

Members: Lee Baker, Sue Buller, Simon Coles, Dixie Darch, Hugh Davies, Caroline Ellis, Janet Lloyd, Steven Pugsley, Vivienne Stock-Williams, Terry Venner and Sarah Wakefield

Agenda

1. Appointment of Chair

2. Appointment of Vice Chair

3. Apologies

To receive any apologies for absence.

**4. Minutes of the previous meeting of the Audit,
Governance and Standards Committee**

To note the minutes of the previous meetings of the Taunton Deane Corporate Governance Committee held on 19 March 2019 (to follow), the West Somerset Audit Committee held on 19 March 2019 and the Shadow Corporate Governance and Standards Committee held on 18 March 2019.

(Pages 7 - 16)

5. Declarations of Interest

To receive and note any declarations of disclosable pecuniary or prejudicial or personal interests in respect of any matters included on the agenda for consideration at this meeting.

(The personal interests of Councillors and Clerks of Somerset County Council, Town or Parish Councils and other Local Authorities will automatically be recorded in the minutes.)

6. Public Participation

The Chair to advise the Committee of any items on which members of the public have requested to speak and advise those members of the public present of the details of the

Council's public participation scheme.

For those members of the public who have submitted any questions or statements, please note, a three minute time limit applies to each speaker and you will be asked to speak before Councillors debate the issue.

7. Chair's Announcements

8. Audit, Governance and Standards Committee Action Plan

To update the Audit, Governance and Standards Committee on the progress of resolutions and recommendations from previous meetings of the Committee.

9. Audit, Governance and Standards Committee Forward Plan

(Pages 17 - 18)

To receive items and review the Forward Plan.

10. Grant Thornton External Audit - Taunton Deane Borough Council Audit Progress Report and Sector Update 2018/19

(Pages 19 - 30)

The purpose of the report is to provide members with an update on the progress in delivering our responsibilities, as your external auditors, covering the financial statements audit, value for money and other relevant areas.

This report also includes a summary of emerging national issues and developments which may be relevant to the Council as well as a number of challenge questions in respect of these emerging issues which the committee may wish to consider.

11. Grant Thornton External Audit - West Somerset Council Audit Progress Report and Sector Update 2018/19

(Pages 31 - 42)

The purpose of the report is to provide members with an update on the progress in delivering our responsibilities, as your external auditors, covering the financial statements audit, value for money and other relevant areas.

This report also includes a summary of emerging national issues and developments which may be relevant to the Council as well as a number of challenge questions in respect of these emerging issues which the committee may wish to consider.

12. Grant Thornton External Audit - Audit Fees 2019/20

(Pages 43 - 48)

This report details the planned audit fee for external audit services in respect of the 2019/20 financial year.

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|--|--------------------------|
| <p>13. SWAP Internal Audit - Progress Report 2019/20</p> <p>The 2019-20 Annual Audit Plan is to provide independent and objective assurance on SWT Internal Control Environment. This work will support the Annual Governance Statement.</p> | <p>(Pages 49 - 66)</p> |
| <p>14. Taunton Deane Borough Council Treasury Management Outturn Report 2018/19</p> <p>The purpose of the report is to provide members with an update on the Treasury Management activity of Taunton Deane Borough Council and performance against the Prudential Indicators for 2018/19.</p> | <p>(Pages 67 - 84)</p> |
| <p>15. West Somerset Council Treasury Management Outturn Report 2018/19</p> <p>The purpose of the report is to provide members with an update on the Treasury Management activity of West Somerset Council and performance against the Prudential Indicators for 2018/19.</p> | <p>(Pages 85 - 100)</p> |
| <p>16. Code of Corporate Governance</p> <p>The purpose of the report is to present the Committee with the updated Code of Corporate Governance.</p> | <p>(Pages 101 - 116)</p> |
| <p>17. Constitution Report</p> <p>The purpose of the report was to update part of the Constitution.</p> | <p>(Pages 117 - 128)</p> |



JAMES HASSETT
CHIEF EXECUTIVE

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Members of the public are welcome to attend the meeting and listen to the discussions. There is time set aside at the beginning of most meetings to allow the public to ask questions. Speaking under "Public Question Time" is limited to 3 minutes per person in an overall period of 15 minutes. The Committee Administrator will keep a close watch on the time and the Chair will be responsible for ensuring the time permitted does not overrun. The speaker will be allowed to address the Committee once only and will not be allowed to participate further in any debate. Except at meetings of Full Council, where public participation will be restricted to Public Question Time only, if a member of the public wishes to address the Committee on any matter appearing on the agenda, the Chair will normally permit this to occur when that item is reached and before the Councillors begin to debate the item.

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. These arrangements do not apply to exempt (confidential) items on the agenda where any members of the press or public present will be asked to leave the Committee Room. Full Council, Executive, and Committee agendas, reports and minutes are available on our website: www.somersetwestandtaunton.gov.uk

The meeting room, including the Council Chamber at The Deane House are on the first floor and are fully accessible. Lift access to The John Meikle Room, is available from the main ground floor entrance at The Deane House. The Council Chamber at West Somerset House is on the ground floor and is fully accessible via a public entrance door. Toilet facilities, with wheelchair access, are available across both locations. An induction loop operates at both The Deane House and West Somerset House to enhance sound for anyone wearing a hearing aid or using a transmitter. For further information about the meeting, please contact the Governance and Democracy Team via email: governance@somersetwestandtaunton.gov.uk

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AUDIT COMMITTEE

Minutes of the Meeting held on 19 March 2019 at 2.00 pm in the Council Chamber, Williton

Present

Councillor R Lillis.....Chairman

Councillor K Mills
Councillor R Woods

Councillor P Pilkington

Officers In Attendance

Corporate Strategy and Performance Officer (R Doyle)
Head of Financial Services and S151 Officer (P Fitzgerald)
Democratic Services Officer (C Rendell)

Also In Attendance

Geri Daly, Grant Thornton
Aditi Chandramouli, Grant Thornton
Alastair Woodland, Assistant Director, South West Audit Partnership (SWAP)

A.47 Apology for Absence

An apology was received from Councillor N Thwaites.

A.48 Minutes

(Minutes of the Meeting of the Audit Committee held on 3 December 2018, circulated with the Agenda)

RESOLVED that the Minutes of the Audit Committee held on 3 December 2018, be confirmed as a correct record.

A.49 Declarations of Interest

Name	Minute No.	Member of	Personal or Prejudicial	Action Taken
Cllr P Pilkington	All	Timberscombe Parish Council	Personal	Spoke and voted

A.50 Public Participation

No members of the public had requested to speak on any item on the Agenda.

A.51 Audit Committee Action Plan

(Copy of the Audit Committee Action Plan circulated with the Agenda).

There were four recorded actions from the last meeting on 4 December 2017, all of which had been resolved.

RESOLVED that the Action Plan be noted.

A.52 Audit Committee Forward Plan

(Copy of the Audit Committee Forward Plan circulated with the Agenda).

RESOLVED that the Audit Committee Forward Plan be noted.

A.53 Grant Thornton External Audit – Certification Report

(Report No. WSC 20/18, circulated with the Agenda).

