Sprint 1 – What do we really mean by 'care'?

This will take place on 4 December. Julia Unwin, Chair of the Civil Societies Futures Project, former CEO of the Joseph Rowntree Association and author on kindness will provider her insight to spark the debate on what we really mean by 'care'

Find out more and get involved

- To read the sprint write-ups and opinion pieces visit: grantthornton.co.uk/acaringsociety
- Join the conversation at #acaringsociety

Challenge question:

How is your authority engaging in the debate about the future of social care?

In good company: Latest trends in local authority trading companies

Page 214

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies).These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

Outsourcing versus local authority trading companies
The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

Choosing the right company model
The most common company models adopted by councils are:

Wholly owned	Joint Ventures	Social Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

Getting it right through effective governance
While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment

  - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could me more mergers and insolvencies.

- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in todays austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.

Download the report here

HMICFRS News

HMICFRS Inspection – summary of First Tranche

This is the first time that HMICFRS has inspected fire and rescue services across England. Their focus is on the service they provide to the public, and the way they use the resources available.

HMICFRS have inspected 14 services in the first tranche of inspections. Each inspection assesses how effective and efficient the service is, how it protects the public against fires and other emergencies and how it responds to the same. They also assess how well each service looks after the people who work there. Devon and Somerset Fire and Rescue Authority are in the third tranche of inspections, and are scheduled for inspection in Spring 2019

In carrying out inspections of fire and rescue services in England, HMICFRS have regard to the following main questions:

1. How effective is the fire and rescue service at keeping people safe and secure from fire and other risks?

2. How efficient is the fire and rescue service at keeping people safe and secure from fire and other risks?

3. How well does the fire and rescue service look after its people?

The categories of graded judgement used are: outstanding, good, requires improvement and inadequate

HMICFRS Inspection - Findings

Effectiveness

Overall, the HMICFRS judged ten services to be good and four as requiring improvement. In arriving at the overall judgment, they examined a range of operational practices, including: fire prevention; protection through regulation; emergency response; and responding to national risks.

Specifically, the HMICFRS has concerns in relation to 'protection through regulation' where they have rated eight out of fourteen services as requiring improvement, and one as inadequate.

Efficiency

HMICFRS graded eight of the fire and rescue services they inspected as good for efficiency, five as requiring improvement, and they found one service to be inadequate. In arriving at these judgments, they considered how well the service uses resources to manage risks; and how well the service is using resources to ensure the service it provides is affordable now and in the future

The inspections showed that a large number of services were deploying staff to activities in the same way they always have, which may not be appropriate given new and emerging risks being faced, coupled with having fewer staff. Furthermore, they found that some fire services were using reserves without a longer-term sustainable funding plan in place.

People

Three services were graded as good at looking after the people who work for them; ten services were graded as requiring improvement, and one service was graded as inadequate. They considered how well services train, manage, treat and support the people who work for them

This was the area of greatest concern for the HMICFRS, as the inspection revealed a lack of diversity within fire services, as well as a large number of unreported instances of bullying. A recommendation that leaders take swift and sustained action to remedy these problems was made.

HMICFRS News

NFCC responds to the new fire inspectorate report

The Chair of the National Fire Chiefs Council has received the fire and rescue inspectorate report which gives the first overview of inspections of English Fire and Rescue Services

NFCC Chair Roy Wilsher noted the new inspectorate regime and report, and stated: NFCC has worked closely with the Inspectorate to help develop the inspection methodology. We will now work with fire and rescue services to review the inspectorate reports as they are published. This will allow us, working together, to ensure areas for improvement are identified and addressed.

He also states that the inspections highlight areas which may need additional government support, including funding, particularly in the area of Fire Protection and Prevention, and that the NFCC will work with services, the Home Office and HMICRFS to address these issues. The Chair also notes that he report states that long-term under-investment in areas such as protection has resulted in large reductions in fire safety audits, and that in order to address these issues, it is essential that fire and rescue services receive adequate funding.

The Chair made reference to the issues noted in relation to equality and diversity, and noted that it is disappointing to see that not everywhere has so far achieved a positive internal working culture and stated that the NFCC will continue work on this extremely important area. Diversity and embracing difference is another area for improvement however several NFCC initiatives are underway to address this, which are being well-supported by fire services

Recommendations from the new fire inspectorate report

Some of the key recommendations from the report are listed below:

a) Services could improve how they engage with communities – The quality, quantity and timeliness of information contained within the IRMP varies significantly between fire and rescue services. HMICFRS would like to see fire and rescue services improving the way they use this information to determine allocation of resources across the organisation according to risk
b) Services could improve the way they evaluate the benefits of their collaborative efforts – Often services didn't know what benefits (including financial savings) they were getting out of the collaboration, and this could be improved
c) Financial planning needs to improve – HMICFRS found that several services had very limited financial planning in place beyond 2020. They recommend that planning work beyond 2020 needs to start now in order to understand the tough decisions needed to reduce costs further.
d) Fire and rescue services need to improve workforce planning – A number of services have carried out little or no recruitment. Leaders need to anticipate their future recruitment needs and plan for these accordingly.
e) Promotions and selection processes to be more transparent – Fire and rescue services need to do better at explaining their promotion processes to staff, as they are considered unfair, or not clear and open enough.

The full report can be accessed by clicking on the cover

Creating and operating a successful fire trading company – A Grant Thornton report

How fire trading companies can combat austerity

In October 2018, Grant Thornton released a report which contained a study of fire trading companies (FTCs). In our latest study we have researched a range of FTCs, from those reported as being successful to lessons learned from those that have encountered challenges and ceased to trade.

Of the 48 fire and rescue services in England and Wales, only 31% have an FTC. In comparison, 60% of local authorities have at least one trading company. This could be attributed to several factors, such as a lack of willingness to trade; the restricted, specialist and competitive market in which FTCs operate; and the fact that some FTCs have ceased trading.

The report found that the most successful FTCs are not just financially sustainable but are also providing social value and wider benefit to their local communities. They tend to be larger companies who understand the commercial market in which they operate, are able to capitalise on their specialist skills and are looking for ways to expand and widen their activities.

The report goes on to consider some of the key success factors in running an FTC, including clarity on the rationale for setting up an FTC, ensuring sustainable income streams, creating the right culture, and establishing effective governance arrangements, amongst others.

The report also lists six case studies, which are all FTCs. Some of the successful FTCs are able to have more autonomy from the fire service in meeting their objectives, with ring fenced profits being able to be invested in community projects based on the objectives of the board of the FTC.

Some smaller FTCs also have significant impact on reducing the strain on the public purse, for example by providing training to delegates in improving fire safety and reducing risk

Setting up a fire trading company

FTCs can provide opportunities to generate additional income, utilise spare capacity within the fire and rescue service (FRS), offer a social return and improve fire safety. For example, through bidding for work to provide services outside of their own authority. But while some FTCs are competing successfully and are on a growth trajectory, others are less successful with uncertain futures.

Maintaining success

As with any successful commercial organisation, an FTC must be dynamic, flexible and adapt to changing market forces. It needs to review and develop its commercial acumen and culture on an ongoing basis. And this need to be commercial and sustainable must be recognised by both leadership and staff.

The full report can be accessed by clicking on the cover

Links

Grant Thornton website links

https://www.grantthornton.co.uk/

http://www.grantthornton.co.uk/industries/publicsector

https://www.grantthornton.co.uk/en/insights/a-caring-society/

https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/

https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/

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Grant Thornton

External Audit Plan

Year ending 31 March 2019

Somerset Pension Fund

31 January 2019

Contents

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Somerset Pension Fund (‘the Fund’) for those charged with governance.

Respective responsibilities

The National Audit Office (‘the NAO’) has issued a document entitled Code of Audit Practice (‘the Code’). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Somerset Pension Fund. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Fund’s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee).

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities.

Our audit approach is based on a thorough understanding of the Fund's business and is risk based.

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management override of controls • The revenue transactions include fraudulent transactions (this is rebutted, please see page 6) • Valuation of Level 3 Investments We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined materiality at the planning stage of our audit to be £20.6m (PY £19.7m) for the Fund, which equates to 1% of your prior year net assets. We are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. Clearly trivial has been set at £1m (PY £985k).
Audit logistics	Our interim visit will take place in January and our final visit will take place in June. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be £18,371 (PY: £23,859) for the Fund, subject to management meeting our requirements set out on page 11. Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Key matters impacting our audit

External Factors

SI 493/2018 – LGPS (Amendment) Regulations 2018

Introduces a new provision for employers to receive credit for any surplus assets in a fund upon ceasing to be a Scheme employer. This could potentially lead to material impacts on funding arrangements and the need for updated of Funding Strategy Statements.

Guaranteed Minimum Pension (GMP)

- Pension funds are continuing to work through the GMP reconciliation process.
- In January 2018 the government extended its "interim solution" for indexation and equalisation for public service pension schemes until April 2021. Currently the view is that the October 2018 High Court ruling in respect of GMP equalisation is therefore not likely to have an impact upon the LGPS.

Page 224

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of IFRS 9 Financial Instruments. In practice, IFRS 9 is anticipated to have limited impact for pension funds as most assets and liabilities held are already classed as fair value through profit and loss.

The Pensions Regulator (tPR)

tPRs Corporate Plan for 2018-2021 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes and TPR has chosen the LGPS as a cohort for proactive engagement throughout 2018 and 2019.

Internal Factors

New audit methodology

We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation and more easily incorporate our knowledge of the Pension Fund into our risk assessment and testing approach.

Funding levels

In September 2018 GAD published a review of the funding levels across the LGPS funds. This report highlighted the fund as having an amber flag in relation to its funding level.

Pooling arrangements

On 18 July 2017 the Brunel Pension Partnership Local Government Pension Scheme (LGPS) Funds formally created BPP Ltd, a £27.5 billion investment company. The company, a FCA regulated entity, implements the asset allocation strategies for the 10 member LGPS Funds. Under these new arrangements, the Somerset Pension Fund retains responsibility for setting its investment strategy (or asset allocation), as well as the funding and administration strategies. The company structure has been in place and operational from April 2018.The transition to the Brunel portfolios began in 2018 and will take at least 2 years. In July 2018, the Fund allocated and moved over £500m of assets to Brunel's passive global equity fund and a further £400m was moved to the active UK equity fund in November.

Our response

- We will continue to monitor the position in respect of GMP equalisation and reconciliation. For pension funds the immediate impact is expected to be largely administrative rather than financial.
- We will follow up our previous agreed action plan and consider the progress the Fund has made.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.
- We will keep under review any interaction the Fund has with tPR and tailor our audit approach accordingly.

- You will see changes in the terminology we use in our reports that will align more closely with the ISAs
- We will ensure that our resources and testing are best directed to address your risks in an effective way.

- We have noted the amber flag on the funding level, however do not consider this a significant risk to the audit. We will continue to monitor the overall funding level via our regular discussions with officers.
- Whilst we do not consider the transfer of assets to the pool as a significant risk we will tailor our approach to gain assurance in respect of the completeness and accuracy of the transactions.

Audit approach

Use of audit, data interrogation and analytics software

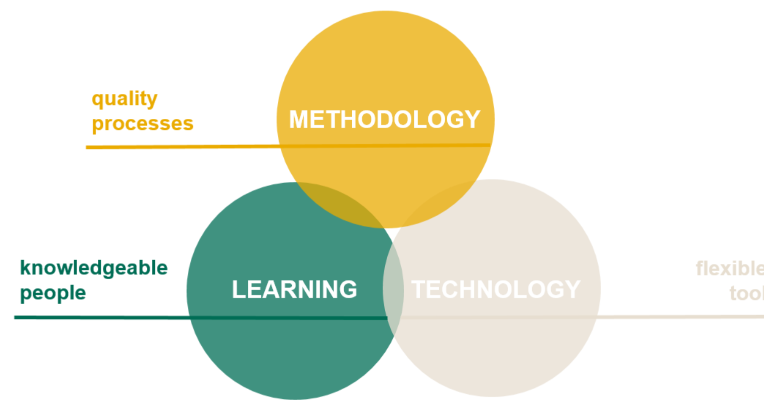
LEAP

Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft

IDEA

- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively



Appian

Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Revenue transactions include fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Somerset as the Administering Authority of Somerset Pension Fund, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Somerset Pension Fund.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The valuation of Level 3 investments is incorrect	Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2019. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2019 with reference to known movements in the intervening period and • in the absence of available audited accounts, we will evaluate the qualifications, competence, capabilities and objectivity of the valuation expert and gain an understanding of how the valuation of these investments has been reached.

Page 227

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

The Fund is administered by Somerset County Council (the ‘Council’), and the Fund’s accounts form part of the Council’s financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Fund, such as:

- We read any other information published alongside the Council’s financial statements to check that it is consistent with the Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
  - issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Fund’s ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

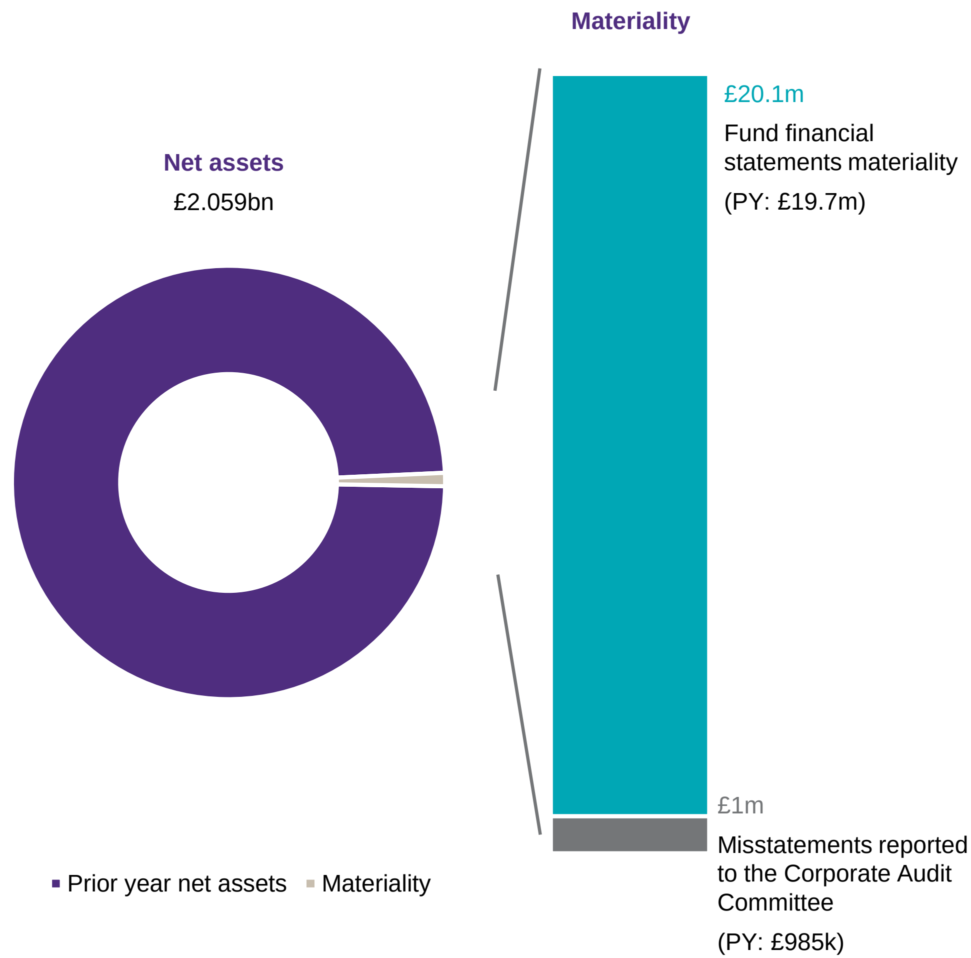
We have determined materiality at the planning stage of our audit to be £20.1m (PY £19.7m) for the Fund. We consider the proportion of the net assets of the Fund to be the appropriate benchmark for the financial year. In the prior year we used the same benchmark. Our materiality equates to 1% of your net assets for the year ended 31 March 2018.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

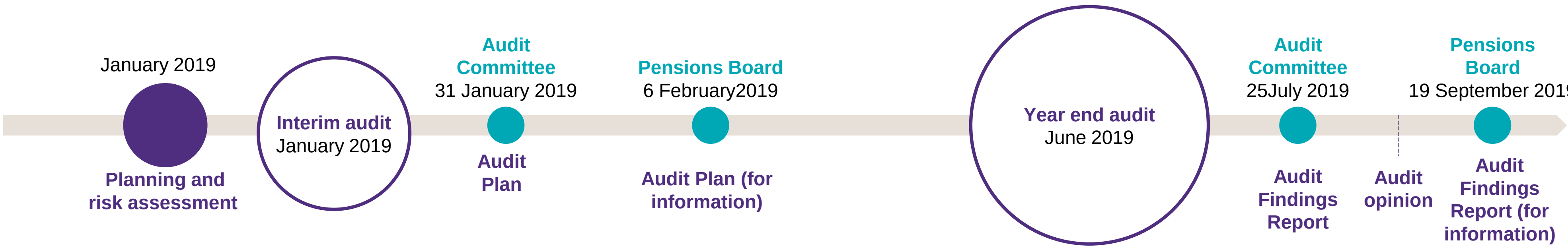
Matters we will report to the Corporate Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1m (PY £985k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Audit Committee to assist it in fulfilling its governance responsibilities.



Audit logistics, team & fees



Page 230

Peter Barber, Engagement Lead

Peter's role will be to lead our relationship with you. He will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Fund.

David Johnson, Audit Manager

David's role will be to act as a key contact with the Chief Financial Officer and the Audit Committee. He will be responsible for the overall management of the audit.

Steph Thayer, In Charge Auditor

Steph's role will be to act as the day-to-day contact for the Fund finance staff. She will take responsibility for ensuring there is effective communication and understanding of audit requirements.

Audit fees

The planned audit fees are £18,371 (PY: £23,859) for the financial statements audit completed under the Code, which are in line with the scale fee published by PSAA. There is no non-Code (as defined by PSAA) work planned. In setting your fee, we have assumed that the scope of the audit, and the Fund and its activities, do not significantly change.

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations will need to be approved by PSAA.

Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts in England was brought forward to 31 July. Wales and Scotland currently have different deadlines but there is convergence towards earlier close. This is a significant challenge for Pension Funds and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors there is a shorter period to complete our work and an even more significant peak in our workload than previously.

Somerset Pension Fund presented their draft accounts for audit by the beginning of June, as they had for the previous two years, enabling us to sign off against the accounts by 31 July, the statutory deadline. We therefore have confidence that both the Pension Fund and ourselves are well placed to continue achieving the requirements under the regulations

Page 231

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 10). Where the elapsed time to complete an audit exceeds that agreed due to a client not meetings its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund. . The following audit related services were identified.

Service	£	Threats	Safeguards
Audit related			
Audit of Brunel Pension Partnership Limited (BPP)	40,000	None	We do not consider that the Audit of BPP is a threat to our independence as Somerset Pension Fund cannot exercise control over BPP. The audit of BPP is carried out by a specialist team, authorised by the Financial Standards Authority. The Fee of £40,000 is not significant compared to the audit fees of the ten participating pension funds.
Non-audit related			
None			

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External Audit Plan

Year ending 31 March 2019

Somerset County Council

31 January 2019

Contents

Page 236

Your key Grant Thornton team members are:

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Somerset County Council ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Somerset County Council. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation.

Page 237

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • The revenue cycle includes fraudulent transactions (this is rebutted, please see page 5) • Management override of controls • Valuation of pension fund net liability • Valuation of property, plant and equipment We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £14.3m (PY £15.1m) for the Authority, which equates to 1.75% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £713k (PY £755k).
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks: • Sustainable Resource Deployment: Future financial sustainability
Audit logistics	Our interim visit will take place in February and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. The scale fee for the audit is £76,902 (PY: £111,209 (including additional fee)). The proposed fees for the year will be in excess of the scale fee due to the expanded work under financial sustainability. Our fees are also subject to the Authority meeting our requirements set out on page 12.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Key matters impacting our audit

Factors

Sustainable Resource Deployment: Future financial sustainability

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. This is the environment in which you operate.

In 2017/18 our work on Strategic Financial Planning concluded that the council did not have proper arrangements in place to ensure sustainable resource deployment. Specifically, we reported that your financial health had deteriorated in year due to continued overspending, predominantly in the area of children and families. This necessitated further use of already depleted reserves that left the council with limited capacity to fund any further overspending. On this basis we issued a qualified 'adverse' value for money conclusion and made seven value for money recommendations.

Since our reporting last year we note the increased momentum aimed at addressing the budget challenges the council faces. In particular the greater focus on clear and timely budget monitoring, greater scrutiny and challenge and the rebasing of the children and families services budget to reflect more realistic cost pressure assumptions. We are also encouraged by the difficult decisions taken in September to make further savings. We note the continued improvement in projected 2018/19 revenue position to month 8, with the council now projecting a small underspend for the year.

Despite this significant challenges remain. The improved in year position has been achieved, in part by non recurring savings, and the 2019/20 budget is estimated to require the delivery of £15m of further savings. Your level of reserves remain a concern and, although we recognise that the month 8 report states that they will be partially replenished in year, continued efforts are required to ensure that the council repositions itself on a sustainable financial footing.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

Our initial discussions with officers suggest that this will have a non material impact on the accounts, however we have requested a specific working paper demonstrating how the impact of each standard has been considered.

New audit methodology

- We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation and more easily incorporate our knowledge of the Authority into our risk assessment and testing approach.
- We can ensure that our resources and testing are best directed to address the risks we identify in an effective way.

Our response

As part of our VFM conclusion work we will:

- continue to meet monthly with your finance team to understand how the financial arrangements are being strengthened and to assess progress against our seven recommendations
- review the council's budget process including assumptions in the rebased 2018/19 budget to ensure that these are robust and fit for purpose.
- attend relevant meetings and review in year financial reporting to ensure transparency in reporting and understand how financial performance is challenged and what corrective action, where appropriate, is taken
- review the financial outturn for 2018/19 to assess delivery against budget and planned savings
- review your 2019/20 budget setting process and the assumptions within the MTFS
- review the financial position of the council at 31 March 2019

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions with your finance team
- We have invited members of your Finance Team to our Local Government Chief Accountant Workshop, due to take place on 7 February 2019 in Bristol.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- You will see changes in the terminology we use in our reports that will align more closely with the ISAs.
- We will ensure that our resources and testing are best directed to address your risks in an effective way.

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Somerset County Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Somerset County Council.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will:. • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions • Review assurances from the Audit Committee and management in relation to fraud, law and regulations

Page 239

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of property, plant and equipment	The Council revalues its land and buildings on an rolling basis, with assets revalued at least every five years, to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement. .	We will undertake: • Review of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • Consideration of the competence, expertise and objectivity of any management experts used. • Discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • Evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out • Undertake procedures to confirm the reasonableness of the actuarial assumptions made. • Check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary

Page 240

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Going Concern	As Auditor's we are required to "obtain sufficient audit evidence" about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern. As set out on page 4 and 10 the Authority continues to face significant financial challenges. This increases the risk of the need to disclose any material uncertainties that may cast doubt over the Authority's ability to continue as a going concern in the financial statements. Given the sensitive nature of any disclosures, we have identified this as a key matter for the audit.	We will: • Hold discussions with officers about the financial standing of the council • Review management's assessment of the going concern assumptions and supporting information e.g. 2019-20 and 2020-21 budgets and cash flow forecasts and associated sensitivity analysis • Review the completeness and accuracy of any disclosures on material uncertainties with regards to going concern in the draft financial statements

Page 241

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
    - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

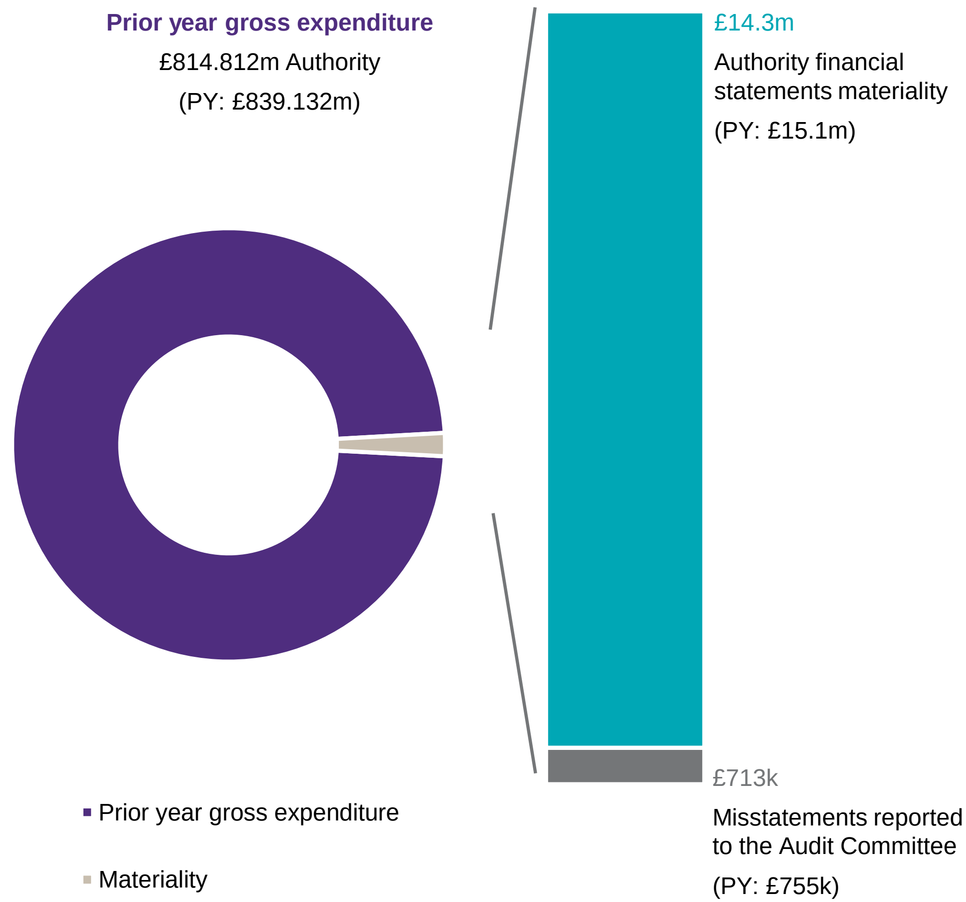
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £14.3m (PY £15.1m) for the Authority, which equates to 1.75% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £20,000 for senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £713k (PY £755k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

Background to our VFM approach

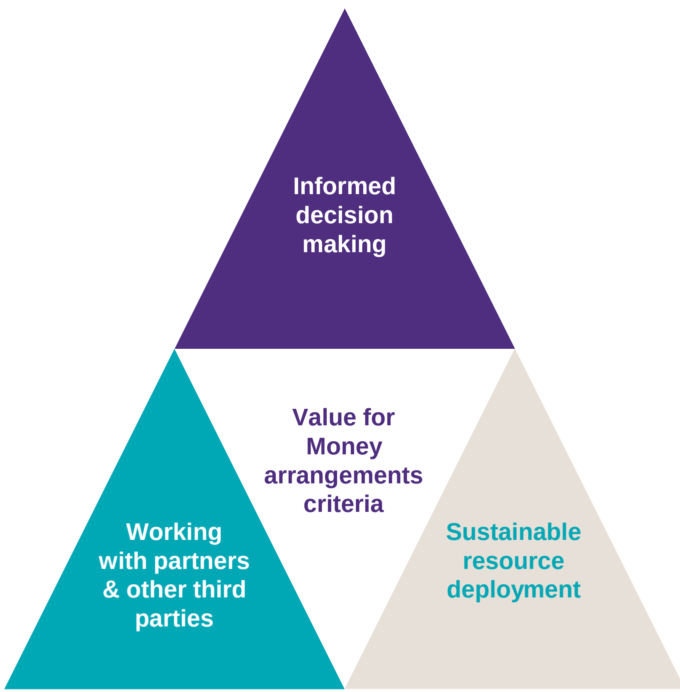
The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:

Page 244



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.