The purpose of the report was to certify certain claims and returns submitted to West Somerset Council (WSC). This certification typically took place six to nine months after the claim period and represented a final but important part of the process to confirm the Council's entitlement to funding.

The claim and return submitted by the Council totalled £12,700,000. This was a significant financial matter for the authority and proper arrangements were in place to meet the conditions of the grants. The report indicated that a qualification had been made in respect of the Housing Benefit Scheme Claim.

During the discussion of this item the following comment was made:-

- The Vice-Chair in the Chair thanked the Finance Team for their hard work and praised the result that had been achieved.

RESOLVED that the Committee noted the report from the External Auditor.

A.54 Grant Thornton External Audit – Audit Plan

(Report No. WSC 22/18, circulated with the Agenda).

The purpose of the report was to introduce the External Audit Plan for 2017-2018. This was prepared by our external auditors, Grant Thornton. The report summarised their approach to the 2017-2018 audit programme, work completed to date, work to follow and the auditors view on risk.

The significant risks that required specific audit consideration had been identified:-

- Valuation of Net Pension Liability; and
- Valuation of Property Plant and Equipment.

The planned materiality had been determined to be £409,000, which equated to 1.8% of the gross expenditure for the prior year. The Auditors were obliged to report uncorrected omissions or misstatements other than those which were trivial to those charged with governance.

The risk assessment had identified that the Medium Term Financial position, which included the Transformation Programme and proposal for a New Council, to be the significant risk in the value for money assessment.

RESOLVED that the Committee noted the report from the External Auditor.

A.55 Grant Thornton External Audit – Progress Report and Update

(Report No. WSC 8/19, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with a progress update by the external auditors, Grant Thornton and an update in relation to emerging national issues which might be relevant to the Council.

During the discussion of this item the following point was made:-

- Members queried how the statement of accounts for both West Somerset Council (WSC) and Taunton Deane Borough Council (TDBC) were signed off in the New Council.

An explanation would be given in the last item of the agenda.

RESOLVED that the Committee noted the report from the External Auditor.

A.56 Grant Thornton External Audit – Audit Plan 2018/19

(Report No. WSC 9/19, circulated with the Agenda).

The purpose of the report was to introduce the Audit Plan 2018/19 to the Audit Committee. The report summarised their approach to the 2018/19 audit programme, together with the auditors review on risk, materiality and value for money.

During the discussion of this item the following points were made:-

- Members were pleased to see that checks were in place on the redundancy payments.
Checks had always been in place for senior officer figures.
- Members queried whether there was any guidance on future arrangements.
Discussions were being carried out to check governance was in place for future decisions and that the arrangements in place were robust for the future.
- Members queried whether the External Auditors could hold informal discussions or give advisories to Local Councils.
The External Auditors could not give advice, they wanted to build good working relationships and continue to hold open discussions. If something illegal was being done, then they would be obliged to act.
- Members queried whether the future model was sustainable.
The External Auditors released a report a few years ago which gave a future model on what they thought Local Government would look like.

RESOLVED that the Committee noted the Audit Plan 2018/19 from the External Auditor.

A.57 Grant Thornton External Auditors – Housing Benefit Subsidy Certification Report 2017/18

(Report No. WSC 10/19, circulated with the Agenda).

The purpose of the report was to introduce the Certification Report 2017/18 to the Audit Committee which had been compiled by the external auditors, Grant Thornton, in relation to the certification of the Housing Benefit Subsidy Claim.

RESOLVED that the Committee noted the report from the External Auditor.

A.58 SWAP Internal Auditors – Audit Plan 2018/19 Outturn Report

(Report No. WSC 11/19, circulated with the Agenda).

The purpose of the report was to update the Audit Committee on the Internal Audit Plan 2018/19 progress and to bring to their attention any significant findings identified through their work.

During the discussion of this item the following points were made:-

- Members queried the procurement strategy going forward.
The approach to procurement was still going ahead and officers were aware that the strategy was out of date as it still referred to South West One, so work was needed to bring it in line with the new structure. The Strategy Specialist had been appointed and would carry out the work.
- Members highlighted the healthy organisation scheme and suggested that the use of amber indicator was quite negative and hoped outcomes were not that bad.
The report was a high level review and amber simply meant that there were some improvements still to be made.

RESOLVED that the Committee noted the progress made in delivery of the 2018/19 internal audit plan and the significant findings by the Internal Auditor.

A.59 SWAP Internal Auditors – Annual Opinion Report 2018/19

(Report No. WSC 12/19, circulated with the Agenda).

The purpose of the report was to inform the Audit Committee of the Annual Opinion Report 2018/19 from Internal Audit.

During the discussion of this item the following points were made:-

- Members queried where officers had agreed to stay on longer to assist with the transition period, would they stay until the new officer was in post to ensure continuity of service.
Risks had been highlighted and where possible officers had agreed to stay on for longer to assist and share data with colleagues. However, continuity would be different due to the new ways of working.
- Concern was raised that core services should be covered.
- Concern was raised about the process followed during Transformation and the speed of work whilst creating the New Council so close to the elections.
Due to the level of support from Central Government, the risks had been low. Transformation had to happen based on WSC and TDBC accounts and the reduced amount of funding available from Central Government. The timescale was restricted due to the elections, but it was decided the best course of action

was to create the New Council prior to the elections so that members of the public would vote for the new area rather than have elections for the old areas followed shortly by elections for the new area.

RESOLVED that the Committee noted the Internal Audit's Annual Opinion Report for 2018/19.

A.60 Corporate Risk Management Update

(Report No. WSC 14/19, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with an update on the corporate risks which were being managed by the Senior Leadership Team (SLT). The Committee were invited to debate whether all necessary corporate risks had been identified.

During the discussion of this item the following points were made:-

- Concern was raised on the internal links and that certain departments used different systems at WSC and TDBC which could present some risks.
The risks could be addressed at departmental level, but would be checked.
- Concern was raised on the mismatch between commercialism and democracy.
That was a challenge for Local Government where there were financial challenges to raise new income. Councils needed to strike a balance between transparent and disclosure of commercial ventures.

RESOLVED that the Committee:-

- 1) Noted the current position in relation to the identification and tracking of corporate risks and discussed any areas of concern with officers present; and
- 2) Debated whether all necessary corporate risks had been identified.

A.61 Draft Annual Governance Statement 2018/19

(Report No. WSC 15/19, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with the Annual Governance Statement and to be transparent about the compliance with good governance principles. The report included how officers monitored and evaluated the effectiveness of their governance arrangements.

During the discussion of this item the following points were made:-

- Members queried the action plan and who it related to and whether Members needed to lead on some actions.
Senior officers should work alongside Members to achieve outcomes.
- Members queried the term 'adequate' used in the report.
Officers suggested that 'satisfactory' might be a better term to use.

RESOLVED that the Committee reviewed the draft Annual Governance Statement and recommended its adoption by the Leader of the Council and the Chief Executive.

A.62 Review of Effectiveness of Internal Audit

(Report No. WSC 16/19, circulated with the Agenda).

The purpose of the report was to inform the Audit Committee of the recent review of the effectiveness of the delivery of Internal Audit through SWAP during 2018/19.

RESOLVED that the Committee noted the findings of the review of effectiveness of internal audit for 2018/19.

A.63 Transitional Financial Arrangements

(Report No. WSC 17/19, circulated with the Agenda).

The purpose of the report was to advise the Audit Committee of the transitional arrangements with regard to the preparation of final accounts of both predecessor councils, TDBC and WSC.

During the discussion of this item the following points were made:-

- Member queried whether the Councillors of the New Council could sign off the accounts for WSC and TDBC.
Yes they could, the same process was followed after an election when new Councillors were elected. The new Councillors would receive training and would be shown previous minutes to inform them of what had previously occurred.
- Members thanked the officers for all their hard work and congratulated them on their achievements.

RESOLVED that the Committee noted the report.

(The meeting closed at 3.55pm)

Shadow Corporate Governance and Standards Committee - 18 March 2019

Present: Councillor N Cavill (Chairman)
Councillors D Westcott, E Gaines, N Thwaites and Mrs A Elder

Officers: David Carpenter, Richard Doyle, Bruce Lang, Clare Rendell and Alastair Woodland

(The meeting commenced at 3.00 pm)

22. Apologies.

Apologies were received from Councillors B Bowrah, W Brown, A Govier, A Kingston-James and A Sully.

23. Minutes of the previous meeting of the Shadow Corporate Governance and Standards Committee.

(Minutes of the Meeting of the Shadow Corporate Governance and Standards Committee held on 28 January 2019 – circulated with the Agenda.)

Resolved that the Minutes of the Shadow Corporate Governance and Standards Committee held on 28 January 2019 be confirmed as a correct record.

24. Declarations of Interest.

Members present at the meeting declared the following personal interests in their capacity as a Member or Clerk of a County, Parish or Town Council or any other Local Authority:-

Name	Minute No.	Description of Interest	Reason	Action Taken
Cllr N Cavill	All Items	West Monkton	Personal	Spoke and Voted
Cllr E Gaines	All Items	Wiveliscombe	Personal	Spoke and Voted
Cllr D Westcott	All Items	Watchet	Personal	Spoke and Voted

25. Public Participation.

No members of the public had requested to speak on any item on the Agenda.

26. SWAP Internal Audit - Internal Audit Plan and Charter 2019-20.

Considered report previously circulated, the purpose of the report was to introduce the Internal Audit Plan for 2019/20 and also incorporated an Internal

Audit Charter which set out the operational relationship between Somerset West and Taunton Council (SWT) and the South West Audit Partnership (SWAP).

The plan was flexible and could be amended during the year to deal with shifts in priorities or new and emerging risks.

During the discussion, the following points were raised:-

- Members queried whether SWAP had tested the disaster recovery plan. *SWAP were not responsible for testing the plan. The Audit Manager hoped that senior managers would have carried out robust tests on the plan and SWAP would look for sufficient evidence that that had happened.*
- Members wanted to ensure that contingency plans were in place. *There were contingencies in place, however, the Audit Manager was not aware that they had been tested and would check.*
- Members queried whether SWAP would have been involved in the checks on the New Council processes. *SWAP were interested in the processes but would need to be made aware of any problems which would then feed into the Annual Audit. The Authority would need to be legally compliant and senior managers would be responsible.*
- Members queried if an incident of fraud occurred in a partner authority, whether that would initiate a check with SWT. *SWAP shared information gathered on risks with partnering authorities.*
- Members requested clarification on the definition on SWAP's role. *An explanation was given on the role and the key cornerstone of good governance was the three line defence.*

Resolved that the Shadow Corporate Governance and Standards Committee approved the Internal Audit Plan for 2019/20 and the Internal Audit Charter.

27. **Risk Management Update.**

Considered report previously circulated, the purpose of the report was to provide an update on the corporate risks which were being managed by the new Senior Management Team (SLT). The Committee were invited to debate whether all necessary corporate risks had been identified.

During the discussion, the following points were raised:-

- Members highlighted that IT was a very passionate subject area and queried how up to date the backups were. *The Officer understood their concern and had been working on IT backups. He would distribute an update to the Committee.*
- Members highlighted that with new technology being used within SWT, they urged that the IT Member Working Group continued in the new structure.
- Members queried with the new General Data Protection Regulations and continually being asked to give consent, would that be included on the new SWT website.

Yes, customers and councillors could set up their own account and there were updated privacy notices on the website to ensure SWT was compliant.

- Members requested a breakdown of the figures given on Homefinder Somerset and whether they were broken down into areas.
The Officer would distribute the information to the Committee.
- Members queried whether records were kept on who had been evicted by private landlords.
Yes the information would be held on the system.

Resolved that the Shadow corporate Governance and Standards Committee:-

- 1) Noted the current position in relation to the identification and tracking of corporate risk and discussed any areas of concern with officers present; and
- 2) Debated whether all necessary corporate risks had been identified.

28. **Development of the New Council Constitution.**

Considered report previously circulated, the purpose of the report was to bring forward the outstanding documents contained in Phase Three of the Constitution for the New Council and sought Members approval for the constituent documents to be recommended to the Shadow Full Council for formal adoption.

During the discussion, the following points were raised:-

Appendix One

- Members suggested the wording in section 5.1 on agendas and reports should be clear on the deadlines required for reports.
Officers were legally allowed to table items at meetings, however the Governance Team would be introducing better working practices on late reports.
- Members queried the retention schedule in section 7.1 and whether minutes and other information would be kept for six years or longer.
The retention schedule of six years was the minimum amount of time required.

Appendix Two

- Members were glad that there was a pre-selected list of suppliers which should help the process.
- Members requested clarification on the use of purchase orders for European Union (EU) purchases and the EU limits.
Clarification was given.
- Members queried if a contract was to be extended, whether that had to go out for procurement.
EU regulations did give provisions for that and you could vary a contract with good justification but normally were not allowed to extend a contract.
- Members queried section 2.11 and whether consultancy was a service.
Consultancy had sometimes fallen outside the scope of procurement but it had be confirmed as a service.
- Members queried whether the list of suppliers included local businesses to encourage social uplift and the local economy.

The aim was to have more social objectives and encourage local businesses was part of that.

- Members queried section 28.4 and whether the leader should be involved in politically sensitive decisions.

Officers wanted to be transparent and confirmed that if there was a query on whether a decision was politically sensitive, it would go back to the Heads of Function. The process was detailed in table three.

Appendix Three

- Members queried the meeting time limit in section 31 and whether that had been added as a new rule.

For WSC yes it was a new guideline, however, TDBC had previously used the time limit.

- Members suggested that officers should compile a running order for meetings to give approximate time lines, so that items do not overrun.

That would be suggested to the Governance Team as good working practice.

Appendix Four

No comments.

Appendix Five

- Members requested clarification on section 2.9.1.a and whether the same rules would apply to the Planning Committee.

Clarification was given.

Appendix Six

- Concern was raised that Members might not know to ask certain questions about protocol.

Officers would handle cases sensitively.

Appendix Seven

No comments.

Appendix Eight

- Members suggested that the term 'business approach' should be added.

Appendix Nine

- Members requested clarification on the procedure used for Standards Committee.

Clarification was given on the new committee and the composition.