Sustainable Resource Deployment: Future financial sustainability

In 2017/18 our work on Strategic Financial Planning concluded that the council did not have proper arrangements in place to ensure sustainable resource deployment. Specifically, we reported that your financial health had deteriorated in year due to continued overspending, predominantly in the area of children and families. This necessitated further use of already depleted reserves that left the council with limited capacity to fund any further overspending. On this basis we issued a qualified 'adverse' value for money conclusion and made seven value for money recommendations.

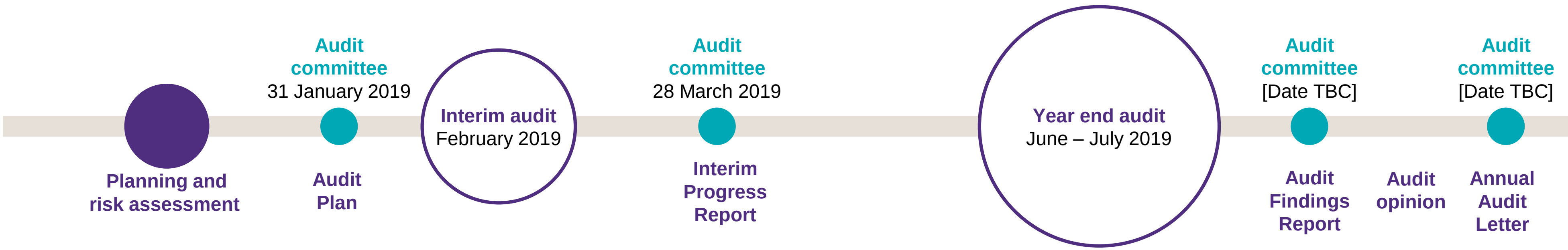
Since our reporting last year we note the increased momentum aimed at addressing the budget challenges the council faces. In particular the greater focus on clear and timely budget monitoring, greater scrutiny and challenge and the rebasing of the children and families services budget to reflect more realistic cost pressure assumptions. We are also encouraged by the difficult decisions taken in September to make further savings. We note the continued improvement in projected 2018/19 revenue position to month 8, with the council now projecting a small underspend for the year.

Despite this significant challenges remain. The improved in year position has been achieved, in part by non recurring savings, and the 2019/20 budget is estimated to require the delivery of £15m of further savings. Your level of reserves remain a concern and, although we recognise that the month 8 report states that they will be partially replenished in year, continued efforts are required to ensure that the council repositions itself on a sustainable financial footing.

We will review the actions taken in response to our recommendations last year.

We will review monitoring arrangements, including the robustness of the Council's Medium Term Financial Plan, the delivery of the 2018/19 budget, and the action taken when plans are not being delivered.

Audit logistics, team & fees



Peter Barber, Engagement Lead

Peter leads or relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council

David Johnson, Audit Manager

David plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues

Aditi Chandramouli, Audit Incharge

Aditi's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively, efficiently and supervises and co-ordinates the on-site audit team

Audit fees

The scale audit fee for 2018/19 is £76,902 (PY: £111,209) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

As additional audit work is required to address the risk relating to financial resilience within the VfM review, we will need to charge fees in addition to the audit fee. Any additional fees will be discussed and agreed with management and subsequently with PSAA for final approval.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

Somerset County Council presented their draft accounts for audit by the beginning of June, as they had for the previous two years, enabling us to sign off against the accounts by 31 July, the statutory deadline. We therefore have confidence that both the Council and ourselves are well placed to continue achieving the requirements under the regulations

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 11). Where the elapsed time to complete an audit exceeds that agreed due to a client not meetings its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Non-audit services

The following non-audit services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Teacher's Pension return 2017/18 for Somerset County Council	£4,200	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,200 in comparison to the total fee for the audit of £111,209 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of School Centred Initial Teacher Training for Somerset County Council	£3,700	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,700 in comparison to the total fee for the audit of £111,209 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.
None of the services provided are subject to contingent fees.

Appendices

 | External Audit Plan for Somerset County Council | 2018/19

Audit approach

Use of audit, data interrogation and analytics software

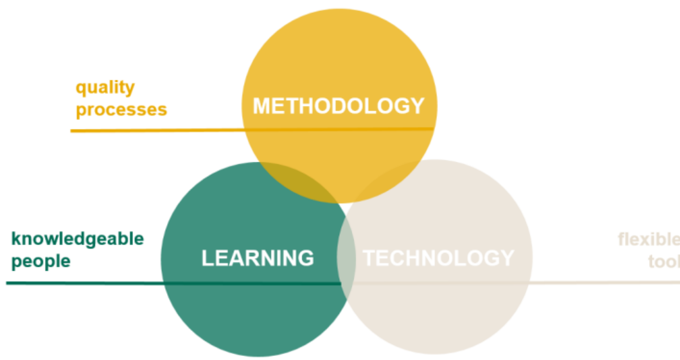
LEAP

Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses

A cloud-based industry-leading audit tool developed in partnership with Microsoft

Page 249



Inflo

Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.

REQUEST & SHARE
- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring

ASSESS & SCOPE
- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment

VERIFY & REVIEW
- Automate sampling requests
- Download automated work papers

INTERROGATE & EVALUATE
- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs

FOCUS & ASSURE
- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance

INSIGHTS
- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

IDEA

- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian

Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

2017/18 Action plan

We made 7 VFM recommendations to the Council as a result of issues identified during the course of our value for money audit in 2017/18. We have agreed our recommendations with management and we will report full progress on these in our audit findings report in July 2019. Set out in the table below is our high level commentary on progress to date based on our work to date. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Recommendation	Progress
●	1. The council should review the format of its budget setting, monitoring and outturn reports to ensure they maximise the ability of both officers and members to understand and challenge delivery against budget. As part of this process, members should be consulted with to determine what they would like to see and, in particular, how risks to non-delivery will be flagged.	We note the revisions to the in year monitoring reports. Further explanation has been added to finance reports to provide clearer and more detailed information.
●	2. The council should consider what is a realistic and achievable base budget for each service area, having regard to the previous year's performance. As part of this process, consideration should be given, to what level of contingency, if any, should be set aside for unexpected pressures versus direct service line allocation.	The Council continue to work on budgeting and have undertaken an exercise in September 2018 to rebase the children and families services budget to reflect more realistic cost pressure assumptions. Work includes consideration of peopletoo findings. We will review the assumptions in the 2019/20 budget once agreed by full council at the end of February 2019.
●	3. The council should ensure that there is consistency of reporting between budget setting and monitoring with a clear approach to how savings are identified, quantified financially and monitored. If annual savings are to be identified on a thematic basis, they should also be monitored on a thematic basis. Where savings are built into service line budgets, a full reconciliation should be provided to show how these impact on thematic savings targets	Savings programme is directly monitored by the Chief Executive and is included as a standing item within SLT meetings. Rebasing of budget identified a further £13m of savings required in 2018/19 which the Council has addressed and included in the updated forecast. We will review delivery of your original and additional savings programmes for 2018/19 at the year end.
●	4. Committees and meetings responsible for monitoring financial delivery should explicitly minute the challenge and actions taken, where necessary, in response to in year overspends. These should be followed-up at the next meeting to ensure the proposed action is having the desired effect and to inform what further action, if any, is needed.	SLT meetings are minuted and actions are brought forward to the following meeting. Savings monitoring will be the means by which members, scrutiny committees and the Cabinet can monitor and challenge spending. We attended, as an observer, the December 2018 Cabinet and Senior Leadership Team meeting. We observed constructive challenge to the projections and assumptions both for the 2018/19 and the draft 2019/20 budget.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan

We have identified 7 of recommendations for the Council as a result of issues identified during the course of our value for money audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Recommendation	Progress
	5. Reporting of financial performance to members should be transparent and understandable and include greater analysis of areas such as use of reserves or grants and application and achievement of transformational projects through the use of capital flexibilities.	Reporting to cabinet includes reserves position and forecast outturn. We understand that bespoke reporting to scrutiny committees on the forward year budget will occur in January 2019 and senior management continue to work with members in order to ensure all messages are fully communicated
	6. Capital flexibilities should be reported and monitored in line with Central Government guidelines. All identified projects should be included in the budget process and approved prior to the financial year along with achievement against prior year projects. In-year reporting should update for any changes including newly identified projects or those projects that are delayed or unlikely to deliver	Use of capital flexibilities within the budget has increased and will be used to cover a number of transformational costs in 2018/19. Further evidence will be required to demonstrate how members are being informed of progress at an individual project level and any changes to the plan.
	7. The S151 officer in his/her annual reporting under Section 25 of the LG Act 2003 on the adequacy of reserves should clearly articulate their view on the adequacy of both general fund and other reserves (including earmarked reserves) along with any proposed actions to strengthen these going forward. As part of this process, consideration should be given, to the appropriateness of holding negative earmarked reserves.	General fund reserve position is reported to Cabinet as part of the financial reporting process. The current forecast is a year end position of £7.8m in general fund after taking account of the negative earmarked reserves. We will review and comment on the adequacy of the Section 25 report once completed as part of the 2019/20 budget setting process. We will review the reserves disclosures in the draft 2018/19 financial statements once received.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

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Somerset County Council
Audit Committee 31 January 2019

Audit Findings Report - Recommendations Tracker

Service Director: Peter Lewis, Interim Director of Finance
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Cabinet Member: Cllr Mandy Chilcott, Cabinet Member for Resources
Division and Local Member: All

1. Summary/link to the County Plan

1.1. At the July 2018 Audit Committee, as part of their Audit Findings Report, Grant Thornton, our external auditors made a number of recommendations for improvement in areas such as budget monitoring and setting.

1.2. In September 2018, when this tracker was first brought to Audit Committee, members confirmed that they wished to see this at every public meeting thereafter, to take the necessary assurance that suitable progress is being made to address these recommendations.

2. Issues for consideration

2.1. Members are asked to consider the tracker document and the progress to date (Appendix 1 to this report).

2.2. Members are asked to consider any further information that would provide further assurance that these processes are being improved at future Audit Committee meetings.

3. Background

3.1. In response to the 7 new recommendations made by the external auditor in July, a written management response was provided, and a number of commitments have been made to improve the processes.

These responses have been loaded in JCAD, our risk management system, which will be the necessary tracking and reporting mechanism, in a format that will be familiar to members from the regular Risk Management reports.

The external auditor’s report and recommendations were primarily in relation to his concerns about sustainable resource deployment, which is a National Audit Office set criterion under his Value For Money work. Any decisions that will be necessary to rectify the current financial situation and to address the auditor’s concerns about financial sustainability will follow the usual Cabinet and Scrutiny route, with decisions being taken according to the normal decision-making processes and following due consideration of impacts.

However, there is a key role for the Audit Committee (in its governance role) to ensure that the external auditor’s recommendations are being responded to, and that the suitable processes are being implemented.

3.2. Since the November meeting, progress continues to be made in a number of areas as set out in the tracker. Members are asked to note in particular:-

i) Robust control of the 2018/2019 in-year budget has resulted in the previously projected overspend being reduced and moved into a projected underspend. More detailed and transparent budget monitoring is now being provided, and the frequency of reporting, particularly to Scrutiny, has been increased to monthly. Additional detail will be provided for the Quarter 3 budget monitoring report.

ii) All budget areas have been reviewed to ensure that the 2019/2020 budgets can be approved knowing that unavoidable pressures are being funded, and that previously undeliverable MTFP savings have been identified and reversed. There has been a deliberate move away from cross-cutting thematic savings to improve ownership of proposals that will come to members. The MTFP reporting will also include more information on expenditure to be met from Capital Receipt Flexibilities. Bespoke Scrutiny reports for each Committee have been created to further aid understanding and challenge of the 2019/20 budget proposals.

iii) The rollout of budget management training to relevant officers has continued. The latest figures from the LGA trainer's courses is that 72% of the targeted group of budget holders have now attended the course. 91% of the attendees have rated the course as good or very good, and 95% said that the trainer delivered the content effectively and met the group's needs. Plans are now being put in place to train SCC staff to be able to run the course in the future, and to complete the remaining budget holders in the process.

4. Consultations undertaken

4.1. Officers hold regular meetings with the external auditor, where progress against these recommendations will now form a key part of the discussions.

5. Implications

5.1. A positive response to the recommendations made should be reflected in the external auditor's subsequent reports to the Audit Committee and should provide the benefits as set out in his July report.

In their report to the Audit Committee in July 2018, Grant Thornton concluded that they were "unable to state that Somerset County Council has proper arrangements in place to ensure sustainable resource deployment …" . They then issued an adverse 2017/18 value for money conclusion and stated that they had "considered the need to exercise our wider auditor powers. At this stage, we have decided not to exercise these powers, but will consider the need to issue a 'statutory recommendation' under section 24 (Schedule 7) of the Local Audit and Accountability Act, should arrangements at the council not improve and/or further significant overspends emerge during the course of 2018/19." Therefore, taking swift and decisive action as set out in this report is an essential part of the response to the Grant Thornton findings.

6. Background papers

6.1. External auditor's Annual Findings Report to Audit Committee and Management Response document from the Audit Committee meeting of 26th July 2018.

Note For sight of individual background papers please contact the report author

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Risk Register Business Unit Display - GT VFM Tracker

Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
GTVFM0001 **Risk Owner:** Peter J Lewis **Next Risk Review Date:** 20/02/2019	**Risk Description:** External Audit - VFM: The council should review the format of its budget setting, monitoring and outturn reports to ensure they maximise the ability of both officers and members to understand and challenge delivery against budget. As part of this process, members should be consulted with to determine what they would like to see and, in particular, how risks to non-delivery will be flagged. **Cause:** **Consequence:**		**Review and improve further our Budget Monitoring reports and how they link back to our budget setting documentation.** Budget Monitoring reports to include favourable and adverse variances separately in Quarter 1 (September) and more explanations of the reasons behind such variances. Use of reserves and capital receipts flexibilities to be shown as separate values. Interim, briefer reports now prepared on a monthly basis with more detailed reports on a quarterly basis. Month 6 report explains the budget movements caused by the cabinet decisions in Sept 2018. Risk Management report to Audit Committee (September and onwards) to include update on this Action Plan. *In Progress* (50% complete)	**Peter J Lewis** 14/02/2019 *29/03/2019*	Likelihood : Impact : 0	Likelihood : Impact :	02/01/2019 02 01 2019 Improvements to the budget monitoring reports have been well received by members of Scrutiny and Cabinet; robust control of the budget is being shown to reduce the projected overspending in 2018/19. Preparation of the 2019/20 revenue budget has been undertaken in a thorough manner, with a detailed challenge of prior year savings and future pressures to ensure that all issues are understood and mitigated where possible.
GTVFM0002 **Risk Owner:** Peter J Lewis **Next Risk Review Date:** 22/02/2019	**Risk Description:** External Audit - VFM: The council should consider what is a realistic and achievable base budget for each service area, having regard to the previous year's performance. As part of this process, consideration should be given, to what level of contingency, if any, should be set aside for unexpected pressures versus direct service line allocation. **Cause:** **Consequence:**		**Financial Imperative programme to turn around current in-year overspends with budget reductions** 31/10/2018: In-year savings proposals were presented to, and agreed by , the Cabinet on 12 Sept 2018. These proposals have now been applied to the budgets and are reported in the month's 6 monitor to Cabinet in November. Rigorous controls are in place to ensure that the savings are delivered according to plan reducing the overspend to £3m. *In Progress* (70% complete)	**Peter J Lewis** 13/02/2019 *29/03/2019*	Likelihood : Impact : 0	Likelihood : Impact :	02/01/2019 02 01 2019 A detailed review of each budget area has been undertaken in preparing the 2019/20 budget in order to identify pressures and to identify prior year unachievable savings amongst other challenges. it is now believed that the 2019/20 budget will be based upon sound budgeting principles. The next stage is to seek members' agreement to the proposals for the budget.

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
				° **Refreshing 2019/20 Medium Term Financial Plan - Development and Approach,** Report delivered to Cabinet on 17th October on "2019/20 Medium Term Financial Plan - Development and Approach", which identified a funding gap of £19m for 2019/20 & of £30m for the MTFP period. Work is now ongoing to address the gap *In Progress* (50% complete) ° **Establish a revised Financial Strategy** Establish this Autumn a revised Financial Strategy that is based upon a clear and better understanding of • Our future cost drivers (demographic growth, national cost benchmarking, output of the Peopletoo work to establish a meaningful base budget for Childrens Services) • Our future income opportunities (council tax and business rates, national initiatives such as business rate retention pilots, local opportunities through planning gain, other options including commercial and investment opportunities) • Rightsizing the Council's budget and further adjusting our service delivery accordingly, potentially cutting non-essential and critical services – informed by the Financial Imperative Programme. *In Progress* (60% complete)	**Peter J Lewis** 13/02/2019 *22/02/2019* **Peter J Lewis** 22/02/2019 *22/02/2019*			

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
	GTVFM0003 **Risk Owner:** Peter J Lewis **Next Risk Review Date:** 22/02/2019	**Risk Description:** External Audit - VFM: The council should ensure that there is consistency of reporting between budget setting and monitoring with a clear approach to how savings are identified, quantified financially and monitored. If annual savings are to be identified on a thematic basis, they should also be monitored on a thematic basis. Where savings are built into service line budgets, a full reconciliation should be provided to show how these impact on thematic savings targets **Cause:** **Consequence:**		**Review & improve budget monitoring reports & their links back to budget setting documentation** 31/10/2018: Monitoring reports have been revised and improved to ensure that financial information is conveyed to Members & the public more clearly. Further improvements to be made in coming months *In Progress* (20% complete)	**Peter J Lewis** 15/02/2019 *22/02/2019*	Likelihood : Impact : 0	Likelihood : Impact :	02/01/2019 02 01 2019 Monitoring reports have been revised and improved to ensure that financial information is conveyed to members & the public more clearly. These improvements appear to have been well received. There has been a move away from thematic savings due to the potential dangers of double counting or lack of ownership that they present. It is intended that the Q3 report is even more comprehensive, being the final, major monitoring report of the year.
	GTVFM0004 **Risk Owner:** Peter J Lewis **Next Risk Review Date:** 10/02/2019	**Risk Description:** External Audit - VFM: Committees and meetings responsible for monitoring financial delivery should explicitly minute the challenge and actions taken, where necessary, in response to in year overspends. These should be followed-up at the next meeting to ensure the proposed action is having the desired effect and to inform what further action, if any, is needed. **Cause:** **Consequence:**		**Discuss with Democratic Services to ensure challenges & actions are expressly minuted.** Discussions with Democratic Services have lead to increased detail in the minutes of the meeting. Officers & Members are also more conscious of provoking and inquisitive debate. There is also an audio recording of every public meeting that is available. *In Progress* (10% complete)	**Peter J Lewis** 12/02/2019	Likelihood : Impact : 0	Likelihood : Impact :	10/01/2019 The Policies and Place Scrutiny Committee and the Cabinet have become more robust in challenging the monitoring report, especially in regard of delivery of the MTFP1 and MTFP2 savings. Often, reports to future meetings take account of the observations made at a previous meeting

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
	GTVFM0005 **Risk Owner:** Peter J Lewis **Next Risk Review Date:** 14/02/2019	**Risk Description:** External Audit - VFM: Reporting of financial performance to members should be transparent and understandable and include greater analysis of areas such as use of reserves or grants and application and achievement of transformational projects through the use of capital flexibilities. **Cause:** **Consequence:**		° **Review and improve further our Budget Monitoring reports, making them more transparent and understandable** We will review and improve further our Budget Monitoring reports and how they link back to our budget setting documentation. It is noted that our current format has previously served us well but given our current financial context we will seek to make them more transparent for all members to see our progress and recommendations. This will include a statement on the use of the Capital Receipts Flexibilities directive and a fuller disclosure of the transformation projects that are being considered for funding through this mechanism. *In Progress* (60% complete)	**Peter J Lewis** 14/02/2019	Likelihood : Impact : 0	Likelihood : Impact :	10/01/2019 The monitoring reports have been improved for clarity and ease of understanding and the quarterly report (next is Q3) will include details on reserves, CRF and the broader financial strategy. Presentations to members make the linkage between the projected outturn for 2018/19 and the prospects for 2019/20 including in regard of increased resilience.
	GTVFM0006 **Risk Owner:** Peter J Lewis **Next Risk Review Date:** 14/02/2019	**Risk Description:** External Audit - VFM: Capital flexibilities should be reported and monitored in line with Central Government guidelines. All identified projects should be included in the budget process and approved prior to the financial year along with achievement against prior year projects. In-year reporting should update for any changes including newly identified projects or those projects that are delayed or unlikely to deliver **Cause:** **Consequence:**		° **Review and improve our reporting of the use of Capital Receipt Flexibilities** There is improved reporting of the use of capital receipts in the monitoring reports. but there is more detail that can be supplied in future, especially around the impact of the transformational spending. A clear marker has been put down about reviewing all uses of CRF for the next financial year. *In Progress* (40% complete)	**Peter J Lewis** 14/02/2019	Likelihood : Impact : 0	Likelihood : Impact :	10/01/2019 There is considerable focus on this for the MTFP report for 2019/20, which will also comment on the spending of CRF for 2018/19. Attention is closely focused on making sure that there are strong business cases for the expenditure to be drawn from CRF and that the demand for capital receipts is reduced to the minimum necessary.

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
	GTVFM0007 **Risk Owner:** Peter J Lewis **Next Risk Review Date:** 22/03/2019	**Risk Description:** External Audit - VFM: The S151 officer in his/her annual reporting under Section 25 of the LG Act 2003 on the adequacy of reserves should clearly articulate their view on the adequacy of both general fund and other reserves (including earmarked reserves) along with any proposed actions to strengthen these going forward. As part of this process, consideration should be given, to the appropriateness of holding negative earmarked reserves. **Cause:** **Consequence:**		**Refreshing our 2019/20 Medium Term Financial Plan - Development and Approach** The Cabinet received a report on refreshing the MTFP at its meeting in October; this report revealed a £19m gap between anticipated spend and the level of budget provision. Work is now well advanced to identify proposals for change that, if agreed, will bridge the funding gap. Additional money has been granted to local government by the Government in the Autumn Statement; the precise impact of that is awaited at the time of this update. *In Progress* (30% complete)	**Peter J Lewis** 22/02/2019	Likelihood : Impact : 0	Likelihood : Impact :	02/01/2019 02 01 2019 A review of reserves, including the negative earmarked reserves, to identify movements in 2018/19 and projections for future years has been undertaken. Opportunities are being sought in both 2018/19 and in 2019/20 to replenish the General Fund and reduce or eliminate the negative earmarked reserves. Details will be described in the budget reports to Cabinet and Council.

Report Selection Criteria
Status Flag=ACTIVE - Business Unit Code=GTVFM

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Somerset County Council

21 January 2019

Risk Register Business Unit Display - GT VFM Tracker - GT VFM Support Tracker

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
GT VFM Support Tracker -	**GTVFMS0001** **Risk Owner:** Peter J Lewis **Next Risk Review Date:** 22/02/2019	**Risk Description:** Failure to deliver supporting actions identified at July 2018 Audit Committee **Cause:** **Consequence:**		º **Lobby central government for a fairer financial deal for Somerset, both immediately and for the Fairer Funding Review.** We will continue to lobby central government for a fairer financial deal for Somerset, both immediately and for the Fairer Funding Review. There are a number of inequalities that we believe need to be corrected around funding assumptions, not least the additional costs of a rural authority. We will press for greater certainty over funding after 2019/2020, without which longer term planning is rendered very difficult. 12/11/2018: Leader of the Council has sent letters to local MPs & during October met with all 5 Somerset MPs. In addition a short presentation based report has been prepared detailing where Somerset's cost pressures are coming from & suggestion & some asks that we would appreciate support on from our MPs *In Progress* (60% complete)	**Peter J Lewis** 22/02/2019 *22/02/2019*	Likelihood : Impact : 0	Likelihood : Impact :	02/01/2019 02 01 2019 Actions are in place to address the budget challenge for 2019/20 as described through the individual action records. They all need to be complete before the Council meeting in February 2019.

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
				º **Implement mandatory training programme for all budget holding managers & officers accountable for expenditure** LGA have agreed to fund a trainer to deliver a tailor-made course to all budget managers in the Autumn of 2018. SLT has agreed that the course is mandatory for budget holders. Part of the course will be delivered through Agreement reached with LGA trainer for courses to be piloted in early October and then rolled out to SLT, Strategic Managers, Service Managers and any other budget managers later in October. Course materials and content will be available for SCC to use in running further courses afterwards as required. SCC now has access to course documentation and is making them suitable for locally delivery and future use. 07/11/2018: Six budget monitoring training courses have been completed with 54 attendees, 8 more courses scheduled for November. The Learning Centre now has a finalised eLearning module on budget management. *In Progress* (50% complete)	**Peter J Lewis** 31/03/2019			
				º **Offer all-member training events on general and specific financial matters.** Finance to contact all members to get feedback on what financial topics would be appreciated in order for them to best be able to offer meaningful challenge 07/11/2018: Audit Training has taken place15 October 2018 & all SCC members were invited. Consideration is being given to an all member briefing on the budget/MTFP for 2019/20. *In Progress* (25% complete)	**Peter J Lewis** 14/02/2019			

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
				Seek financial solutions that are transformational in nature as opposed to simple service reductions 07/11/2018: The Financial Imperative Programme will continue alongside more acute interventions around budget spend and budget planning for 2019/20. There will also be discussions around the Council's "core offer" so that we can move towards that strategic goal. The intention is to have a 3-year, balanced MTFP presented to the Council in February 2019. *In Progress* (10% complete)	**Peter J Lewis** 31/01/2019			
				Requested Grant Thornton support to highlight examples of best practice elsewhere in their experience that would support us 07/11/2018: Grant Thornton have been asked for examples of best practice & are considering which other local authorities may be appropriate. 12/11/2018: Grant Thornton have contacted a number of colleagues for examples of best practice in terms of financial planning, monitoring & reporting. Kent have been put forward as a possible contact. *In Progress* (10% complete)	**Peter J Lewis** 14/02/2019			

Report Selection Criteria
Status Flag=ACTIVE - Business Unit Code=GTVFMS

Somerset County Council
Audit Committee - 31 January 2019

Risk Management Update

Lead Officer: Peter Lewis, Director of Finance and Scott Wooldridge, Strategic Manager-Governance and Risk
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Cabinet Member: Cllr Mandy Chilcott
Division and Local Member: All

1. Summary / link to the County Plan

1.1. This report contains the latest information, obtained from our risk management system JCAD, on the Strategic risks to SCC.

1.2. The management of risk has a direct link with the County Vision, Business Plan, the Medium Term Financial Plan, forms an integral part of the Annual Governance Statement (AGS) and is a major component of the External Auditor's Value for Money Audit. Risk management is an essential component of good corporate governance.

2. Items for consideration

That the Committee are assured that management actions and compliance are sufficient regarding:

2.1. The management of the Council's Strategic Risks (latest position dated 22 January 2019) is attached as **Appendix A**

2.2. Strategic risk **ORG0043** - Maintain a sustainable budget: Reserves will not be sufficient to manage any in-year overspends for the forthcoming financial year 2018/19. That we don't set a balanced budget for 2019/20. Risk that we don't have a short and medium term financial plan for SCC.

2.3. 2019 Review of the strategic risks. The Strategic Risks will be reviewed by the Senior Leadership Team during the next quarter. Further work is being undertaken ahead of 1 April 2019 to ensure that any new strategic risks are developed. To support this work, the attached table (**Appendix B**) shows the current strategic risks mapped to the Business Plan.

2.4. The SWAP Partial Audit Tracker Report, **Appendix C.** All internal audit reports that contain level 1 or 2 recommendations are tracked using JCAD. A number of follow-up audits are in progress.

3. Background

3.1. Strategic risk management is the process of identifying, quantifying, and mitigating any risk that affects or is inherent in an organization's business strategy, strategic objectives, and strategy execution.

The benefits of strategic risk management are
1. greater likelihood of achieving strategic objectives;
2. more systematic decision-making leading to better quality decisions;

3. improved allocation of resources.