Appendix Ten

No comments.

Resolved that the Shadow Corporate Governance and Standards Committee:-

- 1) Noted the report;
- 2) Approved for formal adoption by the Shadow Full Council the draft documents as part of Phase Three; and
- 3) Agreed that the final documents would be submitted to a meeting of the Shadow Full Council as part of a whole Constitution for formal adoption at the meeting held on 26 March 2019.

(The Meeting ended at 5.00 pm)

Agenda Item 9

SWT Audit, Governance and Standards Committee Forward Plan 2019/20

Meeting Date	Report Deadline	Draft Agenda Items	Lead Officer
26 June 2019	17 June 2019	Grant Thornton External Audit - Audit Fees Grant Thornton External Audit - Audit Update SWAP Internal Audit – Audit Plan 2018/19 Outturn 2018/19 Treasury Management Outturn Report	Grant Thornton Grant Thornton Alastair Woodland Steve Plenty
31 July 2019	22 July 2019	Grant Thornton External Audit – Audit Findings Report Approval of the Statement of Accounts Assessment of Going Concern Status	Grant Thornton Andrew Stark Andrew Stark
25 September 2019	16 September 2019	Grant Thornton External Audit – Annual Audit Letter 2018/19 Grant Thornton External Audit – Progress & Update Report SWAP Internal Audit – Progress Update 2018/19 Summary of Overdue Level 4/5 Actions Corporate Governance Action Plan Update Corporate Risk Management Update GDPR Action Plan Update	Grant Thornton Grant Thornton Alastair Woodland Amy Tregellas Amy Tregellas Amy Tregellas Amy Tregellas
11 December 2019	2 December 2019	SWAP Internal Audit – Progress Report 2017/18 2018/19 Grant Certification Report 6-Month Review of Treasury Management Activity	Alastair Woodland Alastair Woodland Andrew Stark
11 March 2020	2 March 2020	SWAP Internal Audit – Progress Report 2018/19 Corporate Risk Management Update Review of Effectiveness of Internal Audit 2018/19 Annual Governance Statement 2018/19 Summary of Overdue Level 4/5 Actions	Alastair Woodland Amy Tregellas Amy Tregellas Amy Tregellas Amy Tregellas

Somerset West and Taunton Council

Audit, Governance and Standards Committee – 26th June 2019

Taunton Deane Borough Council - Audit Progress Report and Sector Update

This matter is the responsibility of Cllr Ross Henley, Portfolio Holder for Corporate Resources

Report Author: Paul Fitzgerald, Strategic Finance Advisor and S151 Officer

1 Executive Summary / Purpose of the Report

- 1.1 To provide members with an update on the progress in delivering our responsibilities, as your external auditors, covering the financial statements audit, value for money and other relevant areas.
- 1.2 This report also includes a summary of emerging national issues and developments which may be relevant to the Council as well as a number of challenge questions in respect of these emerging issues which the committee may wish to consider.

2 Recommendations

- 2.1 To note the Audit Progress Report and Sector Update contained within Appendix A to this covering report.

3 Risk Assessment

- 3.1 The details of any specific risks identified will be contained within the attached report.

4 Background and Full details of the Report

- 4.1 Each year our external auditors, Grant Thornton, are required to carry out prescribed audit work and this report provides a useful update on the work undertaken to date.
- 4.2 In addition the report also shares headlines on some national issues that may have an impact upon the Council.

5 Links to Corporate Aims / Priorities, Finance / Resource, Legal, Environmental Impact, Safeguarding and/or Community Safety, Equality and Diversity, Social Value, Partnership, Health and Wellbeing, Asset Management, Data Protection, and Consultation Implications

- 5.1 None in respect of this report.

Democratic Path:

- **Audit, Governance and Standards Committee – Yes**

Reporting Frequency: Annual

List of Appendices

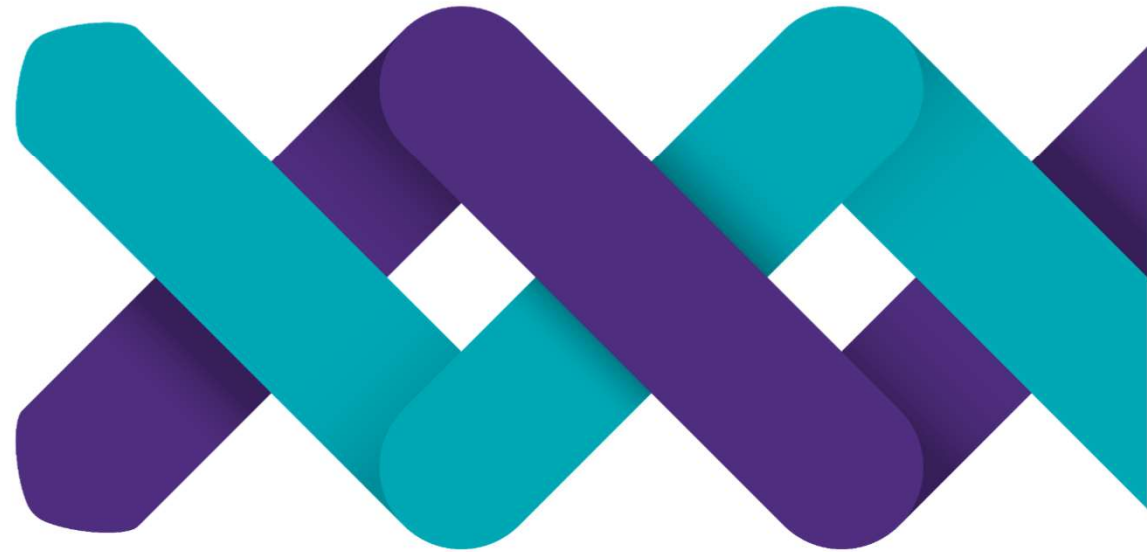
Appendix A	Taunton Deane Borough Council - Audit Progress Report and Sector Update
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Contact Officers

Name	Paul Fitzgerald
Direct Dial	01823 217557
Email	p.fitzgerald@somersetwestandtaunton.gov.uk

Audit Progress Report and Sector Update

Taunton Deane Borough Council
Year ending 31 March 2019
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Introduction



Geraldine Daly

Engagement Lead

T 0117 305 7741

E geri.n.daly@uk.gt.com

This paper provides the Audit, Governance and Standards 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)

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Aditi Chandramouli

Engagement Manager

T 0117 305 7643

E aditi.chandramouli@uk.gt.com

Members of the Audit, Governance and Standards 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 June 2019

Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2018/19 financial statements.

We have completed our interim audit work in February 2019. Our interim fieldwork visit included:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Understanding of the Council's key business processes
- Early work on emerging accounting issues
- Early substantive testing

A more detailed picture of interim audit work completed to date is provided later in this report.

The final accounts audit has begun in June, with findings to be reported to you in the Audit Findings Report by the deadline of July 2019. We have completed our interim audit, and planning discussions are underway in advance of the final accounts site visit.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach were included in our Audit Plan as presented to you 19th March 2019

We will aim to report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other areas

Meetings

We met with Finance Officers in February and June 2019 as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

We also plan to meet with Finance Officers in early July and late July to provide updates on the audit progress and findings.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. The most recent events were the annual accounts workshops.

We will also be providing training to members of the Audit, Governance and Standards Committee ahead of the Committee meeting to be held on 26th June 2019

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Corporate Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March and June 2019	Complete
Audit Findings Report The Audit Findings Report will be reported to the July 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
Annual Certification Letter This letter reports any matters arising from our certification work carried out.	December 2019	Not yet due
2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2019/20	June 2019	Complete, and on this agenda

Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below.

	Work performed	Conclusions and recommendations
Documentation of business processes	<p>We have completed a detailed documentation of some of your key business processes including:</p> <ul style="list-style-type: none"> The Collection Fund Accounts payable (including creditors) Accounts Receivable Investments Payroll Welfare Benefits Property, Plant and Equipment Cash Pensions Journals 	<p>Overall, we have concluded that the business processes are appropriate in relation to the activities of the entity at our interim stage. Work in this area has not identified any weaknesses which impact on our audit approach.</p> <p>Our work in this area is still ongoing and subject to updating as part of the final accounts audit. We will update you with any findings in this area through our Audit Findings Report upon completion of the final accounts audit</p>
Entity and its environment	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> Commitment to integrity and ethical values; Training and development of staff; Participation by those charged with governance; Management's philosophy and operating style; Organisational structure; Financial reporting responsibilities; Assignment of authority and responsibility; and Human resource policies and practices. 	<p>Our work has identified no material weaknesses which are likely to adversely impact on Council's financial statements at the point of our interim review</p> <p>Our work in this area is still ongoing and subject to updating as part of the final accounts audit. We will update you with any findings in this area through our Audit Findings Report upon completion of the final accounts audit</p>

Results of Interim Audit Work (continued)

	Work performed	Conclusions and recommendations
Testing of redundancy payments	We have undertaken testing of a sample of redundancy payments made between M1 and M10. Our work in this area is in progress and will be completed as part of the final accounts audit in June and July 2019.	<p>Our work in relation to redundancies is currently ongoing as part of our final accounts testing.</p> <p>We will update you with any findings in this area through our Audit Findings Report upon completion of the final accounts audit</p>
Testing of Welfare Benefits	We have undertaken testing of a sample of housing benefit payments made between M1 and M10. A top-up sample of payments made in M11 and M12 will be undertaken as part of the final accounts audit in June and July 2019	<p>Our work in relation to welfare benefits is currently ongoing as part of our final accounts testing.</p> <p>We will update you with any findings in this area through our Audit Findings Report upon completion of the final accounts audit</p>
Testing of Operating Expenditure and Income	We have undertaken testing of a sample of operating expenditure and revenue transactions made between M1 and M10. A top-up sample of expenditure and income made in M11 and M12 will be undertaken as part of the final accounts audit in June and July 2019	<p>Our work in relation to operating expenditure and income is currently ongoing as part of our final accounts testing.</p> <p>We will update you with any findings in this area through our Audit Findings Report upon completion of the final accounts audit</p>

Follow up of prior year recommendations

We identified the following issues in the audit of Taunton Deane Borough Council's 2017/18 financial statements, which resulted in recommendations being reported in our 2017/18 Audit Findings report.

Issue and risk previously communicated

Update on actions taken to address the issue

1

In the course of our review of the revaluation of Property, Plant and Equipment in 2017-18, it was found that a number of assets were not revalued in the last 5 years as required by the CIPFA Code. This affected £1.5m of Council Dwellings (which are indexed each year to ensure a current valuation) and £2.9m of other HRA Assets.

We have continued to engage with management as part of the final accounts audit in order to obtain an understanding of the procedures put in place to address this recommendation

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We recommended that the Council ensure these assets are revalued at the earliest opportunity and ensure that all assets are valued in accordance with the code going forward.

Sector Update

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, governance and standards 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 by clicking on the logos below:

Public Sector

Local
government

Somerset West and Taunton Council

Audit, Governance and Standards Committee – 26th June 2019

West Somerset District Council - Audit Progress Report and Sector Update

This matter is the responsibility of Cllr Ross Henley, Portfolio Holder for Corporate Resources

Report Author: Paul Fitzgerald, Strategic Finance Advisor and S151 Officer

1 Executive Summary / Purpose of the Report

- 1.1 To provide members with an update on the progress in delivering our responsibilities, as your external auditors, covering the financial statements audit, value for money and other relevant areas.
- 1.2 This report also includes a summary of emerging national issues and developments that may be relevant to the Council as well as a number of challenge questions in respect of these emerging issues which the committee may wish to consider.

2 Recommendations

- 2.1 To note the Audit Progress Report and Sector Update contained within Appendix A to this covering report.

3 Risk Assessment

- 3.1 The details of any specific risks identified will be contained within the attached report.

4 Background and Full details of the Report

- 4.1 Each year our external auditors, Grant Thornton, are required to carry out prescribed audit work and this report provides a useful update on the work undertaken to date.
- 4.2 In addition the report also shares headlines on some national issues that may have an impact upon the Council.

5 Links to Corporate Aims / Priorities, Finance / Resource, Legal, Environmental Impact, Safeguarding and/or Community Safety, Equality and Diversity, Social Value, Partnership, Health and Wellbeing, Asset Management, Data Protection, and Consultation Implications

- 5.1 None in respect of this report.

Democratic Path:

- **Audit, Governance and Standards Committee – Yes**

Reporting Frequency: Annual

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Appendix A	West Somerset District Council - Audit Progress Report and Sector Update
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Contact Officers

Name	Paul Fitzgerald
Direct Dial	01823 217557
Email	p.fitzgerald@somersetwestandtaunton.gov.uk

Audit Progress Report and Sector Update

West Somerset District Council
Year ending 31 March 2019
26 June 2019



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Progress at June 2019	4
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Results of Interim audit work	6
Follow up of prior-year recommendations	8
Sector Update	9

Introduction



Geraldine Daly

Engagement Lead

T 0117 305 7741

E geri.n.daly@uk.gt.com

This paper provides the Audit, Governance and Standards 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)

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Aditi Chandramouli

Engagement Manager

T 0117 305 7643

E aditi.chandramouli@uk.gt.com

Members of the Audit, Governance and Standards 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 June 2019

Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2018/19 financial statements.

We have undertaken our interim audit work in February 2019. Our interim fieldwork included:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Understanding of the Council's key business processes
- Early work on emerging accounting issues
- Early substantive testing

A more detailed picture of interim audit work completed to date is provided later in this report.

The final accounts audit has begun in June, with findings reported to you in the Audit Findings Report by the deadline of July 2019. We have completed our interim audit, and planning discussions are continuing to take place with management in advance of the final accounts site visit.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach are included in our Audit Plan. This is included as a separate agenda item.

We will aim to report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other areas

Meetings

We meet regularly with Finance Officers in February and June 2019 as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

We also plan to meet with Finance Officers in early July and late July to provide updates on the audit progress and findings.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. The most recent events were the annual accounts workshops.

We will also be providing training to members of the Audit, Governance and Standards Committee ahead of the Committee meeting to be held on 26th June 2019

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter 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 Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March and June 2019	Complete
Audit Findings Report The Audit Findings Report will be reported to the July 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
Annual Certification Letter This letter reports any matters arising from our certification work carried out.	December 2019	Not yet due
2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2019/20	June 2019	Complete, and on this agenda

Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below.