3.2. Strategic risk **ORG0043** – Sustainable Budget (5x5(25) very high)
This strategic risk has been regularly reported to Audit Committee since early 2016 and remained a focus for assurance on management actions. This key risk includes the following risk areas:

1. Slippage or under achievement of the proposed savings within the 2018/19 budget as there are limited resources available to address any significant in-year overspends and maintain a sustainable budget;

2. The failure to address areas of overspend that are occurring in 2018/19, which may impact in the next financial year.

The Committee is aware that the :

- Government's continued deficit reduction programme has significantly reduced the levels of funding available to local government.
- The Council faces substantial on-going challenges to achieve a sustainable balanced budget due to this and the increasing demand on its key services, especially those for vulnerable children and adults.

At Cabinet on 23 January, the Section 151 Officer reported for the first time in this financial year, a projected revenue outturn underspend for 2018/19; of £0.921m. This projection is based upon actual spending to the end of November 2018 (month 8) and compares to the available budget of £317.882m. The last reported projection, based on spend to the end of October, was an overspend of £2.368m. It should also be highlighted that the contingency has a residual sum of £3.382m uncommitted at this stage.

The main change between the month 7 and month 8 projections is that a revised approach to the calculation of the Minimum Revenue Provision (MRP) has been applied, taking advantage of new and more flexible regulations. The MRP is a provision made in the accounts for the repayment of long term debt when it becomes due. The revised calculation has reduced the budget required for MRP by £4.178m in 2018/19. It is, however, important to recognise that the adoption of the MRP approach for 2018/19 (and future years) is subject to formal consideration by the Council in February 2019; should this approach not be approved at that time then the impact on the projected outturn for 2018/19 will need to be reassessed.

Controlling the 2018/19 budget has been a priority of the Council for several months and it is welcome that the focus and efforts are producing the benefit of a projected underspend. This is particularly important considering the challenging financial position the Council must address from 2019/20 onwards to ensure a financially sustainable position. Delivering robust control of current spending is essential to laying the foundations for managing a challenging budget for 2019/20. In addition, producing an underspend in 2018/19 will enable a partial replenishment of the reserves, which will improve the resilience of the Council and hence its ability to address the financial uncertainties beyond 1 April 2020.

Looking beyond 2018/19, the Council recognises the on-going financial challenges confronting it and hence the importance of setting a robust budget for 2019/20 as well as laying foundations for the financial plans for 2020/20 and 2021/22. That means that all the known funding and service demand pressures have been reflected in the budget alongside proposals for reducing spend and hence producing a balanced budget for 2019/20.

Against a gross revenue budget of more than £800m annually, and a net revenue budget need for 2019/20 of £338m, (as reported in December 2018), the MTFP Strategy paper to Cabinet in December 2018 showed that funding falls short of spending need by £28m across the next three years. This means the Council must consider what it delivers and how it is delivered to reduce spending in line with funding.

It is highlighted to the Committee that the Cabinet will be recommending a balanced budget for 2019/20 and this is due to be considered by Scrutiny Committees during January ahead of its consideration by Full Council on 20 February.

It is important that Members understand the risks to approved budgets, maintaining sufficient reserves, balances and contingencies as well as their ongoing management by the Senior Leadership Team including a range of mitigations to limit as much as possible potential impacts on core services, especially those prioritised in the County Plan. As savings become ever more difficult to identify and then deliver, it is imperative that expenditure is kept within existing budgets.

This Risk (ORG00043) has a broad perspective, encompassing both current year spending and future years' budgets. Hence, while the projected outturn position has improved and a balanced budget will be proposed for 2019/20, it is still not appropriate for the "likelihood" score to be reduced at this time given that there are more steps in the democratic process to resolve the budget for 2019/20.

3.3. During the next quarter, a workshop will be held to revise the strategic risks with SLT, to confirm that the 11 risks already identified are fit for purpose, if not, they will be closed down or if still a risk but no longer a strategic risk, moved to the service level risk register of the appropriate service area. The workshop will also;

1. Identify emerging risks, establish ownership, identify mitigation
2. Ensure the strategic risks are mapped to the Strategic Outcomes in the Business Plan.

All amendments and identified new risks will be recorded in JCAD

3.4. The Heat Map below maps the changes to the strategic risks since the last heat map reported to Audit Committee in September 2018.

5 - Very Likely (1)	0	0	15	0	25 **ORG0043**
4 – Likely (1)	0	0	12	16 (ORG0022)	0
3 – Feasible (9)	0		9 ORG0042	12 **ORG0022** ORG0002 ORG0007 (ORG0010) ORG0024 ORG0032	15 ORG0009 ORG0011 ~~ORG0040~~
2 – Slight (1)	0	0	0	8	10 ORG0001 **ORG0010**
1 - Very unlikely (0)	0	0	0	4	0
	1 Insignificant (0)	2 Minor (0)	3 Significant (1)	4 Major (6)	5 Critical (5)

15 January 2019 / 11 strategic risks / 2 moved in current score / 1 closed

ORG0022 – "ICT: Unintentional events, including changes to our IT system, or intentional attempts that damage our systems, property, reputation or one of our other resources". Risk owner has reduced the current score from 4x4(16) to 3x4(12) but has provided no explanation as to why.

ORG0010 – "Safeguarding Adults: We fail to deliver our statutory safeguarding activity in relation to adults". Risk owner has changed the current score from 3x4(12) to 2x5(10), the review summary states; "New strategic manager now in post responsible for safeguarding and mental health social care. Recent improvement in safeguarding referral rates performance, with Nov 2018 performance locally at 63.2%. We have also now had the national SAC report for 2017/18 published (Nov 2018) which shows that Somerset is comparing very positively with the national average for safeguarding conversions (38%), but also that the range of conversion rate varied dramatically across the different local authorities from 3.9% to 100%. Work being undertaken locally to target training and education at providers making highest inappropriate referrals to ensure our resources are spent most appropriately and effectively".

ORG0040 - "Benefit Realisation: Failure to deliver service transformation (financial and non-financial benefits), and necessary cost savings, performance improvements, and legislative changes requiring significant service re-design through our Core Council Programme". Risk owner has closed this risk, closing comments state "Closed as superseded by ORG 0043- Maintaining a sustainable budget. Service transformation and necessary cost savings now being managed through the FIT intervention. Actions associated with this risk are complete”.

4. Consultations undertaken

4.1. Each relevant SLT Director is responsible for reviewing their risks, in many cases in conjunction with the Risk Manager, and assuring themselves that the actions for mitigation are appropriate and delivering the expected outcome, as outlined in the Councils Risk Management Policy. Peter Lewis, Interim Director Finance

5. Implications

5.1. How successful we are in dealing with the risks we face can also have a major impact on the achievement of our business outcomes and the delivery of services.

6. Background papers

6.1. Councils Risk Management Policy & Strategy – approved by Cabinet on 19 October 2016
Medium Term Financial Strategy 2019 – 2022 – Cabinet meeting on 19 December 2018
Revenue Budget Monitoring Update – Cabinet meeting on 23 January 2019

Note: For sight of individual background papers please contact the report author.

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Strategic Risk Report - Somerset County Council (SLT) Appendix A

Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner / Review Date / *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
ORG0043 **Risk Owner:** Peter J Lewis **Next Risk Review Date:** 20/02/2019	**Risk Description:** Strategic Risk 2018: Maintain a sustainable budget: Reserves will not be sufficient to manage any in-year overspends for the forthcoming financial year 2018/19. That we don't set a balanced budget for 2019/20. Risk that we don't have a short and medium term financial plan for SCC. **Cause:** Unforeseen expenditure and overspends exceed the planned provision. Potential misunderstanding of, or assumptions around, ownership of budgets and savings **Consequence:** A balanced budget has been set for 2018/19 but there is considerable risk that not all savings will be achieved and overspends may exceed contingency and reserves. There is a set of actions to keep this in check. Savings overestimated resulting in a financial gap. Financial savings are double counted	Likelihood :5 Impact :5 25 Red - V. High Risk	o **FIT-Heightened budget monitoring on those services showing budget overspend** Part of the 10 point plan, in progress; Childrens services budget reviewed and rebased for 2018/19 & 2019/20. All proposals for change agreed by Cabinet in Sept 2018 now implemented in month 6 monitoring, which means new control totals for which are of the budget. Projected outturn overspend now reduced to £3.2m Scrutiny Policies & Place have requested monthly monitoring updates and these will also be presented to Cabinet *In Progress* (90% complete) o **FIT-Cabinet receive monthly budget monitoring updates** Part of the 10 point plan, in progress; reports are delivered, but are showing increasing pressure on the budget 2018/19. On 11th sept it was agreed that Scrutiny committee for policies & Place would also receive monthly monitoring reports. Monthly monitoring is now in place for Cabinet & Scrutiny, with the latter showing a particular interest in Children Services spending *In Progress* (90% complete)	**Peter J Lewis** 02/02/2019 *20/02/2019* **Peter J Lewis** 02/02/2019 *20/02/2019*	Likelihood :5 Impact :5 25 Red - V. High Risk	Likelihood :4 Impact :5 20 Red - V. High Risk	02/01/2019 02 01 2019 Robust actions and detailed monitoring will produce at least a balanced outturn for 2018/19 - there may even be an underspend with a contribution to reserves. A robust budget is being prepared for 2019/20, that will not rely on any withdrawal from the General Fund. Strategic Risk 2016: Maintain a sustainable budget: Reserves will not be sufficient to manage any in-year overspends for the forthcoming financial year 2018/19. That we don't set a balanced budget for 2019/20. Risk that we don't have a short and medium term financial plan for SCC.

Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
			FIT-Review of the earmarked reserves to establish if any of those could be rescinded and returned to general reserves Part of the 10 point plan, in progress; review has been undertaken by Dir. Finance and latest situation is reported in Sept Cabinet report. Monitoring of reserves will be ongoing. Monitoring of reserves continues on a monthly basis, with a particular emphasis for production of the budget reports for 2019/20 *In Progress* (90% complete)	**Peter J Lewis** 25/02/2019 *20/02/2019*			
			FIT-Development & approval of MTFP 2019/2020 - ensure necessary resources are in place to meet key priorities Initial review of the MTFP for 2019/20 - 2021/22 was presented to Cabinet on Oct 17th and subsequently to Scrutiny. Funding gap now estimated at £19m. Identification of solutions ongoing through FIT, strategic managers & SLT with a deadline for completed proposals of 23 November. Detailed work now undertaken and papers for the Cabinet, Scrutiny and Council meetings being prepared. *In Progress* (25% complete)	**Peter J Lewis** 20/02/2019 *20/02/2019*			

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner **Review Date** *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
				o **focussing on contract spend in all areas but specifically in Children's services** Part of the 10 point plan continues. PeopleToo have just reported on their investigations in regard of childrens services and have identified several £m of opportunities which will influence spend in 2018/19 & 2019/20 and beyond. New Head of Procurement is undertaking an exercise to review the top 100 contracts and to drive out savings. *In Progress* (10% complete)	**Peter J Lewis** 02/05/2019 *29/03/2019*			
				o **FIT-Short term financial intervention** Monitoring of the 2018/19 short-term interventions (MTFP2) is now rigorously undertaken by the FIT, with FIT buddies in regular liaison with service to ensure progress towards the delivery of the savings is being made according to the agreed timetable. *In Progress* (10% complete)	**Peter J Lewis** 02/02/2019			
				o **FIT-KLOE leads prioritising activity for quick wins and longer term actions** KLOE Leads routinely working with services to monitor the actions needed to deliver the savings planned. Reported to SLT on a fortnightly basis with escalations for actions if needed. *In Progress* (70% complete)	**Daniel Forgham-Healey** 02/02/2019			
				o **FIT-Fit governance in place and due dilligence on control totals ensuring only one budget adjusted** FIT governance framework in place. Waiting room process and due dilligence on control totals is ensuring that only one budget is adjusted. *In Progress* (10% complete)	**Lizzie Watkin** 02/02/2019			

Page 276

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
				FIT-Process in place where by all all savings proposals require director and finance manager sign off *In Progress*	**Lizzie Watkin** *28/12/2018*			
	ORG0011 **Risk Owner:** Paula Hewitt **Next Risk Review Date:** 07/02/2019	**Risk Description:** Strategic Risk 2016: Health & Safety: Death or injury to a member(s) of the public or a member(s) of staff, volunteers, visiting contractors or service users **Cause:** Failure to manage our activities, assets, premises and contracts in compliance with our statutory duties and organisational policies in respect of Health & Safety, either directly, or indirectly through our strategic partners **Consequence:** 1. Death or serious harm ("dangerous occurrence" (defined by legislation)) to a service user, pupil, member of the public or a member of staff; 2. Criminal prosecution and enforcement action under H&S / Fire / Corporate Manslaughter legislation. 3. Civil Claims and/or personal litigation claims for negligence 4. Adverse publicity and damage to reputation for the Council 5. Increased audit inspection 6. Increased costs and financial penalties	Likelihood :5 Impact :5 25 Red - V. High Risk	**Create common processes so staff can be interchanged across County** 25/10/2017 - nothing has changed to the status below as the FM review is ongoing 20/12/2017 - Review due to complete in May 2018, no change to status. 21/05/2018 - Review complete - associated changes due to be implemented with effect from 1st September 2018. 04/09/2018 - Taunton restructure implemented 30/08/18 Business Support functions due to move with effect from 1 November. Processes to be produced for remaining FM tasks. 18/12/18 - Staff Instructions created on One Note, Policies being reviewed at regular workshops, training plan in place. *In Progress* (75% complete)	**Heidi Boyle** 18/03/2019 *28/02/2019*	Likelihood :3 Impact :5 15 Amber - High Risk	Likelihood :3 Impact :5 15 Amber - High Risk	07/01/2019 Current risk score (amber) is unchanged. P Hewitt 07/01/2019

Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
ORG0009 **Risk Owner:** Julian Wooster **Next Risk Review Date:** 21/03/2019	**Risk Description:** Strategic Risk 2016: Safeguarding Children: We fail to deliver our statutory service delivery duties and legal obligations in relation to vulnerable children. **Cause:** Systemic leadership, financial constraints and management challenges **Consequence:** Possible abuse, injury or loss of life to a vulnerable child caused by service failure. Reduced public confidence; emergency measures; increased inspection; personal litigation claims; negative publicity for both the Council and partners; possible financial penalty or service is removed from Council control.	Likelihood :4 Impact :5 20 Red - V. High Risk	o **CYPP 7 Improvement Programmes** Review: The Children's Trust Executive are pleased with the progress against the 7 Improvement Programmes, but recognise there is still much work to be done. Action plans for 2017/18 have been drawn up with a focus on a stepped improvement over this second year to ensure year 3 achieves the outcomes of the CYPP in 2019 *In Progress* (35% complete)	**Adrienne Parry** 30/04/2019 *31/03/2019*	Likelihood :3 Impact : 5 15 Amber - High Risk	Likelihood :3 Impact :5 15 Amber - High Risk	21/12/2018 At the September 2018 meeting of Cabinet it was agreed that we should move to the statutory minimum level of Children's Services. This means that there is less tolerance in identifying need.
ORG0007 **Risk Owner:** Paula Hewitt **Next Risk Review Date:** 04/03/2019	**Risk Description:** Strategic Risk 2018 update: Business Continuity & Disaster Recovery may not be delivered as expected by services in the event of County Hall failure. **Cause:** County Hall remains a single point of failure for some elements of connectivity e.g. Mobile networks. There is also a lack of formal arrangements in place, or being finalised, that enable managers to review risks in the planning for business continuity **Consequence:** Major disruptive challenge to service provision and unplanned costs.	Likelihood :3 Impact :5 15 Amber - High Risk	o **Business Continuity Steering Group** Hold regular meetings of the Business Continuity Steering Group. Membership includes SCC service representatives and colleagues from the District Councils. Purpose of the Steering Group is to embed and promote effective business continuity arrangements throughout the local authorities and contracted services. In 2018/19 meetings are scheduled for July, autumn 2018 and spring 2019. *In Progress* (30% complete)	**Nicola Dawson** 09/02/2019 *31/03/2019*	Likelihood :3 Impact : 4 12 Yellow - Medium Risk	Likelihood :3 Impact :4 12 Yellow - Medium Risk	04/12/2018 Risk score remains unchanged P Hewitt 04/12/18 Strategic Risk 2014: Business Continuity: Short or long-term service disruption may occur

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
				o **Annual Corporate Business Continuity Exercise** Hold a table-top exercise in spring 2019 to test the SCC Corporate Business Continuity Plan and the supporting service level plans. Invite SCC services and district councils to participate. Build on the lessons identified in Ex Viral Crisis (March 2017) and Exercise Long Reach (April 2018) *In Progress* (10% complete)	**Nicola Dawson** 11/03/2019 *31/03/2019*			
				o **Mobile phone network** Review 08/01/2019 - D Littlewood: I have spoken with procurement around multi-network SIM cards, that can roam between networks if one network carrier goes down. These are expensive at present under our current contract, but we are looking to reduce cost as part of the Mobile telecoms review which is still underway. There is also an option for parts of the business to move some of its SIM cards over to an existing Vodafone contract, so half of the service is with EE, and half with Vodafone, but again, reducing the number of phones on each contract, increases the cost of the calls and data, so we are working with procurement on the best approach between cost and continuity. In the short term, we have now released Outlook and access to Somerset County Council mailboxes, to personal devices, so if individuals are on other networks, they could still access email and have contact (as proven in the outage of the EE network a few weeks ago) *In Progress* (25% complete)	**Dave Littlewood** 08/02/2019			

Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
ORG0002 **Risk Owner:** Paula Hewitt **Next Risk Review Date:** 15/02/2019	**Risk Description:** Strategic Risk 2015: Commissioning: Failure to adequately commission services and/or failure in the market and supply chain **Cause:** Demand led response and not outcome driven (trying to deliver the same service with less resources is no longer feasible), limits the ability to deploy resources previously identified for investment in preventative services **Consequence:** Resulting in transfer and a reduction in planned long term savings and the council being unable to meet statutory obligations and/or to deliver the County Plan objectives, Incur additional financial costs, fail to achieve value for money, reputation damage, vulnerable individuals at greater risk, financial penalty	Likelihood :5 Impact :5 25 Red - V. High Risk	o **Refresh Market Position Statement to better reflect Adult Services priorities** *In Progress* (50% complete)	**Niki Shaw** 29/03/2019 *29/03/2019*	Likelihood :3 Impact : 4 12 Yellow - Medium Risk	Likelihood :3 Impact :4 12 Yellow - Medium Risk	15/11/2018 Reducing commissioning resources could impact negatively on this risk score but this has been mitigated by the work of KLOE4 and the Strategic Commissioning Group. Therefore risk score remains unchanged. P Hewitt 15/11/18
ORG0032 **Risk Owner:** Simon Clifford 2 **Next Risk Review Date:** 07/04/2019	**Risk Description:** Strategic Risk 2017: Information Governance: An event occurs that results in a statutory breach of data protection legislation. This could be an ICT security vulnerability that compromises the PSN network, a significant disclosure of sensitive personal data or another procedural breach of the EU GDPR. **Cause:** An intentional exploitation of a security vulnerability in the SCC network by hostile agents such as hackers or malware. Non-compliance with the articles and	Likelihood :5 Impact :4 20 Red - V. High Risk	o **Publication of EUGDPR Privacy Notice** The EU-GDPR requires the publication of a comprehensive Privacy Notice detailing the services provided, the personal data processed, the sharing agreements, the retention periods and access arrangements for data subjects *In Progress* (85% complete)	**Lucy Wilkins** 14/02/2019 *28/02/2019*	Likelihood :3 Impact : 4 12 Yellow - Medium Risk	Likelihood :3 Impact :4 12 Yellow - Medium Risk	07/01/2019 risk continues to be monitored and has eased slightly due to the suspension of the data migration to the Cloud. update to that suspension to be agreed in new financial year.

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
		recitals in the EU GDPR in 2018. A significant unintentional data breach of sensitive personal or business data in email, post, fax by an employee, contractor, service provider or an SCC Councillor. **Consequence:** The Council is exposed to fraud, loss of reputation, legal action by clients or employees and / or the possibility of fines from the Information Commissioner's Office (currently estimated at £100k - £200k but potentially much higher in 2018). Members of the Public are exposed to harm or distress due to the significant unauthorised disclosure of personal data.		o **Induction and Refresher training for Information Security and Data Protection** The EU-GDPR requires that all employees are fully aware of their responsibilities for processing personal data. SCC will endeavour to ensure all new employees are trained in Information Security and Data Protection within 3 months of commencing employment. *In Progress* (99% complete)	**Lucy Wilkins** 28/02/2019 *28/02/2019*			
				o **Publication and distribution of EU-GDPR policies to all employees** The EU-GDPR requires that all employees are made aware of SCC policy for processing personal data. SCC will endeavour to ensure all employees have received mandatory Information Security and Data Protection, by Metacompliance, prior to the adoption of the EUGDPR in may 2018. *In Progress* (75% complete)	**Lucy Wilkins** 28/02/2019 *28/02/2019*			
				o **Information Sharing Agreements and Contracts** Somerset County Council will review and implement all current Information Sharing Agreements and contracts in compliance with the EU-GDPR *In Progress* (70% complete)	**Lucy Wilkins** 15/02/2019 *15/02/2019*			
				o **Information Asset register** Creation of a comprehensive Information Asset Register to enable SCC to identify where personal data is held, who is responsible for it and any risks associated with processing; Major deferral to allow Microsoft to implement the IAR *In Progress* (25% complete)	**Lucy Wilkins** 07/04/2019 *04/04/2019*			

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
				Effective management of Data Subjects rights SCC must ensure that all data subjects rights are respected with regard to lawful and fair processing and specifically access to records and DSAR processing *In Progress* (50% complete)	**Lucy Wilkins** 07/04/2019 *05/04/2019*			
Page 281	**ORG0024** **Risk Owner:** Simon Clifford 2 **Next Risk Review Date:** 07/05/2019	**Risk Description:** Strategic Risk 2011: Operations: Quality of contract management is inconsistent and fails to meet our customers expectations **Cause:** **Consequence:** Loss of customer confidence and trust in the Council, impacting on the reputation of the council	Likelihood :4 Impact :4 16 Red - V. High Risk	**Putting in place effective contract management at a senior level throughout the Council** Update 25/06: Greater commercial awareness cascaded through organisation. Establishing greater clarity between day - to -day Contract Management via operations and Commercial management delivered via procurement team. as part of SWAP Audit *In Progress* (90% complete)	**Simon Clifford 2** 10/03/2019 *01/04/2019*	Likelihood :3 Impact : 4 12 Yellow - Medium Risk	Likelihood :3 Impact :3 9 Yellow - Medium Risk	07/01/2019 review underway to create comprehensive register of contracts and named contract managers plus commissioning information.
	ORG0022 **Risk Owner:** Simon Clifford 2 **Next Risk Review Date:** 28/02/2019	**Risk Description:** Strategic Risk 2018 update: ICT: Unintentional events, including changes to our IT system, or intentional attempts that damage our systems, property, reputation or one of our other resources. **Cause:** Delayed implementation of ATP, lack of a Disaster Recovery Plan along with an out of date Corporate Business Continuity Plan. County Hall remains a single point of failure for some elements of connectivity **Consequence:** The effect of this is to leave us with a	Likelihood :5 Impact :5 25 Red - V. High Risk	**Increase awareness & understnding within SCC around suspicious or unsolicited email with attachments & website file downloads** 05092018 - investigate free & open source anti phishing software to increase awareness with staff 14/01/2019: ICT have looked at a number of open source products and are talking with Health partnership about the products they use to hold Phishing campaigns. I've asked the IG team to investigate manual process and training that other organisations use in order to inform and train users of the risks. *In Progress* (50% complete)	**Dave Littlewood** 28/02/2019	Likelihood :3 Impact : 4 12 Yellow - Medium Risk	Likelihood :3 Impact :3 9 Yellow - Medium Risk	28/08/2018 risks continue with MTFP challenges. Awareness and begingings of plan in place re continuity

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
		lower level of security and increased vulnerability to malicious attacks by third parties on our IT systems.						
	ORG0001 **Risk Owner:** Paula Hewitt **Next Risk Review Date:** 04/03/2019	**Risk Description:** Strategic Risk 2014: Civil Emergencies: A major civil emergency results in loss of life and major disruption to services **Cause:** we do not adequately plan for civil emergencies including the testing of plans and prioritisation of our resources, **Consequence:** impact on Somerset County Council's reputation and standing locally and Nationally	Likelihood :4 Impact :5 20 Red - V. High Risk	o **Deliver phase one of the SLACCP Training and Exercise Policy** Review Summary: Delivery is underway of the SLACCP Training and Exercising Strategy. This will deliver a consistent and sustainable rolling programme of role and capability based training. It aims to make full use of IT eg e-learning, webinars etc as well as face-to-face training and exercises. First phase started roll-out in October with the introduction to emergency planning and response e-learning package. Other e-learning packages are now available for some of the emergency roles outlines in the Corporate Emergency Response and Recovery Plan. During November, strategic and operational training sessions were delivered for SSDC staff. Other sessions are being scheduled and further e-learning packages are under development. *In Progress* (75% complete) o **Deliver an annual programme of resilience activities.** Deliver an annual resilience work programme for all six Somerset local authorities including development of capabilities, plans and procedures for emergency planning, preparation, response and recovery. Delivery of the programme to be steered and monitored by the Somerset Resilience Board which meets three times a year (June, September and February). Recent plans delivered: SLACCP Evacuation & Shelter Plan; Elected Members Emergency Handbook; Hinkley Point Off-Site Plan. *In Progress* (75% complete)	**Nicola Dawson** 11/03/2019 *29/03/2019* **Nicola Dawson** 03/03/2019 *31/03/2019*	Likelihood :2 Impact : 5 10 Amber - High Risk	Likelihood :2 Impact :5 10 Amber - High Risk	04/12/2018 Risk score remains unchanged P Hewitt 04/12/18

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner **Review Date** *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
Page 283	**ORG0010** **Risk Owner:** Stephen Chandler **Next Risk Review Date:** 07/04/2019	**Risk Description:** Strategic Risk 2016: Safeguarding Adults: We fail to deliver our statutory safeguarding activity in relation to adults **Cause:** there is a risk that death or injury to a vulnerable member of the public or a member of staff, where the county council has not completely fulfilled its responsibilities may occur **Consequence:** leading to increased audit inspections, personal litigation claims, adverse publicity for the council and possible financial penalties	Likelihood :3 Impact :5 15 Amber - High Risk	o **Improve adult safeguarding conversion rates to ensure team time is spent most effectively on those requiring support** *In Progress* (40% complete)	**Niki Shaw** 07/02/2019 *29/03/2019*	Likelihood :2 Impact : 5 10 Amber - High Risk	Likelihood :2 Impact :5 10 Amber - High Risk	07/01/2019 New strategic manager now in post responsible for safeguarding and mental health social care. recent improvement in safeguarding referral rates performance, with Nov 2018 performance locally at 63.2%. We have also now had the national SAC report for 2017/18 published (Nov 2018) which shows that Somerset is comparing very positively with the national average for safeguarding conversions (38%), but also that the range of conversion rate varied dramatically across the different local authorities from 3.9% to 100%. Work being undertaken locally to target training and education at providers making highest inappropriate referrals to ensure our resources are spent most appropriately and effectively

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner **Review Date** *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
	ORG0042 **Risk Owner:** Chris Squire **Next Risk Review Date:** 07/02/2019	**Risk Description:** Strategic Risk 2015: HR: The risk of not having the employee capacity to deliver and support delivery of core front line services **Cause:** Combination of austerity measures and market forces in being able to attract & retain suitably qualified people to work for the Council **Consequence:** Reduced levels of service activity, more reliance on existing employees and possible issues with consistency on quality.	Likelihood :4 Impact :4 16 Red - V. High Risk			Likelihood :3 Impact : 3 9 Yellow - Medium Risk	Likelihood :3 Impact :3 9 Yellow - Medium Risk	07/11/2018 Reviewing in light of MTFP 2 & 3, with a view to organisational redesign

Report Selection Criteria

Status Flag=ACTIVE - Business Unit Code=ORG - ISNULL(Project Code)

Appendix B

County Council Vision

Our Vision is all about improving lives by creating:

• A thriving and productive County that is ambitious, confident and focussed on improving people's lives

• A County of resilient, well-connected and compassionate communities working to reduce inequalities.