	Work performed	Conclusions and recommendations
Documentation of business processes	<p>We have completed a detailed documentation of some of your key business processes including:</p> <ul style="list-style-type: none"> Cash <ul style="list-style-type: none"> The Collection Fund Accounts payable (including creditors) Accounts Receivable Investments Payroll Welfare Benefits Property, Plant and Equipment Pensions Journals 	<p>Overall, we have concluded that the business processes are appropriate in relation to the activities of the entity at this time. Work in this area has not identified any weaknesses which impact on our audit approach. We will still be undertaking our audit work on this area as part of our substantive testing in our final accounts work and will provide an update in our audit findings report in July.</p>
Entity and its environment	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> Commitment to integrity and ethical values; Training and development of staff; Participation by those charged with governance; Management's philosophy and operating style; Organisational structure; Financial reporting responsibilities; Assignment of authority and responsibility; and Human resource policies and practices. 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements at the point of our interim review.</p> <p>Our work in this area is still ongoing and subject to updating as part of the final accounts audit. We will update you with any findings in this area through our Audit Findings Report upon completion of the final accounts audit.</p>

Results of Interim Audit Work (continued)

	Work performed	Conclusions and recommendations
Testing of Welfare Benefits	We have undertaken testing of a sample of housing benefit payments made between M1 and M10. A top-up sample of payments made in M11 and M12 will be undertaken as part of the final accounts audit	<p>Our work in relation to welfare benefits is currently ongoing as part of our final accounts testing.</p> <p>We will update you with any findings in this area through our Audit Findings Report upon completion of the final accounts audit</p>
Testing of Operating Expenditure and Income	We have undertaken testing of a sample of operating expenditure and revenue transactions made between M1 and M10. A top-up sample of expenditure and income made in M11 and M12 will be undertaken as part of the final accounts audit	<p>Our work in relation to operating expenditure and income is currently ongoing as part of our final accounts testing.</p> <p>We will update you with any findings in this area through our Audit Findings Report upon completion of the final accounts audit</p>

Follow up of prior year recommendations

We identified the following issues in the audit of West Somerset District Council's 2017/18 financial statements, which resulted in recommendations being reported in our 2017/18 Audit Findings report.

Issue and risk previously communicated

Update on actions taken to address the issue

1 During the course of the 2017-18 audit, it was identified that the Principal Accountant – Corporate can self-authorise their own journals. This is a control issue and we recommended that this should be reviewed by the Council to ensure that there is some review of their work.

We have engaged with management as part of the final accounts audit in order to obtain an understanding of the procedures put in place to address this recommendation

Sector Update

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, governance and standards 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 by clicking on the logos below:

Public Sector

Local
government

Somerset West and Taunton Council

Audit, Governance and Standards Committee – 26th June 2019

External Audit Fees 2019/20

This matter is the responsibility of Cllr Ross Henley, Portfolio Holder for Corporate Resources

Report Author: Paul Fitzgerald, Strategic Finance Advisor and S151 Officer

1 Executive Summary / Purpose of the Report

1.1 This report details the planned audit fee for external audit services in respect of the 2019/20 financial year.

2 Recommendations

2.1 To note the 2019/20 planned audit fee contained within Appendix A to this covering report.

3 Risk Assessment

3.1 The details of any specific risks identified will be contained within the attached report.

4 Background and Full details of the Report

4.1 Each year our external auditors, Grant Thornton, provide details of the forecast fees to be charged for the main audit and the grant certification work related to the current financial year.

4.2 The attached letter provides details of the fees and a schedule of payments. Grant Thornton have also provided an outline audit timetable to show the phasing of their work.

4.3 Any additional audit work outside that of the planned audit and grant certification work will be billed separately and will be in addition to the fee quoted.

5 Links to Corporate Aims / Priorities

5.1 None in respect of this report.

6 Finance / Resource Implications

6.1 The main audit fee for 2019/20 is £53,000. The fee in respect of the grant certification work has been set at £18,500. This cost would increase by £1,100 for each additional set of 40+ testing required.

7 Legal, Environmental Impact, Safeguarding and/or Community Safety, Equality and Diversity, Social Value, Partnership, Health and Wellbeing, Asset Management, Data Protection, and Consultation Implications

7.1 None in respect of this report.

Democratic Path:

- **Audit, Governance and Standards Committee – Yes**

Reporting Frequency: Annual

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Appendix A	Somerset West and Taunton Council – Fee Letter 2019/20
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Contact Officers

Name	Paul Fitzgerald
Direct Dial	01823 217557
Email	p.fitzgerald@somersetwestandtaunton.gov.uk

Paul Fitzgerald
S151 Officer
Somerset West and Taunton Council
The Deane House
Belvedere Road
Taunton
TA1 1HE

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL
T: 0117 305 7600

04 June 2019

Dear Paul

Planned audit fee for 2019/20

The Local Audit and Accountability Act 2014 (the Act) provides the framework for local public audit. Public Sector Audit Appointments Ltd (PSAA) has been specified as an appointing person under the Act and the Local Authority (Appointing Person) Regulations 2015 and had the power to make auditor appointments for audits of opted- in local government bodies from 2018/19.

For opted- in bodies PSAA's responsibilities also include setting fees and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

All grant work, including housing benefit certification, falls outside the PSAA contract, as PSAA no longer has the power to make appointments for assurance on grant claims and returns. Any assurance engagements will therefore be subject to separate engagements agreed between the grant-paying body, the Council and ourselves and separate fees agreed with the Council.

Scale fee

PSAA published the 2019/20 scale fees for opted-in bodies at the end of March 2019, following a consultation process. Further details are set out on the [PSAA website](#). Somerset West and Taunton Council's scale fee for 2019/20 has been set by PSAA at £53,000.

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes'.

The audit planning process for 2019/20, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

There are no changes to the overall work programme for audits of local government audited bodies for 2019/20. Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors. Audits of the accounts for 2019/20 will be undertaken under this Code. Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements;

- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return (if applicable).

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

Value for Money conclusion

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its latest 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 Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2019	13,250
December 2019	13,250
March 2020	13,250
June 2020	13,250
Total	53,000

Outline audit timetable

We will undertake our audit planning and interim audit procedures in November to February. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in June and July and work on the whole of government accounts return in July

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	November to January – planning January to February - interim	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June to July	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.

VfM conclusion	March to July	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	July	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	September	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.

Our team

The key members of the audit team for 2019/20 are:

	Name	Phone Number	E-mail
Engagement Lead	Geraldine Daly	0117 305 7741	Geri.n.daly@uk.gt.com
Engagement Manager	Aditi Chandramouli	0117 305 7643	Aditi.chandramouli@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed, and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact Jon Roberts, our Public Sector Assurance regional lead partner, via jon.roberts@uk.gt.com.