• A County where all partners actively work together for the benefit of our residents, communities and businesses and the environment in which we all live.

Strategic Outcomes	**A County Infrastructure that drives productivity, supports economic prosperity and sustainable public services**				**Safe, vibrant and well-balanced communities able to enjoy and benefit from the natural environment**				**Fairer life chances and opportunity for all**				**Improved health and wellbeing and more people living healthy and independent lives for longer**				**Meeting the Council's challenges: sustainability, quality and focus**		
Strategic Risk(s)	ORG0043 / ORG0022 / ORG0002								ORG0009 / ORG0010								ORG0022 / ORG0007 / ORG0042		
									0										
Priorities	Ensure that the Council is financially sustainable and: - Has sustainable services - Makes decisions based on evidence	Enable economic and housing growth by: - Improving transport infrastructure and digital connectivit	Create the climate for enterprise and innovation that businesses need to grow and collaborate	Deliver the Heart of the South West Productivity Strategy and influence the local Industrial Strategy for the benefit of	Support development of stronger communities including working with them to increase their	Work with partners and communities to protect and enhance the environment, manage	Make sure that Somerset remains a safe place to live, work and visit.	Support and promote enjoyment of Somerset's rich heritage, culture and natural environment	Tackle inequalities and poor social mobility across Somerset so everyone can realise their	Maintain the Council's focus and commitment to make Somerset a place where all children are healthy,	Ensure all children in Somerset have access to high quality schools, high quality educational, professional and support services,	Equip Somerset's workforce of the future with the skills they need, and enable them to aspire and	Explore, define and implement robust health and social care integration	Focus efforts on improving health and wellbeing outcomes, especially for those in greatest need.	Foster an environment which promotes healthier choices and supports people to take responsibility for their	Support people to remain independent and within their homes and communities, without formal social care	Our Culture and Approach	A digital and technology enabled council	Effective and resilient delivery

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SWAP Partial Audit Recommendations Tracker Report

Appendix C

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
Swap Partial Audit Reports	**SWAP0040** **Risk Owner:** Niki Shaw **Next Risk Review Date:** 21/02/2019	**Risk Description:** SWAP Partial Assurance Audit Report - Risk of Care Provider Failure **Cause:** Report issued: 8 March 2018 Date presented to Audit Committee: 19/11/2018 Date of follow-up by SWAP: Q3 2018/19 **Consequence:**	Likelihood :5 Impact :4 20 Red - V. High Risk	**1.3a set in place process for completing financial risk assessments of all care providers joining the Framework** *In Progress* (95% complete)	**Niki Shaw** 11/02/2019 *31/01/2019*	Likelihood : Impact : 0	Likelihood :3 Impact :3 9 Yellow - Medium Risk	21/01/2019 Recent meeting with SWAP Auditors to plan and prepare for follow-up review. Due to take place end of January / early Feb with focus primarily on Self-Assessments and Financial assessment aspects
- Swap Partial Audit Reports	**SWAP0028** **Risk Owner:** Ben Casson **Next Risk Review Date:**	**Risk Description:** SWAP Partial Assurance Audit Report - Personal Finance Contribution - Income Collection **Cause:** Report issued: 31 March 2017 **Consequence:**		**1.3a ensures that there is a single defined process to manage debt recording, recovery and the retention of records** A full review of the Income COP has been completed and the new Income CoP is fit for purpose for ASC debt recovery. *In Progress* **1.5a Develop guidance for Finance Officers on what attempts should be made to recover debt & when they should be referred legal** A full review of the Income COP has been completed and the new Income CoP is fit for purpose for ASC debt recovery. *In Progress*	**Ben Casson** **Ben Casson** 05/06/2019	Likelihood : Impact : 0	Likelihood : Impact :	05/11/2018

Page 287

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner **Review Date** *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
- Swap Partial Audit Reports	**SWAP0049** **Risk Owner:** Dave Farrow **Next Risk Review Date:**	**Risk Description:** SWAP Partial Assurance Audit Report - Use of Part-time Timetables in Schools **Cause:** Report issued 21 May 2018 Presented to Audit Committee: 20/09/2018 Date of Follow-up audit: TBA **Consequence:**				Likelihood : Impact : 0	Likelihood : Impact :	18/09/2018 Dave Farrow is attending Audit Committee on Thursday 20th September to update on this report. Actions are complete.
- Swap Partial Audit Reports	**SWAP0057** **Risk Owner:** Dave Farrow **Next Risk Review Date:**	**Risk Description:** SWAP Partial Assurance Audit Report - Team Around the School 2018/19 - Final report 1.3 Cases are inappropriately referred to TAS. The effectiveness of TAS cannot be assessed. 1.4 SCC and schools may be unable to provide an adequate defence if accused of sharing personal information inappropriately. **Cause:** Report Issued 8 August 2018. Date presented to Audit Committee: 01/09/2018 Date of Follow-up by SWAP: 2019/20 **Consequence:**				Likelihood : Impact : 0	Likelihood : Impact :	18/09/2018 1.3 - We will consider implementing recommended changes to the BVPT template available within the TAS toolkit and made available within Capita SIMS. BVPT training is available to schools if needed and we will promote this training but we expect it will take 3 school terms to reach full compliance. 1.4 - A decision or an approach will be made at the TAS Steering Group meeting on the 24th September based upon the review of information sharing agreements in place. Completion by 31st October 2019. Team Around the School 2018/19 - Final report

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
Swap Partial Audit Reports	**SWAP0039** **Risk Owner:** Pip Cannons **Next Risk Review Date:** 31/12/2018	**Risk Description:** SWAP Partial Assurance Audit Report - Adult Social Care New Operating Model Front Door **Cause:** Report issued: 2 May 2018 Date presented to Audit Committee: 26/07/2018 Date of Follow-up by SWAP: Q4 2018/19 **Consequence:**				Likelihood : Impact : 0	Likelihood : Impact :	16/11/2018 We anticipate all actions identified within the SWAP Audit to have concluded/been successfully implemented by Dec 2018 update to Audit Committee. Additionally, an internal Adult Social Care scrutiny session of all SWAP Audits undertaken during the past 12 months will explore progress in this area on 23 November 2018. We have now completed the two key recommendations relating to establishing a standard process for feedback, and for reviewing staff resources within Somerset Direct and establishing a Operating Level Agreement setting out key principles and ways of working.

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
- Swap Partial Audit Reports	**SWAP0060** **Risk Owner:** Chris Squire **Next Risk Review Date:** 18/02/2019	**Risk Description:** SWAP Partial Assurance Audit report - Role of the Somerset Manager 2018-19 **Cause:** Date Report Issued: Date reported to Audit Committee: TBA Date of Follow-up by SWAP: TBA **Consequence:**		**o Ensures that a Management Leadership Training Framework is written and implemented** Agreed. There are several areas that we are already looking at, including: • A policy for mandatory training (e.g, the forthcoming LGA Budget Training for senior managers) and a project to look at what is covered and how it's tracked; • The development of a leadership competencies framework for the whole council, and how this links into other HR tools, such as recruitment, induction, appraisal and performance management; • The impact of the new People Strategy; - A new management apprenticeship/ILM3, bespoke to SCC and run through SCIL *In Progress* (70% complete)	**Chris Squire** 18/02/2019 *29/03/2019*	Likelihood : Impact : 0	Likelihood : Impact :	17/12/2018 17122018: update approved Reviewed 17/12. Progress made with Leadership attributes framework, anticipated rollout 1st april with linked training framework. Team manager development programme also being developed.
- Swap Partial Audit Reports	**SWAP0026** **Risk Owner:** Vicky Thomas **Next Risk Review Date:** 21/08/2017	**Risk Description:** SWAP Partial Assurance Audit Report - Education of Children Looked After in Care **Cause:** Report issued: 20 March 2017 Audit re-performed in 17/18 - partial (non opinion previously) **Consequence:**		**o 34374: social workers in the Child Looked After team complete the Promoting the Education of CLA training course** Reviewed Ops Manager CLA: I will discuss this with the Team Managers and put Promoting the Education of CLA as a standard item on the induction programme. *In Progress* (10% complete)	**Jason Pincott** 29/01/2019 *28/01/2019*	Likelihood : Impact : 0	Likelihood : Impact :	16/06/2017 "The majority of activities recommended have already been completed by Zoe Heywood, only three part actions remains, one for social care, one for fostering and one to raise awareness of Children looked after in Education which is underway.".

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
Swap Partial Audit Reports	**SWAP0058** **Risk Owner:** Claire Winter **Next Risk Review Date:** 03/12/2018	**Risk Description:** SWAP partial Assurance Audit Report - Children's Direct Payments - Final Report **Cause:** Report Issued 8 March 2018 Date presented to Audit Committee: 19/11/2018 Date of Follow-up audit: Q3 2018/19 **Consequence:**		o **1.3a consider approving access to LCS for the Direct Payments Support Team** 07012019: it was decided that no access to LCS was required for the Direct Payments Support Team. *In Progress* (25% complete) o **3.2a ensure that checks for appropriate expenditure paid through a direct payments account are resumed as soon as possible** Currently we check anyone on annual returns, those who have a surplus in their DP account, new clients for their first return (RAG) and anyone with financial issues and ongoing non compliance. We do not have capacity to check anything else. As and when we resolve long term issues and free up capacity, I will ensure higher risk packages (large packages or complex packages) are audited and reported to the children's team. *In Progress* (10% complete)	**Jackie Miles** 01/04/2019 **Bernie Howard** 20/02/2019	Likelihood : Impact : 0	Likelihood : Impact :	

Page 291

Swap Partial Audit Reports - Page 292

Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner **Review Date** *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
SWAP0061 **Risk Owner:** Louise Palmer **Next Risk Review Date:** 07/04/2019	**Risk Description:** SWAP Partial Audit Recommendations - Contract Management of Children's Independent Placements 2017/18 **Cause:** Date Report Issued: 28/09/2018 Date presented to Audit Committee: 22nd November 2018 Date of Follow-up by SWAP: **Consequence:** Audit Opinion: Partial		**1.1a Cost centres for independent residential and independent fostering are set up and used to record all relevant spend** *In Progress* (10% complete)	**Adele McLean** 07/01/2019	Likelihood : Impact : 0	Likelihood : Impact :	07/01/2019 Significant improvements have been made to contract management processes and effectiveness. A provider scorecard shows details of each residential and fostering provider's costs and performance. Residential and fostering providers are met at least annually, to discuss performance and cost. IPA reviews take place with the social worker, where outcomes are checked and refined. Spend in social care placements is now managed and reported from a single function, improving accuracy and providing a full understanding. Further work is required to bring education placements into the social care placements team, and thereby applying contract management improvements. IT solutions are being explored to identify costs per child, and to improve the IPA process. Contract management tools show that resources are not sufficient to provide comprehensive contract management, so capacity is prioritised for areas of high risk.

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner **Review Date** *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
- Swap Partial Audit Reports	**SWAP0032** **Risk Owner:** Peter J Lewis **Next Risk Review Date:** 26/02/2019	**Risk Description:** SWAP Partial Assurance Audit Report - SCC Corporate Debt Management **Cause:** **Consequence:**				Likelihood : Impact : 0	Likelihood : Impact :	26/11/2018 Follow Up audit in progress. Update of Income Code of Practice and report to Audit Committee agreed to follow this audit.
- Swap Partial Audit Reports	**SWAP0047** **Risk Owner:** Rachel Ellins **Next Risk Review Date:** 07/02/2019	**Risk Description:** SWAP Partial Assurance Audit Report - Payroll Key Controls and IR35 2017-18 **Cause:** report issued: 17 May 2018 Date presented to Audit committee: 20/09/2018 Date of Follow-up by SWAP: Q3 2018/19 **Consequence:**				Likelihood : Impact : 0	Likelihood : Impact :	21/01/2019 New action added following email confirmation that 5 of the 6 recommendations are signed off as complete by SWAP.

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
Swap Partial Audit Reports	**SWAP0015** **Risk Owner:** Andrew Kennell **Next Risk Review Date:**	**Risk Description:** SWAP Partial Assurance Audit Report - Hardware Asset Management **Cause:** Report issued: 30 November 2015 Date presented to Audit committee: **Consequence:**		○ **30286: extending Assyst to report on the categories of information currently not recorded.** Management Response: Agreed. This information has been captured since September 2015. A combination of tools are being used for this purpose: Snow, Sharepoint & spreadsheets. *In Progress* (70% complete)	**Andrew Kennell** 01/05/2019 *29/03/2019*	Likelihood : Impact : 0	Likelihood : Impact :	26/11/2018 reassigned to Andrew Kennell

Page 294

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
- Swap Partial Audit Reports	**SWAP0017** **Risk Owner:** Andrew Kennell **Next Risk Review Date:**	**Risk Description:** SWAP Partial Assurance Audit Report - ICT Healthcheck **Cause:** **Consequence:**				Likelihood : Impact : 0	Likelihood : Impact :	05/09/2018 1.1.1a - No progress, Head of ICT has left the organisation without a new strategy being put in place, work will continue during September to review our current strategy in line with impact of Financial Imperative proposals. 1.1.2a - Software asset policy has been agreed, draft hardware policy will be reviewed by ICT management team and then presented to SLT by early October 1.1.3a - Work in progress but anticipated that the deadline of Jan 19 will be achieved for complete of software licence review 1.1.5a - this is part of a separate SWAP audit SWAP0046 1.1.6 - Part of network resilience project which is ongoing during 18/19

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
- Swap Partial Audit Reports	**SWAP0046** **Risk Owner:** Andrew Kennell **Next Risk Review Date:** 28/02/2019	**Risk Description:** SWAP Partial Assurance Audit Report - Payment Card Industry Data Security Standard Compliance **Cause:** Report issued: 21 December 2017 Date presented to Audit Committee: Date of Follow-Up audit by SWAP: Q2 2018/19 **Consequence:**		o **1.1.3a Project plan is written & followed to ensure that an attestation date is set and achieved** It has been agreed the Strategic Manager for ICT Operations will ensure that a project plan that covers time, resources, dependencies, contingencies and critical pathway is written and followed to ensure that an attestation date is set and achieved. 14/01/2019: Strategic Commissioning Group have approved purchase of Adelante upgrade and move to cloud service. This provides cost avoidance for changes that would be need to make the County Hall on premises infrastructure. Once funding source is identified from a budget, order will be placed. Looking for implementation starting in April 2019 *In Progress* (30% complete)	**Dave Littlewood** 28/02/2019 *30/04/2019*	Likelihood : Impact : 0	Likelihood : Impact :	07/01/2019 Procurement approved at SCG, meeting scheduled for 10/1 to agree funding for ongoing revenue costs. Project will start Feb 19
- Swap Partial Audit Reports	**SWAP0054** **Risk Owner:** Andrew Kennell **Next Risk Review Date:** 31/01/2019	**Risk Description:** SWAP Partial Assurance Audit report - SAP ICT Controls 2017-18 **Cause:** Report Issues: 6 June 2018 Date presented to Audit Committee: Date of Follow-up by SWAP: Q3 2018/19 **Consequence:**				Likelihood : Impact : 0	Likelihood : Impact :	02/11/2018 New measures have been introduced around leavers and dormant accounts, I will review in the new year to check the issues have been resolved

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
Swap Partial Audit Reports	**SWAP0020** **Risk Owner:** Claire Lovett **Next Risk Review Date:** 11/04/2019	**Risk Description:** SWAP partial Assurance Audit Report - Structural Failure of School Buildings **Cause:** Report issued: 12 June 2015 **Consequence:**		**25724: Ensure that condition survey updates are performed annually at all schools.** 11/09/2017: School Condition surveys are undertaken by SSE for those Schools buying back services from SSE. Corporate Property are monitoring those Schools not buying back services from SSE and will request copies of up to date Condition Surveys. 11/01/2019: We now have in place a system of annual reminders and follow-ups to ensure all schools provide a condition survey. Property officers wrote to schools at the end of October 2018 reminding them of the need to carry out a survey and send it in so we could include any high priority works under this year's schools condition programme. The letter went to the 10 schools who had not asked Support Services for Education to carry out a survey for them and we await confirmation of how many surveys remain outstanding. *In Progress* (90% complete)	**Claire Lovett** 07/04/2019 *28/02/2019*	Likelihood : Impact : 0	Likelihood : Impact :	11/01/2019 We now have in place a system of annual reminders and follow-ups to ensure all schools provide a condition survey. Property officers wrote to schools at the end of October 2018 reminding them of the need to carry out a survey and send it in so we could include any high priority works under this year's schools condition programme. The letter went to the 10 schools who had not asked Support Services for Education to carry out a survey for them and we await confirmation of how many surveys remain outstanding. In addition, we are establishing a risk based approach to reviewing schools compliance which will be implemented in full following appointment to our corporate surveyor post and closer involvement with schools where particular risk factors are identified (such as Orlit-type construction) is also in place.

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner **Review Date** *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
- Swap Partial Audit Reports	**SWAP0059** **Risk Owner:** Claire Lovett **Next Risk Review Date:** 11/02/2019	**Risk Description:** SWAP Partial Assurance Audit Report - Strategic Asset Management. Final report **Cause:** Report Issues: 02 May 2018 Date presented to Audit Committee: date of Follow-up audit: Q3 2018/19 **Consequence:**		o **2.1 Ensure review of project milestones & staff resources, take outcome to ASG/AMG & any corrective actions taken** We recommend that the Head of Corporate Property ensures that a review of project milestones and staff resources is performed, the outcome taken to ASG / AMG; and any corrective actions are taken. *In Progress* (90% complete)	**Claire Lovett** 30/04/2019 *30/04/2019*	Likelihood : Impact : 0	Likelihood : Impact :	11/01/2019 Follow up audit has now taken place and positive progress is noted with all actions either complete or in progress, save one where circumstances have moved on the action is not to be taken forward. The high risk items have been downgraded to medium risk. SWAP Partial Audit Report - Strategic Asset Management. Final report
- Swap Partial Audit Reports	**SWAP0022** **Risk Owner:** Oliver Woodhams **Next Risk Review Date:** 04/02/2019	**Risk Description:** SWAP Partial Assurance Audit Report - Concessionary Fares **Cause:** Report Issued November 2015 Date presented to Audit Committee: 19/11/2018 Date of Follow-up by SWAP: Q4 2018/19 **Consequence:**		o **30241: ensure that submissions made by bus operators are analysed on a periodic basis to ensure that any significant variances c** Udate from email, 13/12/2018: The major outstanding issue to resolve is the quality and timeliness of data submissions from First Bus (both Buses of Somerset and First Avon and Somerset). We have raised this issue with the operators concerned informally and now through a formal notice, giving both operators 30 days to remedy deficiencies in the reporting of data. *In Progress* (85% complete)	**Oliver Woodhams** 04/02/2019 *31/12/2018*	Likelihood : Impact : 0	Likelihood : Impact :	23/10/2018 Reviewed by Oliver Woodhams on 23/10/18 - actions are in train, discussions on quality of data for First Bus continue and the fixed concessionary deal is on hold until the data quality issues have been resolved.

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner **Review Date** *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
- Swap Partial Audit Reports	**SWAP0025** **Risk Owner:** Scott Wooldridge **Next Risk Review Date:**	**Risk Description:** SWAP Partial Assurance Audit Report - Impact Assessments Post Decision Making **Cause:** **Consequence:**				Likelihood : Impact : 0	Likelihood : Impact :	22/05/2017 still having challenges with services not complying with finance team's quarterly reporting
- Swap Partial Audit Reports	**SWAP0014** **Risk Owner:** Simon Clifford 2 **Next Risk Review Date:**	**Risk Description:** SWAP partial Assurance Audit Report - Software Asset Management **Cause:** **Consequence:**				Likelihood : Impact : 0	Likelihood : Impact :	26/11/2018 26/11/2018: All actions complete. Await sign-off from SWAP

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
- Swap Partial Audit Reports	**SWAP0018** **Risk Owner:** Simon Clifford 2 **Next Risk Review Date:** 26/02/2019	**Risk Description:** SWAP Partial Assurance Audit Report - Benefits Realisation Management (ICT) **Cause:** Date of SWAP Follow-up: Q3 17/18 **Consequence:**				Likelihood : Impact : 0	Likelihood : Impact :	26/11/2018 benefits realisation process reviewed and now accepted through senior management in ICT. New approach to budgeting has also improved understanding of benefits and support from C&P helping to deliver necessary savings.
- Swap Partial Audit Reports	**SWAP0051** **Risk Owner:** Simon Clifford 2 **Next Risk Review Date:** 31/01/2019	**Risk Description:** SWAP Partial Assurance Audit Report - Follow-Up Audit Healthy Organisation (ICT) 1718 - SCC **Cause:** Report issued 25 May 2018 **Consequence:**		o **1.1.1a Consult with Senior Leadership Team to confirm the suit of policies that are going to make up the ICT Strategy** 05092018 - All ICT policies have been reviewed and updated where necessary, results are published on the SCC Intranet. Discussions with new Director to take place with reference to the format of the Strategy. 14/01/2019: Policy suite reviewed and found to still meets the needs of the organisation. Policies reviewed and where required, responsibility handed over to the IG team for updates and review. DBS and GCSX policy documents updated in light of termination of PSN email service, HR are taking the policy to the Unions for sign off. *In Progress* (80% complete)	**Dave Littlewood** 28/02/2019 *31/01/2019*	Likelihood : Impact : 0	Likelihood : Impact :	17/12/2018 Latest report due to be released this week. I have gone through this with Lisa from SWAP and she is happy things are progressing. Will create a plan to close off the outstanding items once the report is released

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner **Review Date** *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
				o **1.1.2a Ensure the outstanding aspects of how the asset management service will be performed are agreed,** Management Response: This policy is still in draft and will aim to have a completed policy by August 2018. *In Progress* (60% complete)	**Andrew Kennell** 17/01/2019 *29/03/2019*			
				o **1.1.3a Ensure current software license review is completed with additional requirement for proof of entitlement to be understood** 05092018 - as part of migration to WIN 10 software licenses have been reviewed. Corporate license purchased, allocated and monitored (use of) by Central ICT *In Progress* (90% complete)	**Andrew Kennell** 31/01/2019 *31/01/2019*			
				o **1.1.5a Ensure that all attestations for PCI-DSS are completed** 05092018 - there is a review to look at customer & merchant IDs, looking to consolidate this number and will then seek to provide attestation *In Progress* (10% complete)	**Dave Littlewood** 07/02/2019 *05/04/2019*			
- Swap Partial Audit Reports	**SWAP0056** **Risk Owner:** Simon Clifford 2 **Next Risk Review Date:** 17/02/2019	**Risk Description:** SWAP Partial Assurance Audit Report - Active Directory & User Administration 2017/18 **Cause:** Report Issued 13 July 2018 **Consequence:**		o **1.1 ICT (Ops) ensures Active Directory controls are in place to automatically disable account not used for 60 days** *In Progress*	**Andrew Kennell** 17/03/2019	Likelihood : Impact : 0	Likelihood : Impact :	08/10/2018 following audit significant change in approach brought in by managers including new resource. This has flagged there are difficulties but confidence is high these can be met and mitigated. SWAP Internal Partial Audit Reccomendation

Page 301

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
				1.2 Instruct AD SME to reconcile all current staff/Council employees against Active Directory accounts. Once the previous control has been instigated, we recommend the Strategic Manager for ICT (Operations) instructs the AD SME to reconcile all current staff/Council employees against Active Directory accounts. All accounts that are not allied to a current staff member should be investigated and deleted. Any that are needing to be kept for operational purposes, should have relevant risk analysis performed and the mitigating controls that have been implemented recorded in a Privacy Impact assessment or appropriate other area. *In Progress*	**Andrew Kennell** 17/01/2019 *31/01/2019*			
				1.2 All accounts that are not allied to a current staff member should be investigated and deleted. *In Progress* (50% complete)	**Andrew Kennell** 17/01/2019 *31/01/2019*			
				1.2 Retained acounts need risk analysis, mitigating controls recorded in Privacy Impact Assesment or appropriate other area Management Response: Work has begun on this and a significant amount of dormant manually, now got an SME in place who will be delivering this. *In Progress* (10% complete)	**Andrew Kennell** 05/04/2019 *05/04/2019*			

Page 302

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
				1.4 Ensure all officers have had their AD & application access privileges reviewed & updated as necessary against current role Once the previous control has been instigated, we recommend the Strategic Manager for ICT (Operations) engages with all application owners/team managers to ensure that all officers have had their AD and application access privileges reviewed and updated as necessary against their current roles. *In Progress* (40% complete)	**Andrew Kennell** 17/01/2019 *31/01/2019*			
- Swap Partial Audit Reports	**SWAP0044** **Risk Owner:** Stephen Chandler **Next Risk Review Date:**	**Risk Description:** SWAP Partial Assurance Audit Report - Mental Health Social Care 2017-18 **Cause:** Report issued: 11 April 2018 Presented to Audit Committee: 26/07/2018 Date of Follow-up by SWAP: Q3 2018/19 **Consequence:**				Likelihood : Impact : 0	Likelihood : Impact :	05/09/2018 The service now records all MH reviews on our AIS system; these are monitored by Locality Managers through the ASC score card and at a strategic level through local teams, our monthly PIMs meetings and the review board SWAP Partial Assurance report - Mental Health Social Care 2017-18

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
Swap Partial Audit Reports	**SWAP0024** **Risk Owner:** Mike O'Dowd-Jones **Next Risk Review Date:** 07/04/2019	**Risk Description:** SWAP Partial Assurance Audit Report - Section 106 Agreements **Cause:** Audit: 2015/16 Date presented to Audit Committee: 04/2015 Date of Follow-up audit: Q2 2016/17 & Q3 2017/18 **Consequence:**		o **Recommendation 1.3. Guidance and standards for recording key decisions.** 14/01/2019-A Jones: There is functionality to ensure that each file on the database has a Documents section to add electronic images and an Agreements section in which all agreement documents can be uploaded. Furthermore, there is a section where Planning Officers can record details of enquiries received into the team. A protocol for standardisation of document description names uploaded to the system has now been prepared and SWAP were satisfied that the Mastergov system has greatly enhanced functionality compared to the previous system. However, due to the bespoke nature of each legal agreement and development, it is not possible to make these fields mandatory for completion. Document Storage Protocols note written and issued to all MasterGov database users. Service Managers are responsible for ensuring that their team members abide by the document storage protocols. Reviews of data integrity using the Audit function in MasterGov now occur monthly to confirm quality of data entry (missing information, inaccurate entry and/or non-compliance with guidance). *In Progress* (90% complete)	**Alyn Jones** 29/03/2019 *29/03/2019*	Likelihood : Impact : 0	Likelihood : Impact :	07/01/2019 Comprehensive CIL review paper presented to SLT and agreed in Dec 2018 with associated action plan. Update to Audit Committee is currently being prepared by Alyn Jones.

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
				o **Recommendation 1.5. Guidance and standards for recording highways and transport payment triggers, due dates and invoice dates.** 14/01/2019 - A Jones: Mastergov identified a series of fields in which the following information can be recorded: • Original estimated payment triggers and due dates • Revised estimated payment trigger dates (and a comments field to explain the delay) • Actual invoice date However, it has not been possible to make these fields mandatory for completion because not all legal agreements will require time-based triggers. By introducing further control, it could prevent details from being saved onto the database unless the fields hold information. If there is no information to be applied in these fields, it could encourage irrelevant information being input to allow the data to be saved, so having further mandatory fields could make the database ineffectual. A supplementary management instruction has therefore been sent by the Service Manager, Development Engineering to all relevant staff communicating that: • All Clauses/Obligations within the Legal Agreement must be accurately entered into the Clauses and Obligations tabs within the Legal Agreements Module once the Agreement has been signed and sealed. • Trigger dates will be estimated if they are occupation based. Monthly reports will indicate what Obligations are due within the following month and if the trigger dates need to be revised then this must be done	**Alyn Jones** 29/03/2019 *29/03/2019*			

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner **Review Date** *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
				before the Trigger Date is passed and the reason for the change will be recorded in the Comments field. For example, the Trigger date may need to be extended due to a slowdown on site of construction/sales. SWAP were satisfied that the Mastergov system has greatly enhanced functionality compared to Atrium. However, because of the bespoke nature of each legal agreement and development, it is not possible to make these fields mandatory for completion. Guidance documents and management instruction issued to all Database users on what must be recorded and how. Monthly meetings now take place with ECI Operations Director the purpose of which is to review the contributions schedule and monitor data quality. *In Progress* (90% complete)				

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
				Recommendation 1.12. Invoicing for highway and transport contributions. 14/01/2019 Review A Jones: A management instruction was issued to the team following the previous audit, that all S106 contributions should be formally requested from developers through a raised invoice on SAP. The Principal Development Liaison Officer confirmed that as this applies to a small group of officers and this is now standard procedure and is being complied with. The Mastergov system includes sufficient fields within the Cash screen to ensure that invoice numbers can be recorded in the system for audit trail purposes. However, is has not been possible to make these fields mandatory for completion because not all legal agreements will require invoices to be raised. A supplementary management instruction has therefore been sent by the Service Manager, Development Engineering to all relevant staff communicating that: • Invoices will be raised for all financial elements within the Agreement. i.e. Superintendence fees, commuted sums and Contributions. • Copies of all invoices will be stored in the Agreements Tab of the Legal Agreement Module and the Invoice number will be recorded on the Cash Details record. SWAP are satisfied that positive action has been taken but have assessed the recommendation as being in progress, to make provision for further audit sample testing to fully verify the effectiveness of these actions. This will include a review of whether invoices conform to an agreed	**Alyn Jones** 29/03/2019 *29/03/2019*			

Page 307

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
				format for description details, to ensure that payments can be identified through SAP. All financial elements of Legal Agreements are now invoiced for. Copies of the invoices are kept on the database file and the invoice number recorded against the payment *In Progress* (90% complete)				

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
				o Recommendation 1.13. Periodic reports of development schemes with commenced S106 contributions 14/01/2019 review A Jones: Mastergov is now implemented and has a manager's dashboard bolt-on, which will allow managers to quickly and accurately review up to date information on standard reports without having to access the full system. Periodic reports can also be created and produced automatically in the new system. An action was agreed for the Principal Development Infrastructure Officer to establish what data will be required in preparation for Mastergov implementation, as specifications for the reports needed to be written so that they can be created within the report builder. The ECI Operations Director has instructed that reports are to be prepared and issued at a monthly meeting whereby contributions, data quality and exceptions are reviewed and signed off. The report will contain the following information; • Contributions expected within the next month and any changes to expected due dates. • Expiry dates that fall within the next 6 to 12 months for contributions received • Review of mandatory and non-mandatory field information • Exceptions reports (to consider those contributions likely to be out of tolerance within the Agreements) and to record any decisions made. These decisions will be recorded within the Mastergov software. • We have therefore assessed the recommendation for Infrastructure Programmes as in progress.	**Alyn Jones** 29/03/2019 *29/03/2019*			

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date *Target Date*	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
				In Progress (90% complete)				
Swap Partial Audit Reports	**SWAP0009** **Risk Owner:** Philippa Granthier **Next Risk Review Date:** 31/01/2019	**Risk Description:** SWAP Partial Assurance Audit Report - SCC placement Financial Controls 16-17 **Cause:** Date presented to Audit Committee: 23/11/2017 Date of audit follow-up: Q1 17/18 & Q1 18/19 **Consequence:**				Likelihood : Impact : 0	Likelihood : Impact :	21/08/2018 21/8/18: SWAP to carry out follow-up audit. Scope has been agreed, awaiting start date.

Report Selection Criteria

Status Flag=ACTIVE - Business Unit Code=SWAP - ISNULL(Project Code)

SWAP
SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

Somerset County Council

Report of Internal Audit Activity

Plan Progress 2018/19- January Update

Agenda item 14

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Unrestricted

Contents

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Summary

Our audit activity is split between:

- **Operational Audit**
- **School Themes**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **School and Early Years Reviews**
- **Follow-up Reviews**
- **Other Reviews**

Role of Internal Audit

The Internal Audit service for Somerset County Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 12th April 2018.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- School Reviews
- Follow-up Audits
- Other Special or Unplanned Reviews

Summary of Work 2018/19

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being areas of major concern to 3, findings that require attention.

Internal Audit Work programme

The schedule provided at Appendix B contains a list of all audits as agreed in the Annual Audit Plan 2018/19. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective "assurance opinion" rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit "Audit Framework Definitions" as detailed at Appendix A of this document.

To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service risks, a summary of the key audit findings that have resulted in them receiving a 'Partial Assurance Opinion' is given as part of this report.

In circumstances where findings have been identified which are considered to represent significant corporate risks to the Council, due to their importance, these issues are separately summarised.

Significant Corporate Risks

Identified Significant Corporate Risks should be brought to the attention of the Audit Committee.

Significant Corporate Risks

We provide a definition of the three Risk Levels applied within audit reports. For those audits which have reached report stage through the year, we have assessed the following risks as 'High'.

Review/Risks	Auditors Assessment
None have been reported during the period.	N/A

Summary of Work 2018/19

SWAP Performance - Summary of Partial Opinions

- **These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.**

Summary of Partial Opinions

No partial opinion reports have been finalised in the quarter.

Plan Performance 2018/19

Update 2018/19

SWAP Performance

SWAP Performance

SWAP performance is subject to regular monitoring review by both the Board and at Member Meetings. The respective performance results for Somerset County Council and other SWAP partners, using data to the end of December 2018 is as follows:

Performance Target	SCC Performance	Partners Performance
Audit Plan – Percentage Progress Final, Draft and Discussion In progress/scoping Not started	47% 35% 18%	45% 41% 14%
Audit Plan – Delivery On course to deliver at least 90% of plan by year end	Yes	Yes
Quality of Audit Work Customer Satisfaction Questionnaire	94%	98%

Update 2018/19 continued

SCC Performance

SCC Performance

Refer to Appendix B for detail of the individual audits.

The previous table shows the percentage plan progress at SCC to now be broadly in line with that of the SWAP average. This is despite some delays experienced in the scheduling of work, with both requests made to move audits back to later in the year and to defer to the following year.

In terms of our IT plan, much of the planned audit work has already been completed. Our IT auditor left in October but was able to complete much of the IT Plan ahead of their departure. Our first recruitment exercise was unsuccessful in securing a replacement, this is a very competitive market. Additional IT staff have now been appointed and are in the process of taking up their posts.

Plan Performance 2018/19

We keep our audit plans under regular review so as to ensure that we auditing the right things at the right time.

Approved Changes to the Plan

The main changes agreed to the plan this year have been the result of requests made to delay audits to later in the year or to defer to the following year. Where audits have been deferred, a replacement audit has been agreed.

There have been some recent additions to the plan of an advisory or investigative nature and have been resourced by audits that have been deferred.

Conclusion

Following a slow start due to audit delays and deferrals, catch-up has been possible over the last few months and reasonable progress is now being reported in relation to plan delivery. There still remains much audit work to deliver but we are now on track to do so.

Internal Audit Definitions — Appendix A

Assurance Definitions

None	The areas reviewed were found to be inadequately controlled. Risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Definition of Corporate Risks

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:

Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major ↔ 3 = Minor Recommendation 1	2	3	Comments
ICT	Follow-up	RIPA Use of Internet as a means of Surveillance	Q1	Final	n/a	02/05/2018					Sufficient progress made to remove from JCAD
Education	Operational	Team Around the School	Q1	Final	Partial	01/05/2018	6		2	4	
Finance and Performance	Follow-up	Dillington House Financial Controls	Q1	Final	n/a	04/05/2018					Insufficient progress made to be removed from JCAD.
Governance	Governance	Whistleblowing Allegation	Q1	Final	Advisory	04/04/2018					Audit work concluded that there was not a case to be pursued.
Human Resources	Governance	Role of the Somerset Manager	Q1	Final	Partial	14/05/2018	2	1		1	
ICT	ICT	WAN Connections	Q1	Final	Advisory	20/06/2018					
ICT	ICT	Bring Your Own Devices	Q1	Final	Advisory	07/08/2018					New
Schools	Schools	Schools Financial Value Standard Moderation	Q2	Final	Advisory	11/09/2018					Involvement in annual moderation exercise.
ICT	Follow-up	Readiness for General Data Protection Regulations (GDPR)	Q3	Final	n/a	18/06/2018					Sufficient progress for recommendations to be removed from JCAD. Recommend further audit work next year.
ICT	Follow-up	IT – Information Sharing	Q3	Final	n/a	27/07/2018					Sufficient progress made to be removed from JCAD.

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major		3 = Minor	Comments
								Recommendation			
								1	2	3	
ICT	Follow-up	Network Resilience	Q3	Final	n/a	04/10/2018					Removed from JCAD, Business Continuity identified as a risk area for 19/20 Plan.
Governance	Governance	Ethical Governance	Q2	Final	Reasonable	18/07/2018	5			5	
Schools	Schools	School Theme – Premises Health and Safety	Q1	Final	Reasonable	22/05/2018	7		1	6	School visits took place during the summer term.
Procurement	Follow-up	Corporate Contracts – Performance Management follow-up	Q2	Final	n/a	09/08/2018					Contract Toolkit now largely established
Children's Services	**Operational**	**Children's Direct Payments review**	**Q2**	**Final**	**Non-Opinion**	**24/09/2018**	**8**		**1**	**7**	**Advisory Review**
Property Services	**Follow-up**	**Strategic Asset Management**	**Q3**	**Final**	**n/a**	**05/11/2018**	**n/a**				
Schools	**Schools**	**School Financial Accounting Review**	**Q3**	**Final**	**Non-Opinion**	**05/10/2018**	**8**		**2**	**6**	**Advisory Review**
Governance	**Governance**	**Healthy Organisation**	**Q2**	**Final**	**Medium**	**5/06/2018**					
ICT	**ICT**	**E5, MS Windows Defender, ATP, Security Suite Deployment**	**Q4**	**Final**	**n/a**	**06/09/2018**					**Advice only**
ICT	ICT	Payment Card Industry (PCI)	Q2	Draft		13/07/2018					
Adult Services	Operational	Adults Placements - Finance & Operational Controls	Q1	Draft		23/07/2018					

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major		3 = Minor	Comments
								Recommendation			
								1	2	3	
Adult Services	Follow-up	Better Care Fund Follow-up	Q1	Draft		09/10/2018					Moved to Q3 from Q1 due to review underway with CCG.
Finance	Governance	Combating Tax Evasion	Q2	Draft		24/08/2018					Days increased to ensure all key areas can be covered.
Adult Services	Governance	Adults Residential Home – Payments Review	Q2	Draft		10/09/2018					Advisory Review
Property Services	Operational	Health & Safety – Premises Management	Q3	Draft		05/09/2018					
Finance	Key Control	Debt Management	Q3	Draft		14/09/2018					
Children's Services	Key Control	Troubled Families - Phase 2 Claims	Q1	In progress		22/06/2018					Certification of claims ongoing through the year
Education	Follow-up	Independent Placements for CLA and Education – Financial Controls	Q1	In progress		04/06/2018					
Governance	Governance	Lone Working	Q3	In progress		13/11/2018					New – request to include in plan.
Adult Services	Operational	Client Finances	Q2	In progress		01/08/2018					Testing moved to Q3 to allow for embedding of bank-line.
Finance	Key Control	STAR Payroll	Q3	In progress		30/08/2018					New - replaces Procurement Category Management.
Schools	Schools	School Theme – Schools Financial Value Standard (SFVS)	Q3	In progress		25/09/2018					Autumn Term visits

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major		3 = Minor	Comments
								Recommendation			
								1	2	3	
Children's Services	Follow-up	The Education of Children Looked After	Q3	In progress		15/10/2018					
Finance	Key Control	Creditors	Q3	In progress		15/10/2018					
Finance	Follow-up	Payroll IR35	Q2	In Progress		01/10/2018					Will carry-out in Q3 with STAR payroll to improve efficiency and minimise staff disruption.
Children's Services	Follow-up	Use of Part-time Timetables	Q3	In Progress		23/10/2018					Actions not yet complete – will revisit in Q4
ECI	Operational	Concessionary Fares	Q4	In Progress		28/11/2018					
Children's Services	Follow-up	Children's Direct Payments	Q3	In Progress		07/01/2018					
Schools	School Theme	School Theme – Safer Recruitment	Q4	In Progress		12/11/2018					School visits – Spring Term.
Finance	Key Control	Cash Handling	Q1	Not started							Request to move back to Q4 to allow new policy to embed.
Adult Services	Operational	Management of Blue Badges	Q2	Not started							Client request to delay to Q4. Initial meeting scheduled.
ICT	ICT	Back Ups – Azure	Q2	Not started							Move to Azure not complete.
Governance	Governance	Risk Analysis Full Lifecycle	Q2	Not started							Initial meeting scheduled.
Governance	Governance	MTFP – the new Approach	Q3	Scoping							Initial Meeting held
Adults	Follow-up	Risk of Care Provider Failure	Q3	Scoping							Initial Meeting held

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major		3 = Minor	Comments
								Recommendation			
								1	2	3	
ICT	Follow-up	SAP – Key controls	Q3	Not started							
Property Services	Governance	Corporate Property Maintenance – Schools	Q3	Scoping							Initial Meeting held
Adults	Follow-up	Adults – New Operating Model	Q4	Not started							Initial Meeting scheduled
Children's Services	Operational	Children's – Special Guardianship Allowances	Q4	Scoping							Initial Meeting held
Property Services	Governance	Corporate Management of Health and Safety	Q4	Not started							Initial Meeting scheduled
ECI	Operational	Section 106 Agreements	Q4	Scoping							Initial Meeting held
Schools	Schools	School Theme – Sports and PE Grants	Q4	Not started							Initial Meeting scheduled
Adults	Operational	LD – Discovery Contract	Q4	Not started							Initial Meeting scheduled
ECI	Operational	Delivery of Major Transport Projects	Q4	Scoping							Initial Meeting held
ICT	ICT	Asset Management – Telephony	Q4	Not started							Request to defer to Q4
Adult Services	Operational	Learning Disabilities – Review to Improve Lives	Q2	Removed							Project ended – days used for Direct Payments Advisory review.

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major		3 = Minor	Comments
								Recommendation			
								1	2	3	
Adult Services	Follow-up	Mental Health – Care Plans	Q3	Deferred							Insufficient progress made to start – will revisit in Q4
ICT	ICT	Procurement	Q1	Removed							Days added to Q2 risk management
Procurement	Governance	Procurement - Category Management	Q1	Removed							Will pick up within Healthy Organisation review in Q2.
Finance and Performance	Governance	Performance Management	Q1	Removed							Will pick up within Healthy Organisation review in Q2.
ICT	Follow-up	Data Subject Access Request (DSAR)	Q1	Removed							More officer time needed to complete agreed actions. Days transferred to Q2 Tax Evasion.
Human Resources	Governance	People Strategy	Q2	Removed							Will pick up within Healthy Organisation in Q2.
ICT	ICT	BRM Infolink Azure	Q3	Removed							Replaced with Q1 Bring Your Own Devices
Human Resources	Governance	Workforce Planning	Q3	Removed							Removed to allow Lone Working audit to be carried out.
Procurement	Follow-up	Procurement – The Monitoring and Control of Savings Made	Q3	Removed							Will form part of Q4 MTFP review.
Procurement	Governance	Corporate Contract Management	Q2	Removed	n/a	09/08/2018					Days added to the Discovery contract
Schools											
Schools	Follow-up	Stoke St Michael Primary - SFVS Follow-Up Audit	Q1	Final	n/a	17/07/2018					

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
Schools	School	Premises Management - Ash Primary	Q1	Final	Reasonable	21/05/2018	8		1	7	
Schools	School	Premises Management - Fiveways	Q1	Final	Reasonable	21/05/2018	6		2	4	
Schools	School	Premises Management - St Nicholas Primary	Q1	Final	Reasonable	21/05/2018	8			8	
Schools	School	Premises Management - Ditcheat Primary	Q1	Final	Reasonable	21/05/2018	8		1	7	
Schools	School	Premises Management - Blackbrook Primary	Q1	Final	Reasonable	21/05/2018	10		1	9	
Schools	School	Premises Management - Haselbury Plucknett Primary	Q1	Final	Reasonable	21/05/2018	6			6	
Schools	School	Premises Management - Berrow Primary	Q1	Final	Reasonable	21/05/2018	7		1	6	
Schools	School	SFVS – Tor School	Q3	Final	Partial	25/09/2018	19		2	17	
Schools	School	SFVS - Stogursey	Q3	Final	Partial	25/09/2018	13		4	9	
Schools	School	SFVS – Sky College	Q3	Final	Reasonable	25/09/2018	9		1	8	

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major		3 = Minor	Comments
								Recommendation			
								1	2	3	
Schools	School	SFVS – Dulverton Junior School	Q3	Final	Reasonable	25/09/2018	8		2	6	
Schools	School	SFVS - Chilthorne Domer	Q3	Final	Reasonable	25/09/2018	16		2	13	
Schools	School	SFVS – St Benedict's Junior	Q3	Final	Reasonable	25/09/2018	13		2	11	
Schools	School	SFVS - Bishop Henderson C of E Primary	Q3	Draft		25/09/2018	18		7	11	

Somerset County Council
Audit Committee – 31 January 2019

Debtor Management

Service Director: Peter Lewis, Interim Director of Finance
Lead Officer: Peter Lewis, Interim Director of Finance
Author: Martin Gerrish, Strategic Manager – Financial Governance
Contact Details: PJLewis@somerset.gov.uk
Cabinet Member: Cllr Mandy Chilcott, Cabinet Member for Resources
Division and Local Member: All

1. Summary/link to the County Plan

1.1. This report reviews the recovery of outstanding debts (monies owed to SCC) and the current performance.

1.2. The achievement of good performance in this area is linked to the County Plan in relation to "bring in more funding and resources".

2. Issues for consideration

2.1. Members are asked to comment on the position in relation to outstanding debt performance at the end of December 2018.

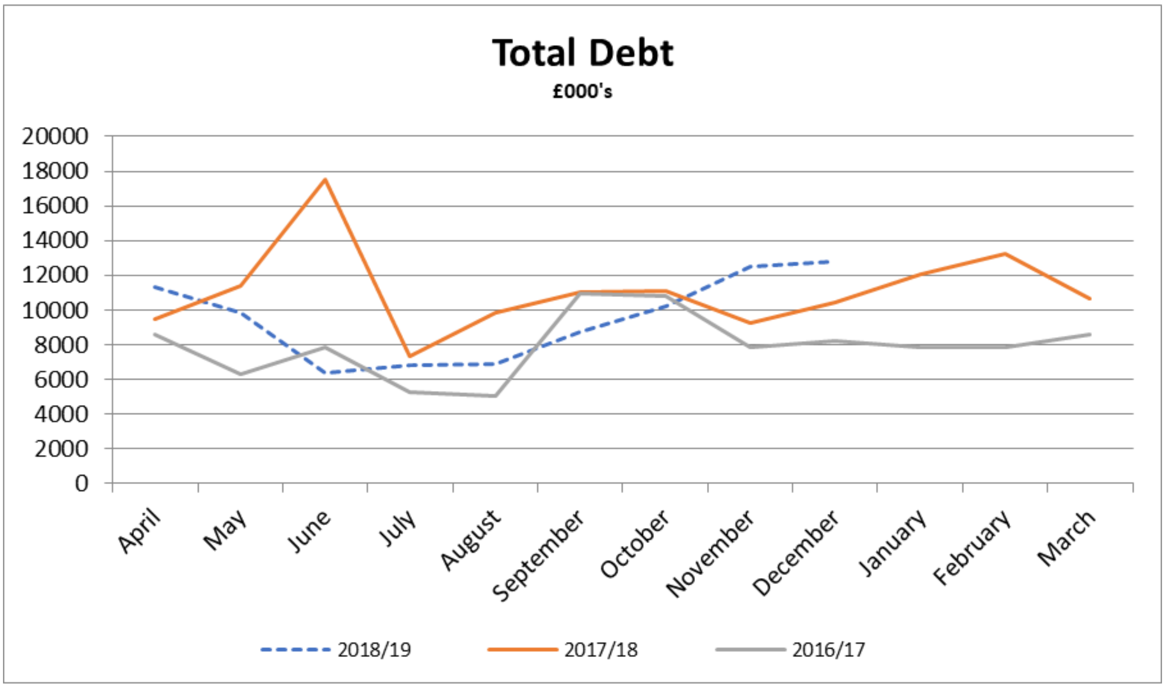
3. Background

3.1. Headline figures as at 31 December 2018

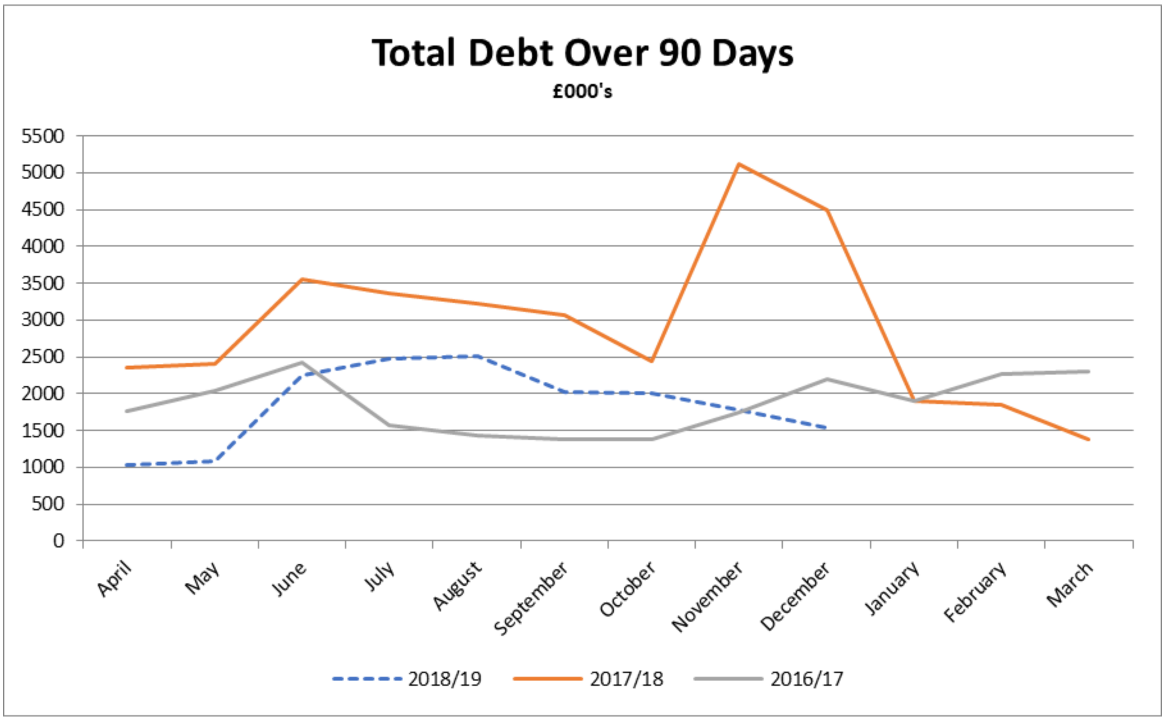
Services' total outstanding debt reported on the Accounts Receivable system stood at **£12.833m** as at 31 December 2018. This compares with a figure of £10.444m as at 31st December 2017, and £6.812m, which was the 31st August 2018 figure in the last report to Audit Committee.

The percentage of debts over 90 days as at 31st December 2018 was **12.00%**, which represents a significant improvement on 31st December 2017 which stood at 43.51%, and 36.49%, which was the 31st August 2018 figure in the last report to Audit Committee.

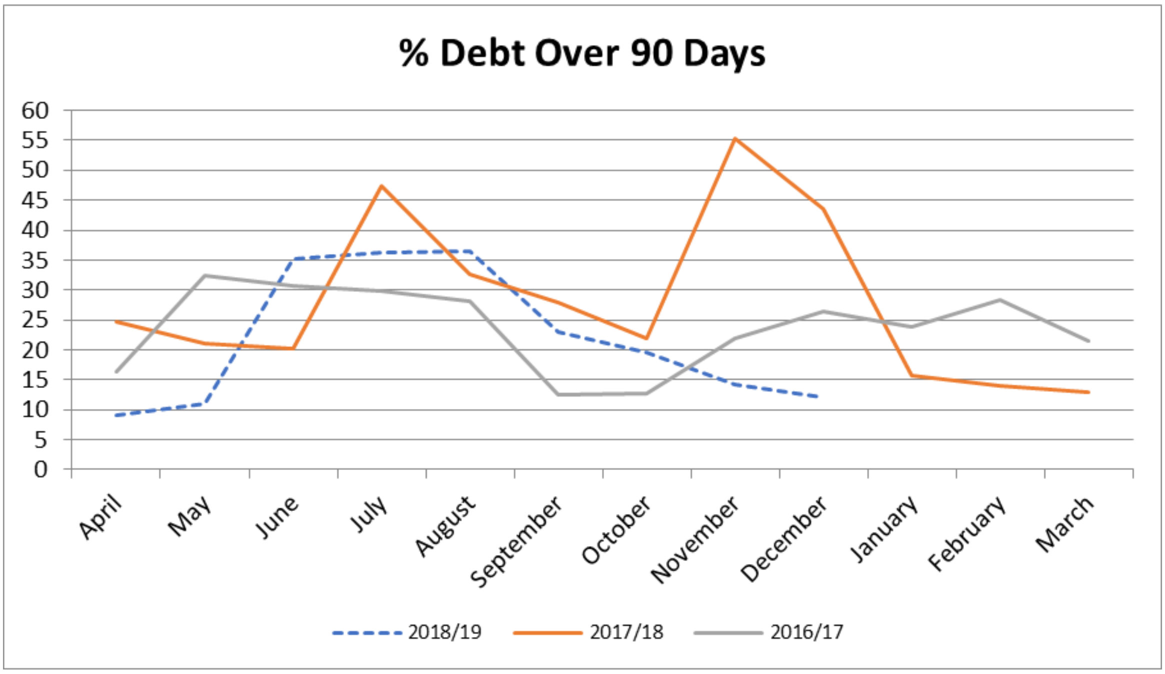
The graph below shows the total debt outstanding over the last 2 years plus current year. The total debt figures for 2018/2019 (the dotted line) show that the amount of debt outstanding has risen steadily since the last report to Audit Committee, although raising more debts is not a concern provided they are being collected promptly.