Yours sincerely



Geraldine Daly
Engagement Lead
Grant Thornton UK LLP

Somerset West and Taunton Council

Audit, Governance and Standards Committee – 26 June 2019

SWAP Internal Audit – Progress Report 2019/20

This matter is the responsibility of Executive Councillor Ross Henley

Report Author: Alastair Woodland, Assistant Director, SWAP

1 Executive Summary

- 1.1 The Internal Audit function plays a central role in corporate governance by providing assurance to the Audit, Governance and Standards Committee, looking over financial controls and checking on the probity of the organisation.
- 1.2 The 2019-20 Annual Audit Plan is to provide independent and objective assurance on SWT Internal Control Environment. This work will support the Annual Governance Statement.

2 Recommendations

- 2.1 Members are asked to note progress made in delivery of the 2019/20 internal audit plan and significant findings since the previous update in March 2019.

3 Risk Assessment

- 3.1 Any large organisation needs to have a well-established and systematic risk management framework in place to identify and mitigate the risks it may face. SWT has a risk management framework, and within that, individual internal audit reports deal with the specific risk issues that arise from the findings. These are translated into mitigating actions and timetables for management to implement.

Risk Matrix

Description	Likelihood	Impact	Overall
Without the delivery of the approved audit plan there is the risk of insufficient audit work being completed to provide a reasonable assurance to stakeholders that there is an effective control framework in place, adequately mitigating risks to the authority's risk appetite.	3	3	9

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
Impact							

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Background

4.1 This report summarises the work of the Council's Internal Audit Service and provides:

- Details of any new significant weaknesses identified during internal audit work completed since the last report to the committee in March 2019.
- A schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these.

4.2 The Internal Audit Progress Report for 2019/20 is contained within the attached SWAP Report.

5 Links to Corporate Aims

5.1 Delivery of the corporate objectives requires strong internal control. The attached report provides a summary of the audit work carried out to date this year by the Council's internal auditors, SWAP Internal Audit Services.

6 Finance

6.1 There are no specific finance issues relating to this report.

7 Legal Implications

7.1 There are no specific legal issues relating to this report.

8 Environmental Impact Implications

8.1 There are no direct implications from this report.

9 Safeguarding and/or Community Safety Implications

9.1 There are no direct implications from this report.

10 Equality and Diversity Implications

10.1 There are no direct implications from this report.

11 Social Value Implications

11.1 There are no direct implications from this report.

12 Partnership Implications

12.1 There are no direct implications from this report.

13 Health and Wellbeing Implications

13.1 There are no direct implications from this report.

14 Asset Management Implications

14.1 There are no direct implications from this report.

15 Consultation Implications

15.1 There are no direct implications from this report.

Democratic Path:

- **Corporate Governance Committees – Yes**
- **Cabinet/Executive – No**

- Full Council – No

Reporting Frequency: Quarterly

List of Appendices (delete if not applicable)

Appendix A	SWAP Internal Audit - Progress Report 2019/20
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Contact Officers

Name	Alastair Woodland
Direct Dial	07720312467
Email	Alastair.woodland@swapaudit.co.uk

Name	Ian Baker
Direct Dial	07917628774
Email	Ian.Baker@swapaudit.co.uk

Somerset West and Taunton

Report of Internal Audit Activity

Plan Progress 2019/20 – June 2019

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Contents

The contacts at SWAP in connection with this report are:

David Hill

Chief Executive

Tel: 01935 848540

David.hill@SWAPaudit.co.uk

Ian Baker

Director of Quality

Tel: 07917628774

ian.baker@SWAPaudit.co.uk

Alastair Woodland

Assistant Director

Tel: 07872500675

Alastair.woodland@SWAPaudit.co.uk



Role of Internal Audit

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Internal Audit Work

Page 2



Approved Changes to the Audit Plan

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Appendices:

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Appendix B – Internal Audit Work Plan

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Appendix C – Summary of Key Audit Findings

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Internal Audit Plan Progress 2019/2020

Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Follow Up**
- **Non-Opinion / Advisory Reviews**



Role of Internal Audit

The Internal Audit service for the Somerset West and Taunton Council is provided by SWAP Internal Audit Services (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 Shadow Corporate Governance and Standards Committee at its meeting in March 2019.

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
- Grants
- Follow Up
- Non-Opinion / Advisory Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Corporate Management Team. This year's Audit Plan was reported to the Shadow Corporate Governance Committee and approved by the Corporates Governance Committee at its meeting in March 2019.

Audit assignments are undertaken in accordance with this Audit Plan to assess current levels of governance, control and risk.

Internal Audit Plan Progress 2019/2020

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.



Internal Audit Work

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2019/20. 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 on **Appendix A** of this document.

All audits from the 2018-19 Audit plan have been completed to Final with the exception of WSC Creditors and TDBC Creditors. Both these audits are at draft report stage. A list of the completed 2018-19 audits can be seen appended to the end of **Appendix B**.

Partial Assurance / No Assurance Audits

As agreed with this Committee where a review has a status of ‘Final’ and has been assessed as ‘Partial’ or ‘No Assurance’, I will provide further detail to inform Members of the key issues identified. Since the March 2019 update there are two ‘Partial Assurance’ reviews I need to bring to your attention, these being the TDBC Debtors and TDBC Treasury Management. There is also one follow up audit to bring to your attention in relation to Fire Safety Management. Further details can be found within **Appendix C**.

Internal Audit Plan Progress 2019/2020

We keep our audit plans under regular review so as to ensure that we audit the right things at the right time.

Approved Changes to the Audit Plan

The audit plan for 2019/20 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to Somerset West and Taunton Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Audit Client Officer.

Since the March 2019 update there is one change that I must bring to your attention.

- With have been asked to undertake a review on the Transformation Project from a lesson learned point of view. This work is due to start imminently. A discussion will be held shortly to agree which audit should be substituted to accommodate this review.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;



Audit Framework Definitions

Control Assurance Definitions

- Substantial
- Reasonable
- Partial
- No Assurance
- Non-Opinion/Advisory

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.
No Assurance	▲ ★ ★ ★	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.

Non-Opinion/Advisory – In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time. Recommendation are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



Audit Framework Definitions

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 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.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors 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.

Definitions of 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 & the Audit Committee.

Summary of Key Audit Findings

APPENDIX B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ← → 3 = Minor			Comments
						Recommendation			
						1	2	3	
FINAL									
Follow Up	Housing - Fire Safety Management Follow Up	1	Final	Advisory					
IN PROGRESS									
Follow Up	Supplier Resilience Follow-Up	1	In Progress						
ICT Audit	Migration and integration of key systems for Single Authority	1	In Progress						
Governance, Fraud & Corruption	New Council Governance	1	In Progress						
Governance, Fraud & Corruption	Transition Arrangements	1	Scoping						
Governance, Fraud & Corruption	New: Transformation - Lesson Learned	1	Scoping						
NOT STARTED									
Governance, Fraud & Corruption	Financial Resilience	1							
Follow Up	Crematorium Service Follow Up	2							
Key Control	Treasury Management	2							
Key Control	Payroll System	2							
Governance, Fraud & Corruption	Risk Management	2							