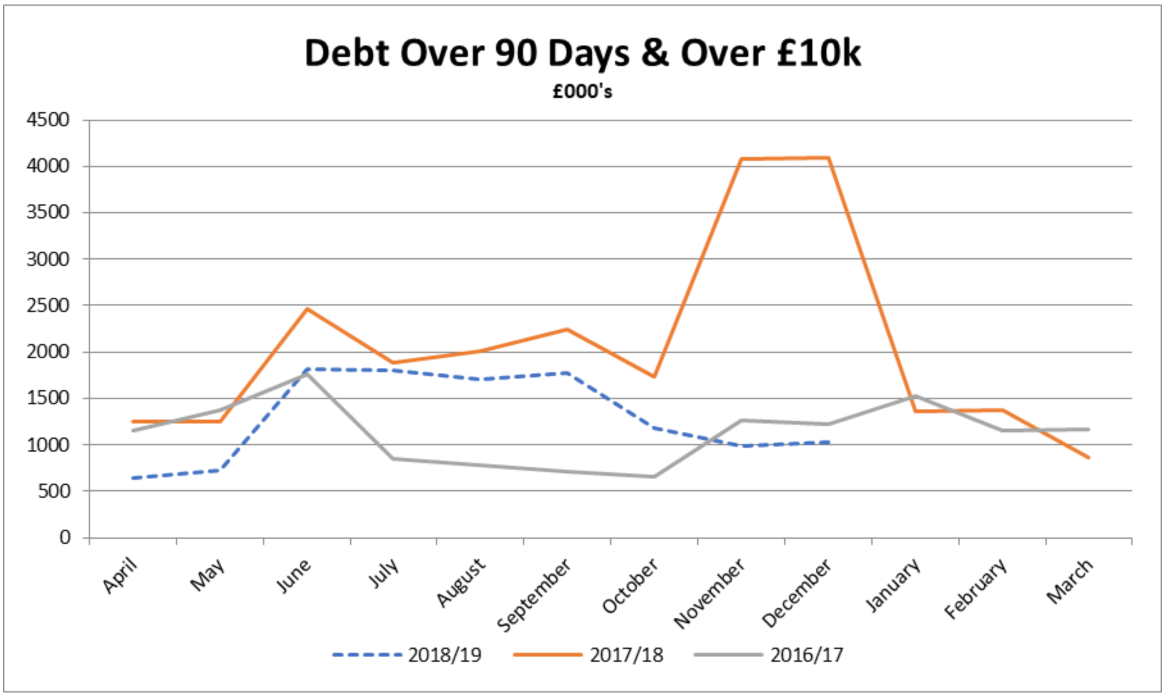
The graphs below show that the total debt over 90 days has steadily decreased over the previous period, from £2.518m at the end of August 2018, to £1.540m at the end of December 2018, a reduction of 38.84% on the previously reported figure.



Therefore, as a result, the percentage of total debt over 90 days, has decreased since August, and is now below the 15% figure (established when Somerset was part of a local authority benchmarking club on debt), which is generally taken to be the sign of strong performance, and was previously agreed with Audit Committee as the local target.



A further test is to consider debts over 90 days and over £10,000, which are higher risk in that they are both elderly and significant. This has also improved since last reported, and the third quarter of 2018/2019 went in the opposite direction to each of the 2 previous years, where performance declined (markedly in 2017/2018).

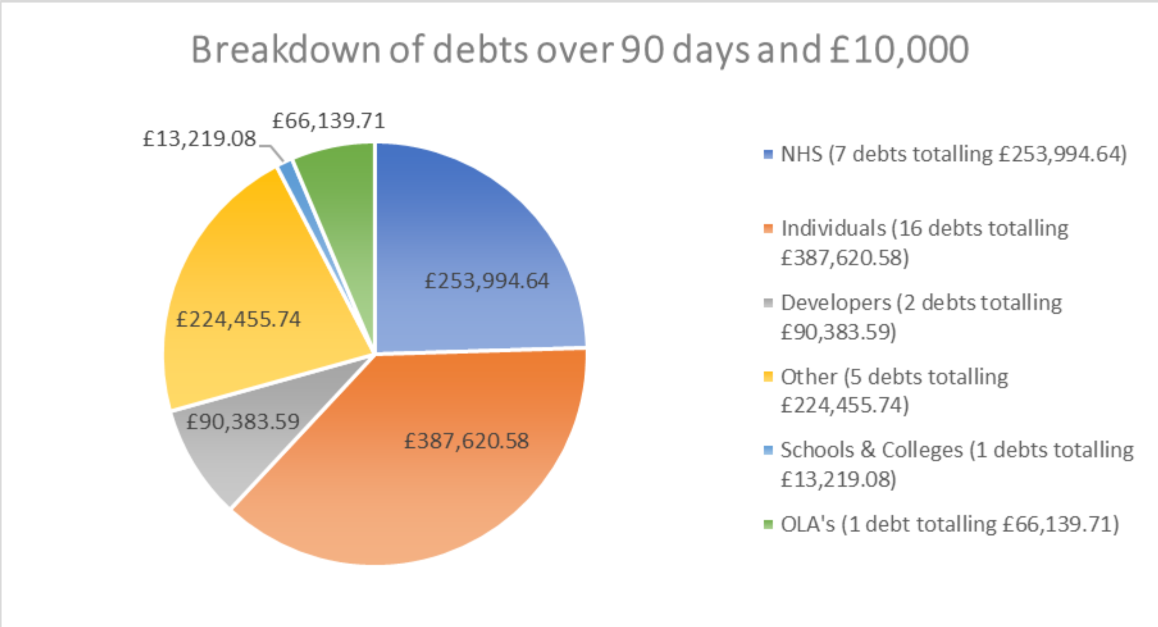


3.2. Breakdown of larger debt figures

There was a total of **32 debts** that are both over 90 days old and over £10,000 in value as at the end of December 2018, (5 of which are between 91 and 97 days old). The number of large, older debts has remained relatively low in recent months, the figure was as high as 94 prior to the launch of the Income Code of Practice in November 2017.

The breakdown of these debts is very similar to August 2018, with debts from individuals remaining the largest both in terms of numbers and in terms of value. Many of these are complex, sometimes involving the estates of deceased former care receivers. NHS debts remain well below levels experienced at this time last year, when they were often in excess of £1m. Members will recall that there are improved processes in place with the NHS, with a portal between us to ensure that the debt information reaches the right person to speed up payment.

The other significant improvement since the last report to Audit Committee has been the reduction on developer debt, which is under 10% of the total at the end of August 2018.



Members can be assured that all these debts are being pursued appropriately.

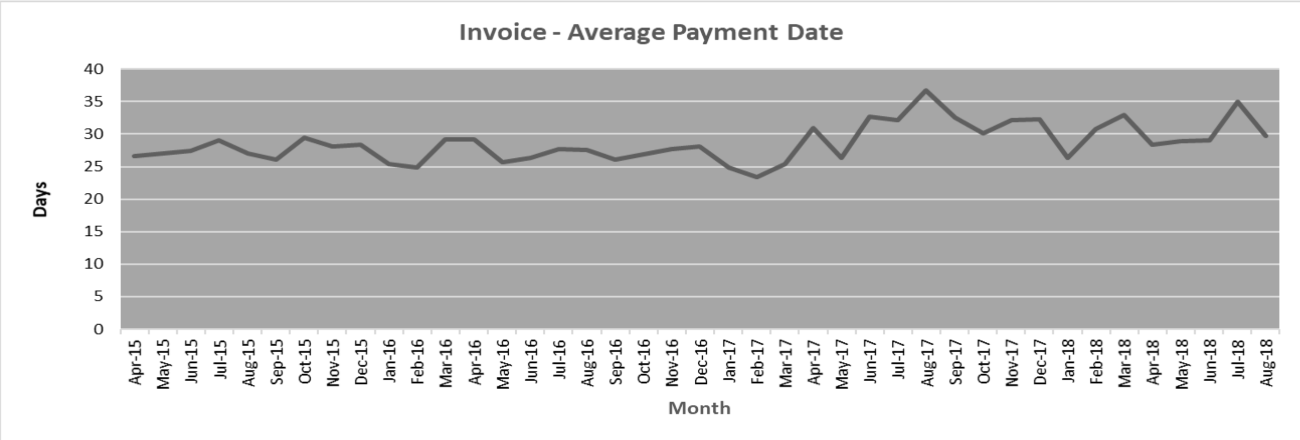
A review of the smaller value of debts over 90 days old reveals that the types of debt remain consistent with previous analyses – provision of care, utilities (such New Roads and Street Works), transport provision, library charges and services provided, (such as Scientific Services), some Property charges.

The Legal Debt Recovery Officers are still confident that the Pre-Action Protocol introduced by the Courts in 2017 has not greatly delayed the collection of debts from individuals and sole traders.

3.3. Average payment days

The other criterion that officers consider important in debt collection is the calculation of the average number of days for an invoice to be paid. Obviously, this cannot be calculated until a sufficient period of time has elapsed to allow for debts to be paid, so our latest analysis is for invoices raised in August 2018 (N.B. this a snapshot position on a month by month basis and not cumulative).

March's figure is 29.74. This figure has hovered around the 30 days mark since the worst position was reported in August 2017.



Members are reminded that, as reported at the June 2018 meeting, we have a strong record of debt recovery. We regularly have collected over 99% of the net debt that we raise through Accounts Receivable over the last 3 financial years.

3.4. Recent Accounts Receivable audit from SWAP

SWAP is about to finalise its 2018/2019 Accounts Receivable audit. This is still going to offer only Partial Assurance. This is disappointing given that the Income Code of Practice has been in force for over a year, and that Accounts Receivable staff have provided significant training to Debt Chasers, often tailored to specific services' needs.

Despite this, the auditor does not consider any of the recommendations made to be highest priority.

The main concern raised is that services and their Debt Chasers are still failing to deliver the actions required under the Income Code of Practice in a prompt and on-going manner. (The Accounts Receivable staff have previously focussed their training and guidance efforts to services that have been non-complaint).

The audit considers the need for further training, emphasising that the Code is mandatory and recommends including an escalation route for ongoing non-compliance.

Once the audit is finalised, it will be brought back to the Audit Committee as part of the Partial Audits assurance process, alongside a review of the Income Code of Practice.

4. Consultations undertaken

4.1 Debt management is considered regularly at the Finance Management Team meetings. Debt is also regularly reported to Cabinet as part of Budget Monitoring.

5. Implications

5.1 If debt is not collected promptly it greatly increases the risk that it may need to be written off which has an impact on the revenue budgets of services. It will also have a (smaller) impact on cashflow costs for the County Council.

6. Background papers

6.1. Previous reports to Audit Committee, including the Income Code of Practice (November 2017).

6.2. Pre-Action Protocol documentation and requirements.

Note For sight of individual background papers please contact the report author

Somerset County Council
Audit Committee – 31 January 2019

Anti Fraud and Corruption Review

Service Director: Peter Lewis, Interim Director of Finance
Lead Officer: Peter Lewis, Interim Director of Finance
Author: Martin Gerrish, Strategic Manager – Financial Governance
Contact Details: pjlewis@somerset.gov.uk
Cabinet Member: Cllr Mandy Chilcott – Cabinet Member for Resources
Division and Local Member: All

1. Summary/link to the County Plan

1.1. This report is the annual review of all the measures that the County Council has undertaken in the last year aimed at the prevention, detection and reporting of fraud and corruption. This is in accordance with our Financial Procedures and acknowledged best practice.

1.2. Anti-fraud and corruption work forms an important part of our corporate governance and internal control framework. With assistance from trained SWAP staff, we compare the County Council's systems and processes against typical fraud target areas for fraud, and against national trends and guidance.

1.3. The officers' conclusion of this review is that the County Council still has a sound framework in place, although still more could be done to raise awareness. However, we continue to see a small number of fraud allegations, some leading to more formal investigations from SWAP, (and potentially reporting to Action Fraud). This review and these incidents need to be strongly considered when the Audit Committee sets its Internal Audit Plan for 2019/2020 at its March meeting.

1.4. There has been a review of our Anti-Fraud and Corruption Policy, Anti-Bribery Policy and Anti-Money Laundering Policy, and these are still deemed to be fit for purpose, subject to minor comments below.

2. Issues for consideration

2.1. The Committee is asked to regard the current national trends and to consider and comment on the specific anti-fraud and corruption measures undertaken and planned locally (paragraphs 3.4 to 3.7 below).

2.2. The Committee is asked to re-confirm the Anti-Fraud and Corruption Policy as set out in Appendix 1, and the subsidiary Anti-Bribery and Anti-Money Laundering policies.

2.3. The Committee is invited to comment on the local fraud cases in Appendix 2.

3. Background

3.1. National commentaries and support available

3.1.1. Many organisations now provide guidance / information about combatting public sector fraud, and a number of publications are included in the Background Papers section of this report (in a very approximate order of relevance and most recent).

3.1.2. The Chartered Institute of Public Finance and Accountancy (CIPFA) has taken on a larger role to guide counter fraud work in the public sector, with a dedicated Counter Fraud Centre since 2014. It has published a" **Code of practice on managing the risk of fraud and corruption**". This Code is designed to "support organisations seeking to ensure they have the right governance and operational arrangements in place to counter fraud and corruption." It has also supported the latest Fighting Fraud and Corruption Locally (FFL) tri-annual strategy entitled "**The local government counter fraud and corruption strategy 2016-2019**", and CIPFA has produced its own "**Fraud and Corruption Tracker 2018**" which summarises the national position on many types of fraud through surveying local authorities.

3.1.3. The Cabinet Office now has responsibility for the National Fraud Initiative (NFI) and has recently produced a detailed report on work undertaken under the NFI and potential losses and recovery achieved. Our local work under the most recent NFI data is set out below.

3.1.4. The European Institute for Combatting Corruption and Fraud (TEICCAF) "exists to protect the public purse and voluntary sector funds from corruption and fraud throughout Europe". It produced a review entitled "**Protecting The English Public Purse 2016**".

3.1.5. The Centre for Counter Fraud Studies based at the University of Portsmouth produced the "**Annual Fraud Indicator 2017**", which attempts to re-quantify the likely loss through fraudulent activities by each category of fraud.

3.1.6. The majority of these publications are based on surveys and estimated costs of fraud by sector (private, public, individual, charity etc). Whilst the estimates are not always consistent, there is strong correlation as to the areas where fraud is perpetrated against, say, local authorities, and general consensus as to new and emerging risks (see below). For example, it is clear that many commentators consider that for the <u>public sector in general</u> the three greatest areas of perceived fraud risk are procurement, council tax single person discount (SPD) and adult social care.

3.1.7. There is also guidance from most publications as to how to combat fraud locally. The majority advise following a thought process similar to the CIPFA's of **Acknowledge Responsibility – Identify Risks – Develop A Strategy – Provide Resources – Take Action**.

3.2. The critical need to acknowledge fraud risks and recent national cases

3.2.1. A common theme again running through the national commentaries remains, in that **organisations have difficulty in accepting that they are a fraud target** and that there is a risk of significant loss as a result. This is despite some high-profile convictions from fraud cases against local authorities in the past year, two of the most recent and illustrative which are set out below:-

3.2.2. In October 2018, it was reported that a £2m **Compulsory Purchase Order fraud** had occurred against the London Borough of Barnet. A lack of financial oversight by London Borough of Barnet over a regeneration joint venture allowed an employee to divert £2m of compulsory purchase order (CPO) payments to his own bank account. The man, an employee of the venture, was jailed for five years in July 2018 for diverting compulsory purchase order payments into his personal account between 2016 and 2017. The fraud was only picked up when the man's own bank made contact to query an unusual transaction. He was able to request 62 inappropriate payments to personal bank accounts.

3.2.3. Grant Thornton's investigative report found a number of problems of financial oversight, and commented that:-

- "Lack of control over delegated financial authority in the areas reviewed … and overseen by the council gave the individual access to cost centres on the ledger for illegitimate purposes."
- "The overall financial control environment around the regeneration service within ... was not sufficiently robust to ensure that financial control weaknesses were actively identified and mitigated as part of business as usual."
- "In our view, in addition to inadequate controls put in place … there was also insufficient oversight by the council to ensure that financial controls and budget management were sufficiently robust".

3.2.4. Also, in October 2018, a man was convicted of **defrauding the pension fund** of Westminster City Council and money-laundering in excess of £1,000,000. The individual concerned was working as the Chief Investment Officer and appears to have persuaded colleagues to sign off transactions as investments. However, he had diverted pension funds through Swiss bank accounts and then back into the UK, where he distributed the money to both his personal and own company bank accounts. This activity came to light when the auditors were made aware of discrepancies within the staff pension fund and found that the money had been unlawfully removed from the fund.

3.2.5. Work has been previously undertaken at Somerset County Council with key groups, such as reviewing anti-money laundering with our exchequer staff who receive payments on behalf of the County Council and presentations to senior managers, at the instance of the Chief Executive, as to the risks of "abuse of position" type frauds and the need for continued vigilance. This type of activity will need to be repeated. We have also just completed a budget management course through the LGA to a large number of senior officers, which should assist them in recognising rogue transactions It is critical that SWAP's time continued to be allocated to key systems (financial or operational) where there is greater risk of fraud.

3.3. Estimating the cost of fraud

3.3.1. All of the national commentators agree that fraud against the public sector remains "big business" and that combatting it should remain a high priority for local authorities and public sector organisations.

3.3.2. It is obviously very difficult to quantify the total frauds perpetrated against local authorities, because not all frauds are detected, and even those that are detected and pursued may not be possible to calculate as an absolute value. The last comprehensive survey was undertaken by the (now defunct) National Fraud Authority in 2013/2014. It is estimated that public sector fraud still costs the taxpayer at least an estimated £20.3 billion a year, and local government £2.2 billion a year.

3.3.3. More recent commentaries have concluded that this figure is far too conservative an estimate and that the losses are significantly higher. The Cabinet Office's work had concluded that this figure is probably a very conservative estimate and quotes the combined losses from central and local government to be between £20 billion and £49 billion per annum. The Annual Fraud Indicator 2017 headline figure estimates that public sector fraud losses are estimated to be £40.4 billion, of which £7.8 billion it attributes to local government, excluding benefits.

3.3.4. The above figures need to be compared with the amount of fraud that local authorities are actually detecting or preventing. CIPFA's Tracker, the most recent survey, estimates that nearly 80,000 frauds were detected or prevented across local authorities in 2017/2018, with a total value of close to £302m, (an average value per fraud case of approximately £3,600). It also notes that the number of serious and organised crime cases has doubled since 2016/17. The implication, (even with estimated figures), is that only a very small percentage of frauds perpetrated against local authorities are actually detected or prevented.

3.3.5. Obviously, it should be noted that some organisations are markedly more susceptible to fraud risk than others depending on their functions, e.g. housing tenancy and housing benefit fraud will only impact on housing authorities. Further there is a marked difference in frauds detected across the regions, with detected incidents in London alone historically being up to 3 times the whole of the South West combined.

3.4. Fraud risks to Somerset County Council

3.4.1. The pie charts below show detected fraud by volume, and then detected fraud by value for all local authorities, showing the relative size and impact of certain categories of fraud. This is taken directly from CIPFA's 2018 fraud survey of local authorities (being the most recent of all such surveys, and directly from local authority respondents).

3.4.2. Broadly, these figures are consistent with previous year's surveys (Council Tax was 76% by volume in the 2017 survey, for example), and emerging trends and key points to note are discussed in more detail below. These results are from all local authorities (County, District, Unitary, Metropolitans, London), and so again not all fraud categories are direct fraud risks to the County Council.

Chart 1 : Detected fraud by volume

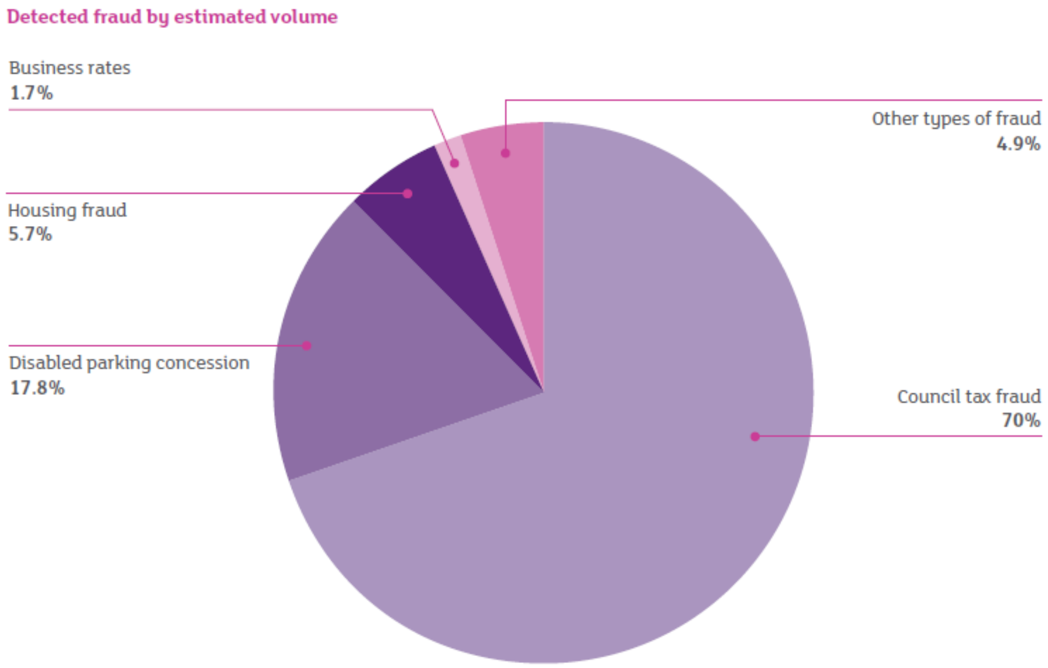
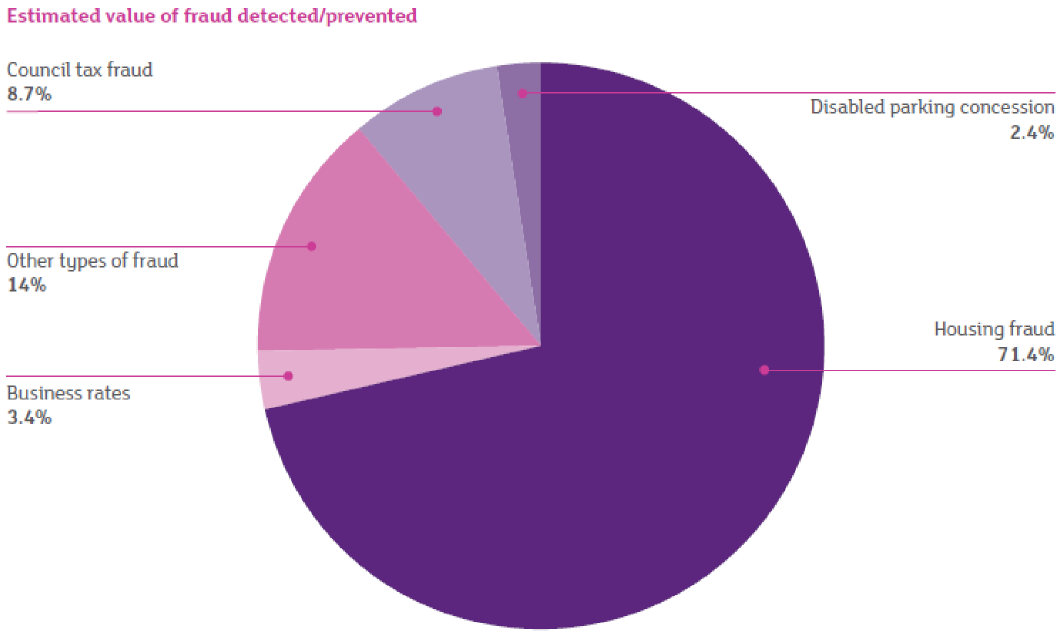
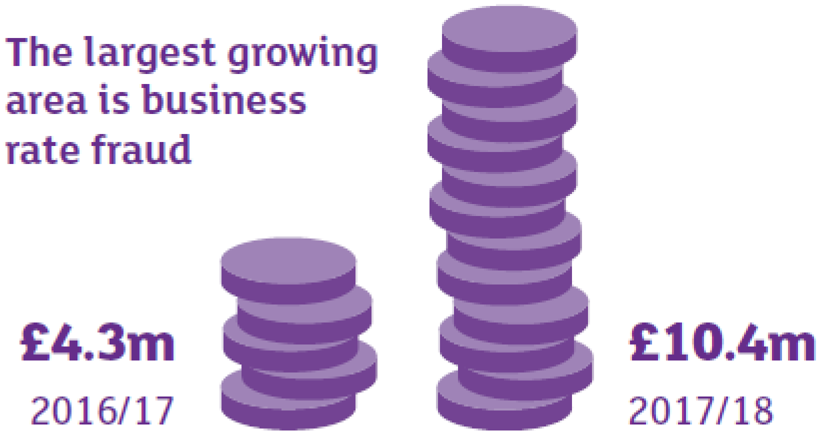


Chart 2 : Detected / prevented fraud by value





(However, it should be noted that Business Rate fraud remains just 3.4% of the estimated value fraud detected or prevented. Blue badge fraud has also increased – up £3m to £7.3m prevented or detected in 2017/2018).

3.4.3. The table below shows all the types of frauds reported in the survey and the estimated volume and value during 2017/18.

Types of fraud	Fraud cases	% of the total	Value	% of the total value	Average
Council tax	57,894	70.0%	£26.3m	8.72%	£455
Disabled parking concession	14,714	17.8%	£7.3m	2.43%	£499
Housing	4,722	5.7%	£215.7m	71.43%	£45,677
Business rates	1,373	1.7%	£10.4m	3.45%	£7,580
Other fraud	1,165	1.4%	£10.9m	3.61%	£9,355
Adult social care	737	0.9%	£6.7m	2.23%	£9,124
No recourse to public funds	378	0.5%	£4.3m	1.43%	£11,445
Schools frauds (excl. transport)	285	0.3%	£0.7m	0.24%	£2,537
Insurance claims	281	0.3%	£3.5m	1.15%	£12,317
Mandate fraud	257	0.3%	£6.6m	2.18%	£25,618
Payroll	167	0.2%	£1.0m	0.33%	£6,030
Pensions	164	0.2%	£0.6m	0.19%	£3,492
Procurement	142	0.2%	£5.2m	1.71%	£36,422
Welfare assistance	109	0.1%	£0.0m	0.01%	£337
Debt	91	0.1%	£0.4m	0.12%	£3,948
Children social care	59	0.1%	£0.9m	0.31%	£15,800
Economic and voluntary sector support	57	0.1%	£0.8m	0.26%	£13,467
Recruitment	52	0.1%	£0.5m	0.16%	£9,510
Expenses	34	0.0%	£0.2m	0.01%	£867
School transport	30	0.0%	£0.1m	0.04%	£3,857
Manipulation of data	23	0.0%	N/A	N/A	N/A
Investments	2	0.0%	£0.0m	–	–

3.4.4. Previously, the CIPFA survey has reported that there was an average of 4 prosecutions per survey respondent. It must be remembered, however, that the responders included District and Unitary authorities with Council Tax and housing responsibilities, and as the charts show, these are by far the largest proportion of detected cases.

3.4.5. Many of the “traditional” fraud risks are not directly applicable to Somerset County Council, such as housing tenancy and benefits, welfare and Right To Buy frauds. However, there are a number of key findings that come from the CIPFA survey, that do have direct implications for the County Council in terms of specific fraud risks.

3.4.6. **Council Tax fraud**. This remains the overwhelmingly largest area in terms of number of frauds reported. Traditionally, of the frauds detected, Single Person Discount fraud is by far the most common. Protecting the English Public Purse has previously estimated that nationally between 4-6% of all Single Person Discounts are either genuine errors or fraudulent claims. Over 30,000 Single Person Discounts are cancelled nationally as the result of every National Fraud Initiative exercise.

3.4.7. However 2017/2018 also saw an increase in council tax reduction (CTR) support fraud, whereby the council tax payer falsifies household income to qualify for support. CTR fraud now accounts for 15% of the total frauds detected. Whilst this fraud is not directly targetted at the County Council, it obviously bears the greatest financial loss

3.4.8. Previously, the County Council has provided £315,000 of funding to Districts within Somerset to assest with a review of the Council Tax base, particularly with respect to claimants of Single Person Discount. Projections at the time suggest that the benefit to the County Council could be as high as £1.8m from this exercise. Very recently, all Somerset authorities have recently been approached by Powys Council, who are offering a service to tackle Single Person Discount in particular and wider frauds as a potential second stage. At present, details of the proposal have to be treated as commercially confidential, but from discussions with Powys it does appear that they have access to information (such as credit bureaus) and could provide a service level above that which SWAP could offer. Section 151 officers in Somerset are currently considering this proposal.

3.4.9. **Business rates fraud**. Typically this is simply direct evasion of payments due, or even falsification of information to secure exemptions or relief. Again, whilst not directly perpetrated against the County Council it is impacted, and the impact will increase as Business Rate retention increases through Pilots and central government future funding plans. It is notable that the average Business rates fraud was £7,580 in 2017/2018, significantly higher than the Council Tax average of £455.

3.4.10. **Blue Badge fraud**.The value of fraud is very difficult to calculate, as it relates to lost parking revenues. Even in the event of a successful prosecution, there is no direct financial recovery that can be made, and any fine paid by the individual goes to the court, although some costs can be recovered. CIPFA estimates that Blue Badge fraud costs rural counties £449 per instance. This fraud relates to one individual’s use of a Blue Badge belonging to someone else (typically a family member). In most cases this occurs after the death of the individual who is entitled to a Blue Badge and notification of death and the withdrawal of the Blue Badge has therefore not occured. A total of 31,223 Blue Badges were cancelled nationally in 2016/2017 as a result of the National Fraud Initiative work (about 1.3% of the total in existence), although this does not mean that all were used fraudulently.

3.4.11. **Pension fraud**. Typically, in a similar way to Blue Badge fraud, this is often "Failing to disclose information" under the 2006 Fraud Act, where the Fund is deliberately not notified of the death of a pensioner and the funds continue to be paid into a bank account, and used by a family member. The National Fraud Initiative is a particularly good tool in recovering overpayments of pensions, mostly through geuine error, as we know what we have paid out and when, and we will be told the date of death by the DWP and General Registrar's Officer, and can match the dates accordingly.

3.4.12. **Concessionary Travel fraud**. Again, the primary method of committing fraud on concessionary travel is to deliberately not notify us of the death of a pensioner and to continue to use, (and even re-apply in some cases!) for a pass. The National Fraud Initiative will allow us to update our records periodically. This is another area where information is critical – some 234,154 passes were stopped nationally in 2016/2017, a significant increase on previous years, but with 9.8 million passes in circulation it remains a risk.Somerset County Council has improved its work generally on concessionary fares in 2017 by the appointment of a dedicated concessionary fares officer, although the post is currently looking at the operators, where the cost risks are larger.

3.4.13. **Procurement fraud**. This category of fraud appears to be on the rise nationally, admittedly from a very low base. Even with a small number of cases, because of the nature of fraud, the potential costs in each case to authorities is substantial (£36,442 per case detected in 2017/2018) and procurement fraud is only below housing in terms of value per case.This can be at any stage of the procurement of goods and services to an authority, such as through tendering, or even during the contract monitoring stage after a contract is let.

3.4.14. Somerset County Council has a very well defined procurement process for awarding large contracts, using a dedicated procurement portal, and as such has a level of protection against procurement frauds that provides strong assurance. The amount of potential loss only serves to emphasise the need for compliance with our prescribed procurement processes.

3.4.15. **Adult social care fraud**. Adult social care fraud is clearly increasing can happen in a number of ways:-

- Residential homes continuing to invoice for residents who have died;
- Residential homes or case workers claiming money for time that they had not worked with those needing care, or where they had failed to provide the full level of care that a local authority had requested;
- Direct payments not being used to pay for the care of a vulnerable audit, or for expenditure that it should not be used for;
- Direct paymerns being claimed in a way to evade tax liabilities, such as when care is provided by an individual;
- Deliberate failure by individuals with a personal budget to declare a change in circumstances, either health or financial;
- Defrauding the vulnerable adult of their direct payments they were legitimately entitled too, usually by a friend or relative.

The fraud risk on adult (and childrens) social care has increased through the use of direct payments to individuals to arrange their own social care needs. Only 2% of adult social care fraud cases have insider invovement by the local authority's staff.

3.4.16. As can be seen from the local investigations in Appendix 2, there have been a small number of allegations with regards to adult social care fraud in 2018 at Somerset County Council. Whilst none are proven and this may lead to no formal investigations with the police, it has highlighted this area as one that should be included on the Internal Audit Plan for 2019/2020. Officers will propose to include audits on both residential home care providers and on direct payments (adults and childrens).

3.4.17. **Other frauds** that could directly impact against SCC include:-

- **Insurance fraud** for false claims (SCC's Insurance Team has implemented the Claims and Underwriting Exchange (CUE). CUE is a central database of motor, home and personal injury/industrial illness incidents reported to insurance companies, which may or may not give rise to a claim). There have been no investigations at Somerset in recent years, and with CUE the risk is considered relatively low.

- **Payroll fraud** for unworked hours and expenses. CIPFA report that up to 40% of payroll cases involved insider fraud, but SCC can take a great deal of assurance from the repeatedly Substantial assurance from SWAP audits on our main payroll system and controls. Nationally, instances of payroll fraud are reducing.

- **Mandate fraud** claiming to be from suppliers and asking us to change their bank account details (SCC has controls in place to check any such requests, and this is a rather unsubtle and easily combatted fraud attempt). Cases of mandate fraud are notably on the decline in recent years.

3.5. SWAP audit work on fraud

3.5.1. The Internal Audit Plan makes provision for anti-fraud work in several ways:-

Firstly, the auditor will be looking for key controls and processes in every audit, and would flag up any concerns that arose in the course of their work – be it the possibility of loss through error, or the potential for frauluent activity.

3.5.2. Secondly, we include a number of what are termed “key control audits” looking at our financial and related systems. In the 2018/2019 Internal Audit Plan, this includes audits on Accounts Payable (Creditors) and Debt Management. It wil be proposed to include both Payroll and Treasury Management in 2019/2020.

3.5.3. Thirdly, each year, as part of the Internal Audit Plan, we include at least one fraud-themed audit, looking at how well protected the County Council is from certain specific fraud risks. This is informed from a number of sources – such as national emerging themes, audit recommendation or officer request.

3.5.4. In 2017/2018, SWAP carried out a wider piece of work looking at emerging national fraud issues, and how they were managed in Somerset, in ordering to give a level of risk assessment. They found higher levels of assurance in some areas, such as Insurance, payroll and Early Years. Whilst assurance around Procurement and Accounts Payable (Creditors) was also generally thought good, the sheer volume and value of transactions going through these areas presented a risk. Concessionary Fares was alrady subject to a Follow Up audit, and the service made a presentation at the November 2018 Audit Committee to highlight recent improvements in their work.This left the Blue Badge scheme, and whilst there had been no evidence that fraud has been attempted, as this had not been audited for some years, it was included in the 2018/2019 Plan.

3.5.5. In addition, a Cash Handling audit was included in the 2018/2019 Plan, given that this represents an area with a high inherrent risk of fraud and error.

3.5.6. Fourthly, there is also capacity within the Internal Audit Plan for trained auditors to investigate individual allegations as they arise. As ever, SWAP has been very flexible in freeing up resources and in providing an auditor to investigate individual cases. A summary of these can be found at Appendix 2 of this report.

3.5.7. In addition, in response to new legislation in the form of the Criminal Finances Act 2017, an advisory audit was included in the 2018/2019 Internal Audit Plan (details set out paragraph 3.6 below).

3.5.8. With the National Fraud Initiative work also about to recommence (paragraph 3.7 below), and the proposed audits for the 2018/2019 Plan officers believe that work has either happened recently, or will take place imminently to review all the main fraud risks facing Somerset County Council.

3.6. Tax evasion audit – initial findings

3.6.1. To remind members, new legislation has been enacted within the Criminal Finances Act 2017, which came into affect in September 2017. Only two things need to happen for a "relevant body" (which includes the County Council) to commit the Offence:

- A fraud is committed; and
- It is facilitated by someone associated with the relevant body

A relevant body's employees are associated with it as well as contractors supplying services to the relevant body.

Critically, facilitation includes failure to prevent.

3.6.2. Three examples are quoted in the guidance:

- An employee agrees to pay a contractor in cash for construction-related work at a local authority school on the understanding that VAT will not be accounted for the payment will be made outside of the Construction Industry Scheme.

- An outsourced payroll contractor agrees with an individual to turn a blind eye to the IR35 rules.

- An employee agrees to pay a third party for a casual labour task as the contracted provider, who should have been treated as an employee for PAYE and NIC purposes, has no business bank account.

In each of these examples, the local authority is liable. It is a strict liability offence, meaning that knowledge of the actions is not needed for there to be a liability. Unless, a relevant body has put in place reasonable preventative procedures there will be an investigation by HMRC with potential prosecution and an unlimited financial penalty.

3.6.3. This audit was added to the 2018/2019 Internal Audit Plan following the annual Anti-Fraud and Corruption report in January 2018. The purpose of the audit was to make an initial assessment of SCC's procedures to see if they pass the "reasonable" test. The audit fieldwork is largely complete, and a final report is expected shortly. It looks at 7 areas that national commentators and/or SCC officers believed to be particularly important for this offence (in approximate order of relevance):-

- Value Added Tax (VAT);
- Payroll, including Pay as You Earn (PAYE) & IR35;
- Construction Industry Scheme (CIS);
- School imprest funds;
- Schools unoffical funds;
- Direct payments;
- Grants.

3.6.4. Initial analysis is that VAT and payroll both would meet the reasonableness tests already. There are no "highest priority" findings to address elsewhere, but there is further work or additional sampling that could be usefully done in other areas. SWAP propose that this can be completed through a combination of policy work, training and communication, coupled with specific audits in the 2019/2020 Plan. SWAP recommend that the County Council produce a tax evasion strategy built on the findings of the audit, including a clear statement confirming the Council's position on tax evasion facilitation, and that it is publicised. The audit also recommends that training for specific groups of staff in terms of tax evasion as it affects their work. All of these points will be agreed by SCC officers and reviewed with SWAP in 2019/2020.

3.6.5. The tax evasion audit also proposes a number of future audits that will pick up these points (in addition to being valueable audits in their own right). SWAP propose including a school purchasing theme in next year's audit plan, during which they will review how schools control their CIS invoices, imprest funds and procurement cards, which will provide further evidence in all these areas. SWAP also propose an audit of Schools Unofficial Funds as this has not been undertaken since 2013/2014.

3.6.6. Completion of all these actions will provide the County Council with a stronger position to demonstrate reasonable preventative procedures should a tax evasion issue be raised with HMRC.

3.7. National Fraud Initiative (NFI)

3.7.1. Somerset County Council continues to participate in the Cabinet Office's National Fraud Initiative (NFI), along with 1,200 other organisations. This scheme is a cross-authority exchange of information between public bodies, with its own highly-secured website, which is run on a 2-year cycle. Participating authorities provide information from their primary systems to the NFI for analysis. This information includes, for example payroll, pensions, creditors, Blue Badge holders, insurance claims, vendors and payments made, concessionary travel passes and personal budgets.

3.7.2. Members are reminded that whilst Somerset County Council must comply with all legislation and guidance on the use of data, (such as the General Data Protection Regulation (GDPR) which has been to Audit Committee previously), the Data Protection Act 2018 still allows “competent authorities” to use data for the detection of fraud. The NFI work does not require the consent of the individuals concerned.

3.7.3. The Cabinet Officer NFI teams compare our data both internally and with information supplied by other organisations and highlights potential errors or frauds. For example, it compares staff on our payroll and pensions, who also appear on other authorities’ payroll and pensions records for the same period, or people on our pensions or concessionary fares lists for whom the Department of Works and Pensions have a deceased date. It also looks at where we have made the same or similar payments to the same supplier over time, or where the VAT on payments is unusual. Once the NFI have done their comparative work, we receive “datasets” back onto our secure system. A dataset is effectively a list of all potential “matches” or concerns that the NFI’s work has thrown up in a certain area e.g. pensions, which were the largest increase in potential “matches” and monies recovered in the previous exercise.

3.7.4. Access to the NFI website is highly restricted, but a few staff within each service area in the County Council then investigate the potential matches for any suspicious activity in their own specialism. Where the potential match is with another authority, there is a secured electronic communication within the other authority to check details and investigate in a collaborative manner.

3.7.5. Our latest information was uploaded to the National Fraud Initiative database in late 2018. At the time of writing this report, we are awaiting the output from the NFI database to permit our analysis of the data “matches”. Somerset County Council has uploaded a significant number of records to the NFI database, although we do not expect the vast majority to be concerns:-

	Record Count
Blue Badge Parking Permit Uploads	28,645
Creditors History Uploads	470,823
Concessionary Travel Pass Uploads	109,424
Creditors Standing Uploads	10,772
Deferred Pensions Uploads	26,032
Personal Budgets Uploads	1,564
Pensions Uploads	57,446
Payroll Uploads	9,902
Private Residential Care Homes Uploads	2,108
Total	**716,716**

3.7.6. In the previous 2-year cycles, in addition to a small number of cases that warranted investigation, we also have found a number of genuine errors and these have typically resulted in approximately £30,000 per NFI exercise being recovered, which more than covers the staff time involved. For some areas, such as pensions, this recovery could be recurring over many years. Nearly 7,000 “matches” were reviewed by SCC staff in the previous cycle.

3.7.7. Active participation in the National Fraud Initiative is a key defence for local authorities in combatting fraud, albeit a retrospective exercise. Of the figures quoted in the CIPFA Tracker, the majority of those detected nationwide have come from this exercise. (Members are reminded that a previous NFI exercise was directly responsible for the only successful prosecution that Somerset County Council has had for fraud to date, which was a pension case).

3.7.8. In previous cycles, the National Fraud Initiative has only served to confirm the strength of Somerset County Council's systems – particularly around Accounts Payable and VAT. In these areas in particular, the NFI rarely if ever throws up a potential anomaly that was not already detected and reviewed by the respective teams.

3.8. Transparency requirements

3.8.1. The Local Government Transparency Code sets out the minimum data that local authorities should be publishing on fraud, the frequency it should be published and how it should be published. The table below sets out the Code's requirements. This will be updated on the relevant part of our website by the end of January 2019. We also include the January Anti-Fraud audit report and links to SWAP, contact details and to other relevant sites and information, exceeding the statutory requirement.

Minimum to be published	**Recommended**
Annual publication Publish the following information: • number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers • total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud • total number (absolute and full time equivalent) of professionally accredited counter fraud specialists • total amount spent by the authority on the investigation and prosecution of fraud • total number of fraud cases investigated	**Local authorities should publish**: • total number of cases of irregularity investigated • total number of occasions on which a) fraud and b) irregularity was identified • total monetary value of a) the fraud and b) the irregularity that was detected, and • total monetary value of a) the fraud and b) the irregularity that was recovered

3.9. Anti-Fraud and Corruption Policy

3.9.1. As part of our annual review of the County Council's anti-fraud and corruption measures, a review has been carried out of our Anti-Fraud and Corruption Policy (Appendix 1). Officers do not see any need for a substantial review of this document at present, individual investigations have been carried out by SWAP auditors and SCC staff during 2018, and it is clearly workable in practice.

Very minor updates (such as officer Job Titles and posts, given the departure of the Strategic Manager – Governance, ECI and Corporate Services) have been made.

Fraud remains a clearly stated example of gross misconduct within the relevant HR policies.

3.9.2. In summary, Somerset County Council remains committed to a **zero tolerance policy**, to investigating all credible allegations, to seeking to recover all losses, and to reporting cases to Action Fraud where there is any possibility of a criminal conviction.

3.9.3. Significant work was undertaken previously to present to senior managers the risk of fraud, following a number of internal “abuse of position” cases (previously reported to the Audit Committee). It will be necessary to remind officers, members and third parties of SCC’s policy with regard to fraud in 2019.

3.9.4. Members may recall that the recent procurement of new insurance policies has an improved cover against criminal activity, increasing the potential for any recovery.

3.10. Anti-Bribery Policy

3.10.1. This is an Annex to the Anti-Fraud and Corruption Policy. This policy was significantly updated ahead a couple of years, with help from SWAP.

3.10.2. The auditor’s overall view was that there was a **Low Risk** in terms of our controls in relation to these offences, and that any response would only need to be proportionate to that level of risk. Officers concur with this assessment. Although some of our controls are not “badged” as anti-bribery, there are many effective controls in preventing bribery, such as the examples in the table below.

Area of Potential Risk	**Examples of Mitigating Controls**
Award of contracts	Use of Pro Contract and Contract Standing Orders Controlled waiver process Decision paper required and consultation with key officers
Award of planning permission	Decisions made through public Regulation Committee. Members’ standards
Recruitment	HR guidelines and support Panel interviewing
Payment of insurance claims	External support, e.g. legal, brokers Review of insurance files from underwriter

3.11. Anti-Money Laundering Policy

3.11.1. This policy was similarly extensively updated previously and is an Annex to the Anti-Fraud and Corruption Policy. Again, the risk of money laundering against SCC is deemed **Very Low Risk**, which is the same conclusion that a number of other local authorities have also reached. SCC will only accept a maximum of £5,000 in cash, and money that has already gone through the banking system has gone through their own extensive anti-money laundering checks. Plans to substantially reduce cash handling and transactions, with more electronic payments under our emerging Cash Handling Policy, and a target to becoming "cashless" by April 2021 will also reduce the risk further.

3.11.2. The CIPFA Guidance for Local Authorities on Money Laundering makes it clear that Local Authorities are not obliged to comply with the Money Laundering Regulations 2007, but the guidance does recommend that public service organisations should embrace the underlying principles of the money laundering legislation and regulations.

3.11.3. The role of Money Laundering Reporting Officer (MLRO) is a specifically set out one to support the legislation in the event of any such case arising.

The Money Laundering Reporting Officer (MLRO) will now be the Funds & Investments Manager, following the departure of the Strategic Manager – Governance, ECI and Corporate Services. It will be for the MLRO to ensure the appropriate investigate of any Money Laundering allegations and to liaise with the Police.

4. Consultations undertaken

4.1. All policies were reviewed in conjunction with the s151 officer.

4.2. All policies were updated previously with significant support from SWAP.

5. Implications

5.1. Measures contained within this report will be used to protect SCC from fraud in the forthcoming year.

6. Background papers

6.1. "Fraud and Corruption Tracker Summary Report 2018" CIPFA
"National Fraud Initiative Report 1 April 2016 to 31 March 2018" Cabinet Office
"Code of practice on managing the risk of fraud and corruption" CIPFA
"The local government counter fraud and corruption strategy" Fighting Fraud and Corruption Locally (also Companion and Checklist documents)
"Annual Fraud Indicator 2017 Identifying the cost of fraud to the UK economy" Experian and others
"United Kingdom Anti-Corruption Strategy 2017-2022" HM Government
"Protecting The English Public Purse 2016" TEICCAF

Note: For sight of individual background papers please contact Pam Pursley: PPursley@somerset.gov.uk

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Appendix 1

Somerset County Council Anti-Fraud and Corruption Policy and Strategy

Introduction

Somerset County Council is determined to pursue a policy of **zero tolerance** in relation to fraud and corruption. The purpose of this document is to set out Somerset County Council's stance on fraud and corruption, provide guidance to staff and others on action to prevent or report on malpractice or the perception of malpractice and to emphasise the need to be aware and to continue the County Council's good record. Zero tolerance means zero tolerance. Zero tolerance includes not only acts of fraud and corruption that are perpetrated against the County Council itself, but wherever and whenever it has an interest or reputation to protect. The County Council will always seek to reduce any such risk of fraud. Zero tolerance includes frauds against the Council's partners, by Council staff against third parties, such as benefit and other personal fraud, and by contractors and those working with or on behalf of the Council.

The County Council controls millions of pounds of public money and takes very seriously its stewardship of this money. The County Council is proud of the excellent reputation it has established for integrity and honesty. Acts of dishonesty within the County Council are rare and the County Council has a very good track record on defending frauds perpetrated against it by individuals attempting to obtain assets to which they are not entitled.

The County Council is, however, determined to protect itself against fraud and corruption both from within and from external sources. The County Council already has in place a Constitution, which includes the Members' Codes of Conduct and Protocols setting out expected behaviours of both members and employees. It also includes Financial Regulations which provide clarity about accountabilities of individuals, Members, Senior Leadership Team etc. The HR content on the Council's Intranet site includes detailed Standards of Conduct expected of Officers. In addition, there are also a number of key documents which provide a governance framework in this area. The Anti-Fraud and Corruption Policy, therefore, brings together the key elements from these documents and provides a link to where further information may be found. As part of its aim to ensure Value For Money (VFM) and Efficiency, the County Council is committed to an effective Anti-Fraud and Corruption Strategy designed to:

- ensure prevention
- facilitate detection, and
- identify a clear pathway for investigation and remedial action.

1. What Constitutes Fraud and Corruption?

1.1 Fraud is defined in the Fraud Act 2006 which came into effect from 15 January 2007. There are three types of fraud:

- False representation
  Where a person makes a representation that is intentionally and dishonestly made, knowing that it is, or might be, untrue or misleading with intent to make a gain for him/herself or another, to cause loss to another or to expose another to risk of loss.

- Failing to disclose information
  Where a person fails to disclose information to another person when he/she is under a legal duty to disclose that information honestly, intending by that failure to make a gain or cause a loss.

- Abuse of position
  Where a person occupies a position in which he/she is expected to safeguard, or not to act against, the financial interests of another person and abuses that position dishonestly intending by that abuse to make a gain/cause a loss (the abuse may consist of an omission rather than an act).

A person can be found guilty even if there is no victim of the crime; all that needs to be proven is the intent to make a gain or cause a loss by the accused.

1.2 Corruption covers the offering, giving, soliciting or acceptance of an inducement or reward, which may influence the action of any person.

2. Application

2.1 This Anti-Fraud and Corruption Policy will apply to all employees and Members of the Council. Where others are to deliver services on behalf of the County Council, it is essential during the procurement or service transfer process that they are made aware of the standards that are expected of them in relation to anti-fraud and corruption measures, and the support that the County Council will expect in delivering our Policy.

3. Overall Approach and Strategy

3.1 Somerset County Council is committed to having a zero tolerance approach to fraud and corruption through the creation of an anti-fraud culture: This will involve:

- Regular promotion of this policy to all officers and members
- Commissioning of audits in areas judged high risk for fraud and corruption.
- Maximum deterrence of fraud and corruption
- Successful prevention of fraud and corruption
- Encouraging the reporting of fraud and corruption
- Prompt detection of fraud and corruption
- Professional investigation of detected fraud and corruption
- Effective sanctions, including appropriate legal action against anyone found guilty of committing fraud and corruption

- Effective methods for seeking recovery of money defrauded or imposition of other legal remedies
- Full reporting of all cases of fraud or corruption to the Audit Committee (subject to any legal constraints)
- Full publication of all concluded legal cases of fraud and corruption (subject to any legal constraints).

4. Procedure

4.1 County Council employees and members **must** report any concerns they may have regarding fraud and corruption, whether it relates to dishonest behaviour by Council employees, Members, Contractors or by others. That action will be free from recrimination. Such concerns will be treated in confidence and will be properly investigated. In the first instance a member of staff should contact a senior manager within the line management structure. However, if the member of staff considers the matter too serious or sensitive or inappropriate to raise within the line management structure then one of the following may be contacted – in person, by telephone or e-mail (marked confidential):

- Director of Resources (s151 officer)
- Strategic Finance Manager – Adults, Health and Childrens
- Chief Internal Auditor or another auditor from the South West Audit Partnership
- Chief Executive
- Monitoring Officer
- Chair or Vice-Chair of Audit Committee.

4.2 All matters will be treated in confidence and an expressed wish not to reveal the identity of a complainant will be respected wherever possible. (Concerns expressed anonymously are much less powerful but will be considered by the County Council). Alternatively, any person with a concern may use the Council's Confidential "Whistleblowing" Policy or as an external contact point such as our external auditors, Grant Thornton.

4.3 Elected members should normally report any concerns to the appropriate Senior Leadership Team member, the Chief Executive, the Finance and Performance Director, or the Monitoring Officer.

4.4 The Council's Disciplinary Code clearly identifies the following as Gross Misconduct:

- Theft or unauthorised possession from other employees, the Council or clients
- Fraud or attempt to defraud
- Falsification and irregular practice in respect of cash, records, returns or attendance recording systems.

A Senior Leadership Team member (or other senior nominated officer, where authorised) may dismiss an employee on the grounds of gross misconduct in accordance with personnel policies, procedures and Human Resources Handbook and subject to consultation with the Human Resources Director.

4.5 An accusation of dishonest behaviour by a Member of the Council should be referred to the Monitoring Officer for an assessment of whether this is likely to constitute a breach of the Members' Code of Conduct.

4.6 If a case involves action against a third party, any action to be taken will be agreed between a Senior Leadership Team member, the Director of Resources, , and where necessary the Monitoring Officer.

4.7 Where investigation reveals evidence of suspected criminal activity with regard to fraud and corruption the relevant Senior Leadership Team member in consultation with the Director of Resources **must** refer the matter to the Police. Where an employee is involved, the employee's Senior Leadership Team member should consult with the Director of Resources and where appropriate, the Chief Executive, Monitoring Officer and Human Resources Director.

4.8 The Council will do all it can to recover monies or assets misappropriated by employees or others as a result of dishonest behaviour. (See Section 7 on "Recovery of Losses")

5. Prevention

5.1 There are many ways of preventing fraud and corruption happening. The Council has adopted the following preventative measures including:

- Having a sound Governance Framework in place, compliance with which is monitored on an annual basis by senior management such as the Governance Board
- Internal audit of key systems and controls
- Ensuring that the risks of fraud and corruption are controlled via corporate and operational risk registers
- The Council's Recruitment and Selection procedure requires that references should always be taken up when recruiting posts externally. This is intended, amongst other reasons, to prevent people with a history of dishonest behaviour being employed by the Council in positions of trust
- The officers' Standards of Conduct makes it clear that the conduct of its employees should be of the highest possible standard and that dishonest behaviour by employees will not be tolerated by the Council
- The members' Code of Conduct requires members to abide by the 7 Principles of Public Life in carrying out their duties together with requirements to register and disclose disclosable pecuniary interests and personal (and where appropriate prejudicial interests) as well as details of gifts and hospitality received.
- The Council's Code of Practice on Whistleblowing gives protection to anyone with genuine concerns which they wish to report who feels that

they cannot follow normal channels such as via management or the council's complaints procedures
- Contracts Standing Orders and Financial Regulations prescribe the minimum standards for financial controls that must be in place within all processes throughout the Council
- The County Council subscribes to the National Fraud Initiative.
- Continual re-assessment of all our preventative measures against emerging nationally identified risks and annual review by officers and the Audit Committee.

5.2 It is the responsibility of each Senior Leadership Team member to ensure that employees are aware of the measures set out in 5.1 above and that their staff comply with them and that sound financial controls exist within their financial systems and procedures. The Senior Leadership Team must seek prior approval of the Director of Resources before any proposed changes to existing financial or related systems are made, in accordance with Financial Regulations.

5.3 The Senior Leadership Team should also ensure that guidelines, rules or other written procedures exist and are complied with for specific activities at risk from fraud and corruption.

5.4 Each individual employee and Member is responsible for observing these rules and codes. This will go a long way to preventing and detecting improper practice.

6. Detection

6.1 The array of preventative systems, particularly internal controls systems with the County Council, help to provide indicators of, and help to deter, any fraudulent activity. Where fraudulent activity is suspected, this will be investigated by Internal Audit. It is not Internal Audit's primary responsibility to detect fraud; the role of Internal Audit is to check the adequacy of the controls within systems. However, the assessment of the risk of fraud is routinely taken into account in planning all internal audits.

6.2 It is the responsibility of the Senior Leadership Team and their managers to prevent and detect fraud and corruption. However, it is often the alertness of staff, Members and the public to the possibility of fraud and corruption, that enables detection to occur and appropriate action to take place when there is evidence that fraud or corruption may have been committed or is in progress.

6.3 Allegations can be a key factor in the detection of fraud and as such the Council treats all suspicions and concerns and complaints seriously and is committed to investigate all such matters.

6.4 The Council's Code of Practice on "Whistle blowing" allows employees and Members to raise any concerns they may have in confidence and anonymously should they so wish.

6.5 Investigation into fraudulent activity will be carried out by the Chief Internal Auditor through SWAP, who will liaise as appropriate with the Chief Executive, Director of Resources, Monitoring Officer, County Solicitor, Director of Human Resources, Senior Leadership Team, relevant members and the Police.

6.6 The County Council is also committed to taking part in the Audit Commission's National Fraud Initiative (NFI) which brings together data from NHS bodies, local authorities, government departments and other agencies to detect a wide range of frauds against the public sector. This data matching exercise which is run every two years helps, for example, to reduce levels of pension payments being made inappropriately by comparing the County Council's pension information against that held by the Department of Works and Pensions. Potential frauds uncovered through NFI must also be investigated in accordance with this Policy.

7. Recovery of Losses

7.1 The Council will always seek to recover the losses incurred as a result of fraud and corruption.

7.2 The Council's Insurance Service Manager should be informed as soon as possible of any potential insurable loss. Details of the case should also be given together with an indication of what recovery action is being attempted.

7.3 If anyone under investigation offers money in settlement of any losses to the Council, it should be made clear that any monies offered will be accepted:

- without prejudice to any other action the Council may wish to take
- that acceptance is only in respect of losses identified to date
- and that the Council reserves the right to seek recovery of any further losses that may come to light in the future.

7.4 Claims under the Council's insurance arrangements in fraud and corruption cases should be regarded as a "last resort" and will only be instigated once all other avenues of recovery have been fully explored.

7.5 Consideration will be given to legal action against the perpetrator of fraud or those benefiting from fraud in order to recover the Council's losses.

8. Training

8.1 The County Council recognises that the continuing success of its Anti-Fraud and Corruption Policy, and its general credibility will depend largely on the effectiveness of programmed training and the responsiveness of people throughout the organisation.

8.2 To facilitate the raising of awareness of this Policy, the County Council supports the concept of induction and re-induction training for all Members and, particularly, for employees involved in internal control systems to ensure that their responsibilities and duties in this respect are highlighted and reinforced.

9. Conclusion

9.1 The County Council will maintain a continuous overview of these arrangements and, through the Director ofResources, will in particular ensure a regular review of Contract Standing Orders, Financial Regulations, Financial Management and Internal Audit arrangements.

9.2 This Policy Statement will also be subject to regular review at least every other year.

If you want to read more about how we prevent fraud and corruption please read the following documents;

- The Constitution (including Financial Regulations and Contract Standing Orders)
- Financial Procedures
- Members' Code of Conduct
- Standards of conduct for officers
- Complaints procedures
- Whistle-blowing procedure
- Anti money laundering Policy
- Anti Bribery Policy
- Risk Strategy
- Audit Committee reports

Somerset County Council Anti-Bribery Policy
(Annex 1 to Anti-Fraud and Corruption Policy)

Introduction

Somerset County Council has a **zero tolerance** for any acts of bribery, improper inducement or similarly corruption, and will take all necessary steps (including through the courts) to protect the public purse from these activities.

Somerset County Council does not, and will not, pay bribes or offer improper inducements to anyone for any purpose, nor do we or will we, accept bribes or improper inducements. To use a third-party as a conduit to channel bribes to others is a criminal offence. We do not, and will not, engage indirectly in or otherwise encourage bribery.

We are committed to the prevention, deterrence and detection of bribery. We aim to maintain anti-bribery compliance as “business as usual”, rather than as a one-off exercise.

This policy provides the framework to enable the organisation’s employees and members to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable members and employees to identify and effectively report a potential breach.

SCC requires that all members and staff, including those permanently employed, temporary agency staff and contractors:

- act honestly and with integrity at all times and to safeguard the Council’s resources for which they are responsible and to safeguard the council’s good reputation
- comply with the spirit, as well as the letter, of the laws and regulations of all jurisdictions in which SCC operates, in respect of the lawful and responsible conduct of activities.

It is unacceptable to:

- give, promise to give, or offer a payment, gift or hospitality with an expectation or hope that a business advantage will be received, or to reward a business advantage already given
- give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to “facilitate” or expedite a routine procedure
- accept payment from a third party that you know or suspect is offered with the expectation that it will obtain a business advantage for them
- accept a gift or hospitality from a third party if you know or suspect that it is offered or provided with an expectation that a business advantage will be provided by us in return
- retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy
- engage in activity in breach of this policy

As well as the possibility of civil and criminal prosecution, staff and members that breach this policy will face disciplinary action, which could result in dismissal for gross misconduct.

What Constitutes Bribery?

Bribery is a criminal offence. Bribery is an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage.

The Bribery Act 2010 http://www.legislation.gov.uk/ukpga/2010/23/contents makes it an offence to offer, promise or give a bribe (section 1). It also makes it an offence to request, agree to receive, or accept a bribe (section 2).

By its nature as a local authority, Somerset County Council will not face a corporate offence under Section 7, of failure by a commercial organisation to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation. However, it is not impossible that organisations that seek to induce a bribe from the County Council, or offer one to County Council may be subject to this Section of the Act. (An organisation will have a defence to this corporate offence if it can show that it had in place adequate procedures designed to prevent bribery by or of persons associated with the organisation).
An individual guilty of an offence under sections 1 or 2 is liable:

- on conviction in a magistrates court, to imprisonment for a maximum term of 12 months or to a fine not exceeding £5,000, or to both
- on conviction in a crown court, to imprisonment for a maximum term of ten years, or to an unlimited fine, or both

Public contracts and failure to prevent bribery

Under the Public Contracts Regulations (which gives effect to EU law in the UK), SCC is automatically and perpetually debarred from competing for public contracts where it is convicted of a corruption offence.

Organisations that are convicted of failing to prevent bribery are not automatically barred from participating in tenders for public contracts. SCC has the discretion to exclude organisations convicted of this offence.

Facilitation payments

Facilitation payments are not tolerated and are illegal. Facilitation payments are unofficial payments made to public officials in order to secure or expedite actions. This, for example, includes customs officers.

Application

This Anti-Bribery Policy will apply to all employees and Members of the Council.

This policy applies to all of SCC's activities. For partners, joint ventures and suppliers, we will seek to promote the adoption of policies consistent with the principles set out in this policy. Where others are to deliver services on behalf of the County Council, it is essential during the procurement or service transfer process that they are made aware of the standards that are expected of them in relation to anti-bribery measures, and the support that the County Council will expect in delivering our Policy.

Within SCC, the responsibility to control the risk of bribery occurring resides with all members and officers. It does not rest solely within assurance functions, but in all service areas, business units and corporate functions.

Overall Approach

Somerset County Council is committed to having a zero tolerance approach to bribery through the creation of an anti-bribery culture: This will involve:

- setting out a clear anti-bribery policy and reviewing at least annually (through the officer Governance Board and Audit Committee)
- making all employees aware of their responsibilities to adhere to this policy at all times
- providing training and guidance to key employees so that they can recognise and avoid the risk of bribery by themselves and others
- encouraging its employees to be vigilant and to report any suspicions of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated as such
- rigorously investigating instances of alleged bribery and assisting police and other appropriate authorities in any resultant prosecution
- taking firm and vigorous action against any individual(s), (employees, Members, contractors, agents) involved in bribery
- provide information to all employees to report breaches and suspected breaches of this policy
- including appropriate clauses in contract documents to prevent bribery
- fostering a culture within the organisation, (from SLT and Members downwards) in which bribery is never acceptable

Reporting

The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the organisation or under its direction. All staff and members are required to avoid activity that breaches this policy.

County Council employees and members should report any concerns they may have regarding fraud and corruption, whether it relates to dishonest behaviour by Council employees, Members, Contractors or by others. That action will be free from recrimination. Such concerns will be treated in confidence and will be properly investigated. In the first instance a member of staff should contact a senior manager within the line management structure. However, if the member of staff considers the matter too serious or sensitive or inappropriate to raise within the line management structure then one of the following may be contacted – in person, by telephone or e-mail (marked confidential):

- Director of Resources (s151 officer)
- Strategic Finance Manager – Adults, Health and Childrens
- Chief Internal Auditor or another auditor from the South West Audit Partnership
- Chief Executive
- Monitoring Officer
- Chair or Vice-Chair of Audit Committee.

All matters will be treated in confidence and an expressed wish not to reveal the identity of a complainant will be respected wherever possible. (Concerns expressed anonymously are much less powerful but will be considered by the County Council). Alternatively, any person with a concern may use the Council's Confidential "Whistleblowing" Policy, or as an external contact point our external auditors, currently Grant Thornton.

Staff/members who refuse to accept or offer a bribe, or those who raise concerns or report wrong-doing can understandably be worried about the repercussions. SCC aims to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken.

SCC is committed to ensuring nobody suffers detrimental treatment through refusing to take part in bribery or corruption, or because of reporting a concern in good faith.

Risk Assessment

SCC's procedures to prevent bribery by persons associated with it are proportionate to the bribery risks it faces and to the nature, scale and complexity of its activities. They are intended to be clear, practical, accessible, effectively implemented and enforced.

SCC will assess the nature and extent of its exposure to potential external and internal risks of bribery on its business by persons associated with it. "Key areas" for regular re-assessment are to include procurement and payment, recruitment, insurance claims, officer and member decision-making. Such reviews will be at least annually, and whenever a change in process is made for any of these areas.

If the review of anti-bribery controls reveals a potentially increased risk, this will be taken to the Strategic Risk Management Croup for consideration and monitoring. The risk will be added to JCAD, together with appropriate mitigations, and will be owned by the Director of Resources unless a more suitable officer is nominated.

Communication

SCC seeks to ensure that its bribery prevention policies and procedures are understood throughout the organisation through internal and external communication, including training that is proportionate to the key officers and key risks it faces.

All staff will be alerted to the anti-bribery policies by means of Core Brief and the inclusion of the policy on key intranet governance sites. All staff engaged in what are deemed “key areas” for anti-bribery will also receive additional guidance.

Gifts and hospitality

This policy is not intended to change any of the requirements of our gifts and hospitality policy. http://extranet.somerset.gov.uk/hr/employment-information/gifts-and-hospitality/

The Council has decided that all offers of gifts/hospitality worth £25 or more, whether accepted or not, **must** be declared and recorded in order to ensure openness and transparency.

If you have any questions about these procedures, please contact the Director of Resources in the first instance

Other relevant policies can be found on the County Council’s website.

These include:

Fraud and Corruption Policy
Anti Money Laundering Policy
Whistleblowing Policy
Gifts and Hospitality Policy

Somerset County Council Anti-Money Laundering Policy
(Annex 2 to Anti-Fraud and Corruption Policy)

Introduction

Somerset County Council has a **zero tolerance** for any acts of money laundering, and will take all necessary steps (including through the courts) to protect the public purse from these activities. CIPFA defines money laundering as “to disguise criminally sourced cash or property in order to give the appearance of legitimacy. This is done by mixing the criminal transactions with the legitimate transactions of businesses.”

Somerset County Council will do all it can to prevent the Council and its staff being exposed to money laundering, to identify the potential areas where it may occur, and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.

It is acknowledged that the risks to the County Council in relation to Money Laundering are considered very low; however the potential losses and reputational damage could be significant.

This policy provides the framework to enable the organisation’s employees and members to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable members and employees to identify and effectively report a potential breach.

As well as the possibility of civil and criminal prosecution, staff and members that breach this policy will face disciplinary action, which could result in dismissal for gross misconduct.

What Constitutes Money Laundering?

Money laundering is the term used for a number of offences involving the proceeds of crime or terrorism funds. The following constitute the act of money laundering:

- Concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of the 2002 Act); or
- Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328); or
- Acquiring, using or possessing criminal property (section 329);
- Becoming concerned in an arrangement facilitating concealment, removal from the jurisdiction, transfer to nominees or any other retention or control of terrorist property (section 18 of the Terrorist Act 2000).

These are the primary money laundering offences and thus prohibited acts under the legislation. There are also two secondary offences: failure to disclose any of the primary offences and tipping off. Tipping off is where someone informs a person or people who are, or are suspected of being involved in money laundering, in such a way as to reduce the likelihood of their being investigated or prejudicing an investigation.

Potentially any member of staff could be caught by the money laundering provisions if they suspect money laundering and either become involved with it in some way and/or do nothing about it. This Policy sets out how any concerns should be raised.

Money laundering can take place in an almost infinite number of ways. It does however require three distinct phases to be in place for money to be laundered:

1. Placement - the stage at which criminally derived funds are introduced in the financial system.
2. Layering - the substantive stage of the process in which the property is 'washed' and its ownership and source is disguised.
3. Integration - the final stage at which the 'laundered' property is re-introduced into the legitimate economy

Application

This Anti-Money Laundering Policy will apply to all employees and Members of the Council.

This policy applies to all of SCC's activities. For partners, joint ventures and suppliers, we will seek to promote the adoption of policies consistent with the principles set out in this policy. Where others are to deliver services on behalf of the County Council, it is essential during the procurement or service transfer process that they are made aware of the standards that are expected of them in relation to money laundering measures, and the support that the County Council will expect in delivering our Policy.

Within SCC, the immediate responsibility to control the risk of money laundering occurring resides with all officers who handle external payments and in particular payments in cash. It does not rest solely within assurance functions, but in all service areas, business units and corporate functions.

Overall Approach

Somerset County Council is committed to having a zero tolerance approach to money laundering through the creation of an anti-money laundering and corruption culture: This will involve:

- setting out a clear anti-money laundering policy and reviewing at least annually (through officers and Audit Committee)
- making all employees who are involved in the collection of income aware of their responsibilities to adhere to this policy at all times, including a Cash Handling Policy
- through the Income Code of Practice limiting the amount of cash that the County Council will take from a single debtor or single occasion to £5,000

- encouraging its employees to be vigilant and to report any suspicions of money laundering, providing them with suitable channels of communication and ensuring sensitive information is treated as such
- rigorously investigating instances of alleged money laundering and assisting police and other appropriate authorities in any resultant prosecution through the Money Laundering Reporting Officer.
- taking firm and vigorous action against any individual(s), (employees, Members, contractors, agents) involved in money laundering
- provide information to all employees to report breaches and suspected breaches of this policy
- including appropriate clauses in contract documents to prevent money laundering
- fostering a culture within the organisation, (from SLT and Members downwards) in which money laundering is never acceptable

Reporting

The prevention, detection and reporting of money laundering and other forms of corruption are the responsibility of all those working for the organisation or under its direction. All staff and members are required to avoid activity that breaches this policy.

County Council employees and members should report any concerns they may have regarding money laundering and corruption, whether it relates to dishonest behaviour by Council employees, Members, Contractors or by others. That action will be free from recrimination. Such concerns will be treated in confidence and will be properly investigated. In the first instance a member of staff should contact a senior manager within the line management structure. However, if the member of staff considers the matter too serious or sensitive or inappropriate to raise within the line management structure then one of the following may be contacted – in person, by telephone or e-mail (marked confidential):

- Director of Finance, Legal and Governance
- Strategic Manager – Financial Governance (Chief Internal Auditor)
- Audit Manager
- Chief Executive
- Monitoring Officer
- Chair of Audit Committee.

All matters will be treated in confidence and an expressed wish not to reveal the identity of a complainant will be respected wherever possible. (Concerns expressed anonymously are much less powerful but will be considered by the County Council). Alternatively, any person with a concern may use the Council's Confidential "Whistleblowing" Policy, or as an external contact point our external auditors, currently Grant Thornton.

The **Money Laundering Reporting Officer** (MLRO) is the Funds & Investments Manager . In his absence, this role will be performed by the Strategic Finance

Manager – Adults, Health and Childrens. It will be for the MLRO to investigate any allegations and to liaise with the Police

Staff/members who refuse to accommodate attempts at money-laundering, or those who raise concerns or report wrong-doing can understandably be worried about the repercussions. SCC aims to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken.

SCC is committed to ensuring nobody suffers detrimental treatment through refusing to take part in money laundering, or because of reporting a concern in good faith.

Risk Assessment

SCC's procedures to prevent money laundering by persons associated with it are proportionate to the risks it faces and to the nature, scale and complexity of its activities. They are intended to be clear, practical, accessible, effectively implemented and enforced. It is accepted that the overall risk of SCC being targeted and also being a victim of money laundering are **very low** because of the controls in place in our financial systems and policies.

SCC will assess the nature and extent of its exposure to potential external and internal risks of money laundering on its business by persons associated with it on all annual basis.

If the review of anti-money laundering controls reveals a potentially increased risk, this will be taken to the Strategic Risk Management Croup for consideration and monitoring. The risk will be added to JCAD, together with appropriate mitigations, and will be owned by the Director of Resources unless a more suitable officer is nominated.

Communication

SCC seeks to ensure that its anti-money laundering policies and procedures are understood throughout the organisation through internal and external communication, including training that is proportionate to the key officers and key risks it faces.

All staff will be alerted to the anti-money laundering policies by means of Core Brief and the inclusion of the policy on key intranet governance sites. All staff engaged in what are deemed "key areas" for anti-money laundering will also receive additional guidance.

If you have any questions about these procedures, please contact the Director of Resources in the first instance

Other relevant policies can be found on the County Council's website.

These include:

Fraud and Corruption Policy
Anti Bribery Policy
Whistleblowing Policy
Gifts and Hospitality Policy

This Appendix sets out the fraud and corruption allegations that have been investigated during 2018. It has been the requirement of the Audit Committee for some years now, to have sight of local investigations undertaken, and where possible to do so in a formal meeting. It will not be possible to give complete detail on individual cases as set out below in a public meeting, but the case notes are intended to give members an understanding of the frauds that are attempted against the County Council in their role as “those charged with governance”.

As set out in the main Anti-Fraud and Corruption report, consideration of these cases and potential control weaknesses that they suggest will be considered in the Internal Audit Plan that will come to the Audit Committee in March 2019.

The previous report brought to the January 2018 Audit Committee listed 10 cases that were investigated in 2017. Members may recall that these included an increased number of allegations around “abuse of position” by officers, which prompted the Chief Executive to organise a number of presentations from the (then) Chief Internal Auditor to senior staff to raised awareness of the risks and the need for vigilance.

All but one of these 10 previously reported cases are now closed. One has been formally reported to the Police (where an ex-officer had abused his position to take cash from a vulnerable user group). Some of the previously reported cases have resulted in strong disciplinary action as a result.

It is important to realise that only a proportion of allegations will result in a formal report to Action Fraud, which is the reporting route into the Police for any suspected frauds. To commit fraud requires <u>intent</u>, and the level of evidence that will be needed to make a report to Action Fraud is necessarily higher for a possible criminal conviction than for (say) a civil claim that will be settled on the balance of possibilities. However, this does not preclude HR actions from within the County Council, such as a disciplinary hearing and potential dismissal for gross misconduct.

The number of <u>new</u> cases investigated in 2018 has dropped from 10 to 6.

Investigation of a fraud or corruption claim can require a significant resource, but our zero tolerance policy clearly means that we will investigate every case. The continued assistance and expertise from senior auditors within SWAP in investigating allegations remains essential and is recognised by the County Council. It is also acknowledged that SWAP has been very flexible with the Internal Audit Plan and its own staff resources in order to provide an auditor to investigate each case. In all cases, where an allegation is made by (say) a member of the public, they are informed (without any of the detail) of the outcome of the investigation.

Case 1 Procurement Fraud (from previous report, still in progress with the Police)

Officers were concerned about payment claims from a service supplier that did not appear to match activity levels that we could independently verify. As a result, specialist SWAP officers were commissioned to investigate the potential discrepancies between amounts claimed and due.

This work by SWAP revealed enough serious evidence of a potential fraud for a report to be made to Action Fraud, and for specialist police officers to be assigned to the case.

There is an ongoing police investigation and is a very complex case. During 2018, Detective Constables visited the County Council on several occasions and have now taken witness statements from officers. It is anticipated that this work will still need to continue, with the possibility of a criminal charge being made in 2019.

Case 2 Grant Fraud (closed)

An allegation was received from a member of the public stating that an individual that they knew personally had fraudulently claimed European Union flooding grants that were administered through Somerset County Council, possibly by referring to their company as a charity. It was further alleged that this individual deliberately arranged the tender process for works to be done under these grants to be won by a company at which a family member was a Director, regardless of the amount bid. SWAP reviewed all the documentation at the time of the grant and works (dating back to 2009), and the grant requirements, discussing it with the relevant SCC officer. The investigation was slightly hampered by the time elapsed since the grant award, but it did not find any evidence of fraud. The grants did not specifically have to go to a charity. When tender values were checked, it was clear that the lowest price had been taken.

Case 3 Bribery and Corruption Allegation (closed)

A member of the public alleged that an officer was receiving payments in relation to a planning matter, which they believed was the only reason for the officer's advice in relation to a local issue. This was investigated by SWAP and there was no evidence of financial impropriety. Because of the sensitive and important nature of this allegation, SWAP also reviewed both the planning matter itself, and the wider service process around the provision of such advice. In both cases, it was reported that the audit trails were largely satisfactory, and we would be able to demonstrate and defend our decision-making process if required.

Case 4 Tax evasion allegation with regard to Direct Payments (under investigation)

This case came from SCC officers who were concerned as to the nature and usage of payments being made to a care provider, who was a relative of the individual entitled to care. The individual concerned is certainly entitled to care, but it appeared that the payment arrangements put in place by the relative could have been seen as an attempt to evade tax on the Direct Payments, to be paid at a higher rate to which they not entitled, and to spend the money on items that were not appropriate.

Having been alerted to the issue, the service moved with commendable speed to meet with the family and to ensure that better controls were in place, and a better understanding of due process and management of the money.

This case is still under consideration as to whether the actions of the relative could have been a deliberate attempt to evade tax, in which case under our Policy and the 2017 Act, we would be obliged to report it.

Case 5 Procurement allegation (closed)

Officers found, as a result of routine administration, that a residential provider had continued to charge for residents that had recently died. The process for making payments is largely automated and the deceased had not been taken off the care provider's system. When challenged, the care provider accepted that they had made and error, and all overpayments (a five-figure sum) will be recovered. Whilst this could not be considered as a fraud case for further investigation, it did highlight an issue that will be worth days on the Internal Audit Plan to review the process.

Case 6 Procurement allegation (under investigation)

This case came from a combination of SC officers' concern and the family of a resident in care. The allegation was that the service provider had failed to supply all commissioned elements of a care package for a service user, as funded and agreed by the Council. This was particularly around 2:1 support for the individual, and additional support in school holidays and overnight. The investigation has only just made its preliminary report, and work will continue. It is very difficult to ascertain at present whether or not there is sufficient evidence at present to substantiate the allegation, and further work will be needed.

Case 7 Procurement allegation (closed)

This was an allegation that a member of staff (who was leaving anyway) had used their County Council procurement card to make on-line purchases through Amazon. Officers accidently using an SCC card as opposed to their own personal credit card has happened several times in the past, and it is usually acknowledged and can be promptly rectified. In this case, the individual used the SCC card on a number of occasions. However, it appears that Amazon on-line will remember the details on a card and unless overridden will use the same card as previously used. It is not unknown for officers to use Amazon for on-line purchases, and the individual has admitted the error and agreed to repay what is owing.

Somerset County Council
Audit Committee 31 January 2019

Forward Work Plan

Service Director: Peter Lewis, Interim Director of Finance
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Cabinet Member: Cllr Mandy Chilcott, Cabinet Member for Resources
Division and Local Member: All

1. Summary/link to the County Plan

1.1. Members have asked that we review forthcoming items coming to Audit Committee, and also that officers ensure that the Committee has Partial Assurance audits brought to it in a timely manner. A draft Forward Work Plan will be brought to the Audit Committee at least quarterly.

1.2. Members have also requested that the Committee be advised of the number of current fraud and corruption investigations being undertaken, which is the subject of a separate report on this agenda.

2. Issues for consideration

2.1. Members are asked to note the outline agendas for the 28 March 2019 and 20 June 2019 public meetings, as set out in Appendix A to this report, and to comment on any further items that they would like to be scheduled at these or at future meetings.

2.2. Members are asked to consider other items on this agenda, and whether they would like to have a further update or training event on any of these audits, risks or topics.

3. Background

3.1. There are a number of “staple” Audit Committee items that are part of our annual cycle around the Statement of Accounts, or around the annual Internal Audit Plan, which the Audit Committee will need to review in order to secure the necessary assurance to carry out its role. Within that cycle, there can be scope for additional items to come to the Audit Committee where members or officers perceive a risk or issue that needs to be managed.

Audit Committee has set out the requirement for any internal audit from SWAP that only achieved Partial Assurance to come to a future public meeting and for the manager(s) responsible to update members as to their progress against the agreed action plan for improvements. We will continue to bring Partial Assurance audits to the Audit Committee regularly, to ensure that they are responded to promptly.

3.2. The recent Adverse Value For Money opinion from Grant Thornton, our external auditors, has included a number of recommendations as to how the County Council can improve a number of its processes. This is being tracked within JCAD, our risk management system. Members have indicated that they wish to see this tracker at every Audit Committee meeting.

3.3. **March**'s meeting is where the Audit Committee is asked to approve the Internal Audit Plan for the 2019/2020 financial year and reaffirm the Charter which sets out the working contract between the County Council and SWAP. The Internal Audit Plan is a critical document, as it is the largest resource at our disposal to provide the necessary reassurance to Audit Committee members in their role as "those charged with governance". Therefore, at the same time we carry out our annual report of SWAP to ensure that it remains fit for purpose and meets our requirements to have an adequate and effective internal audit function.

3.4. March's meeting is also traditionally where we bring a draft of the Chair's report to Full Council to the Audit Committee for members comments.

3.5. **June**'s meeting will begin to focus on the external auditor's work on our Statement of Accounts and on the draft Annual Governance Statement. The external audit will be in progress by the time of the June meeting.

3.6. June's meeting will also be where the Internal Audit Annual Opinion will be presented, which is a key document to inform the Annual Governance Statement and also an opportunity for the internal auditor to give her overall opinion on the level of assurance that can be offered to members through her work.

3.7. The usual Statement of Accounts training for members will be taking place at about the same time (date to be confirmed) in order that members are suitably prepared ahead of the July meeting when the Statement of Accounts are to be approved and the external auditor presents his findings.

4. Consultations undertaken

4.1. None required

5. Implications

5.1. Any items requested not yet covered by the draft Forward Work Plan at Appendix A will require scheduling by officers, in conjunction with the Chair and Vice-Chair.

6. Background papers

6.1. Previous Audit Committee decisions on the process for dealing with Partial Audits.

Note: For sight of individual background papers please contact the report author

APPENDIX A : Draft Audit Committee Work Programme

Future Agenda Items	Notes
28 March 2019	
Internal Audit Plan and Charter 2019/2020	To ask the Audit Committee to approve the Plan for the next financial year.
Review of the South West Audit Partnership (SWAP)	To review evidence with members to confirm that SWAP remains an effective internal audit function for the County Council.
Annual Report of Audit Committee to Full Council	A draft of the Chair's report to Council is usually brought to the March / April meeting for members' consideration.
External Audit Update	To consider the interim audit findings and the initial VFM risk assessment.
Value For Money tracker	An update on SCC's progress against the recommendations made by Grant Thornton at the July 2018 Audit Committee meeting.
Internal Audit Update	The regular progress report from SWAP on the completion of the 2018/2019 Internal Audit Plan, highlighting any high risks that have arisen from their work.
Partial Audit and Risks	To review any completed internal audits that have only received a Partial Assurance, where the dates in the agreed Action Plan show progress should have been made.
20 June 2019	
External Audit Progress Report	To have an update on the external audit timetable and audit work undertaken, and any initial findings.
Internal Audit Annual Opinion	To have the annual review from our external auditor, including the overall assurance that she can offer to the Audit Committee from the year's work, and her opinion on the system of internal controls.
Internal Audit Progress Report	The regular progress report from SWAP on the completion of the 2018/2019 Internal Audit Plan, highlighting any high risks that have arisen from individual audits undertaken.
Risk Management Update	To receive the regular report on key corporate risks and how these are being managed through our JCAD risk management system.
Value For Money Tracker	The regular progress report from SWAP on the completion of the 2018/2019 Internal Audit Plan, highlighting any high risks that have

	arisen from their work.
Debt Management Report	To report on the performance in terms of collecting monies owed to the County Council.
Draft Annual Governance Statement (AGS)	For members to review the content of the draft AGS for 2018/2019. (The AGS is a mandatory statement that sits alongside the Statement of Accounts and provides assurance that SCC has effective internal controls in place).
Partial Audit and Risks	To review any completed internal audits that have only received a Partial Assurance, where the dates in the agreed Action Plan show progress should have been made.
Future Agenda Items	
Income Code of Practice update	This will be reviewed after the SWAP Internal Audit is completed, and it will come back to Audit Committee at either the March or June meetings.