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
Governance, Fraud & Corruption	Consultancy Expenditure VFM	2							
ICT Audit	Information Management Project	2							
Key Control	Housing Rents	3							
Key Control	Creditors	3							
Key Control	Debtors	3							
Key Control	Main Accounting, including budget responsibility	3							
Key Control	Banking arrangements	3							
Key Control	Council Tax/NDR	3							
Key Control	Housing Benefits	3							
Key Control	System Parameter testing Civica	4							
Governance, Fraud & Corruption	Business Continuity Planning (includes links to DR)	4							
Governance, Fraud & Corruption	Performance Management	4							
Governance, Fraud & Corruption	Transformation: Benefits Realisation	4							
Operational	Housing - Asbestos Management	4							
Operational	Building Control	4							

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
Governance, Fraud & Corruption	Commercial Investments and Income generation strategies	2 & 4							

Outstanding from 2018-19 Audit Plans for TDBC and WSC

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
FINAL									
Key Control	TDBC Treasury Management	4	Final	Partial	7	0	1	6	
Key Control	WSC Treasury Management	4	Final	Substantial	2	0	0	2	
Key Control	TDBC Main Accounting	4	Final	Reasonable	3	0	2	1	
Key Control	WSC Main Accounting	4	Final	Reasonable	1	0	0	1	
Transformation	Business Process Re-engineering	1 to 4	Final	Advisory	0	0	0	0	
Transformation	Benefits Realisation Management	1 to 4	Final	Advisory	0	0	0	0	
Transformation	New Council Governance	1 to 4	Final	Advisory	0	0	0	0	
Key Control	TDBC Debtors	4	Final	Partial	5	0	2	3	
Key Control	WSC Debtors	4	Final	Reasonable	3	0	1	2	
Governance, Fraud & Corruption	New: Investigation	4	Final	Advisory	0	0	0	0	

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
Key Control	TDBC Creditors	4	Draft						
Key Control	WSC Creditors	4	Draft						
Transformation	New: Redundancy Payments	4	Final	Reasonable	1	0	0	1	
ICT	Universal Transaction Portal (Firm Step Implementation)	4	Final	Advisory	0	0	0	0	

Audit Assignments completed since the March 2019 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.



Summary of Audit Findings and High Priority Service Findings

The following information provides a brief summary of each audit review finalised since the last Committee update in March 2019. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review. Since the March 2019 update there are two Partial Assurance audit opinions that I need to bring to your attention.

Key Control Audits

Key Control Audits are completed as an assessment of the Council's financial control environment. It is essential that all key controls are operating effectively to provide management with the necessary assurance that there is a satisfactory framework on internal control. Financial controls underpin the statement of accounts.

TDBC Treasury Management – Partial Assurance Audit

The objective of this audit was to confirm that sufficient safeguards are in place to ensure that the Council's surplus balances have been invested appropriately and that sufficient cash is available to meet the Council's liabilities when they fall due.

Whilst there were no significant control deficiencies identified there were a number of lower level weaknesses, which when combined resulted in a partial assurance audit opinion. Our concerns principally focus on the reconciliations were not up to date, no documented procedures for cashflow projections to forecast cash requirements and mid-year and year reports only provide to members as 'information only' reports rather than presented formally at a committee meeting.

Management have agreed appropriate action to address the weaknesses. These weaknesses will be followed up by us in 2019-20 to ensure the weaknesses are addressed.

Audit Assignments completed since the March 2019 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

Key Control Audits Continued

TDBC Debtors – Partial Assurance Audit

The objective of this audit was to ensure debtor key controls are operating effectively and that fraud, error or corruption is minimised. All services are responsible for a sound control environment around debtors, not just the Accounts Receivable function due to the nature of how debtors are identified and invoices raised.

Partial Assurance was awarded as the Authorised Signatory List for refunds, credit notes and write-offs which is maintained in a spreadsheet rather than the e5 financial system. In a period of transition this increases the risk of unauthorised transactions. There has also been a delay in raising invoices at the Cemeteries and Crematorium and the Accounts receivable function are behind in their review of suppressed debts.

Management have agreed appropriate action to address the weaknesses. These weaknesses will be followed up by us in 2019-20 to ensure the weaknesses are addressed.

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Audit Assignments completed since the March 2019 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

Follow Up Audits

Follow up reviews are undertaken where a previous audit has returned a ‘Partial Assurance’ or ‘No Assurance’. This is to provide assurance to the Corporate Governance Committee that areas of weakness have been addressed. Follow up reviews will only focus on the areas of weakness identified in the original review and are usually undertaken 6 months after the original review to allow time for recommendations to be implemented.

Fire Safety Management – Follow Up

The original Fire Safety Management audit was undertaken in 2018-19 with the objective to confirm that all Council owned properties are safe and compliant with fire safety policy and legislation. That audit was awarded ‘Partial Assurance’ as the systems and controls in place for managing and monitoring fire safety were such that we could not ascertain with any certainty that inspections had been carried out in line with legal requirements. In May 2019 we followed up on our original audit to confirm progress made regarding the control weaknesses.

Our follow up work shows that the majority of the recommendations raised are still in progress. An overview is now in place for the Corporate and Commercial properties but not yet completed for the Domestic properties. The overview for the corporate properties does show that one property is overdue for a Fire Risk Assessment. In terms of risk it should be noted that all domestic properties have received a Fire Risk Assessment in the last year, these were completed between August and October 2018 and therefore are compliant with legal requirements. However, these will fall due over the months of August through to October.

The new database has not yet been introduced to provide an overview and central repository of all evidence linked to Fire Risk Assessments. The new database should be in place and populated by the end of September 2019, until this time they will be relying on a spreadsheet which are not fully populated to identify when Fire Risk Assessments are due. With the domestic property spreadsheet not yet completed this does represent a risk that the Fire Risk Assessments may not be completed within the 12-month period required.

Somerset West and Taunton Council

Audit, Governance and Standards Committee

Taunton Deane Borough Council Treasury Management Outturn Report 2018/19

This matter is the responsibility of Cllr Ross Henley, Portfolio Holder for Corporate Resources

Report Author: Steve Plenty, Finance Specialist

1 Executive Summary / Purpose of the Report

1.1 To provide members with an update on the Treasury Management activity of Taunton Deane Borough Council and performance against the Prudential Indicators for 2018/19.

1.2 Highlights for the year include:

- Investment activities continue to remain restricted due to the current economic climate;
- Interest rates still remain low;
- Accrued interest received on investments in 2018/19 was £0.728m;
- Accrued interest payable on external loans in 2018/19 was £2.502m;
- Prudential Indicators were all met in 2018/19 and are to be noted;
- The Operational and Authorised Boundary Limits were not breached;
- The Council continues to maintain CIPFA best practice requirements

2 Recommendations

2.1 To note the Treasury Management activity for the 2018/19 financial year and compliance with the Prudential Indicators before recommendation to Full Council for information.

3 Risk Assessment (if appropriate)

Risk Matrix

Description	Likelihood	Impact	Overall
Risk: The Council fails to maintain an adequate system of internal control	Possible (3)	Moderate (3)	Medium (9)
<i>Mitigation: The Council has an agreed Treasury Management Strategy Statement (TMSS) and effective management practices to ensure compliance</i>	Rare (1)	Moderate (3)	Low (3)

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
Impact							

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Background and Full details of the Report

- 4.1 The Council's treasury management strategy for 2018/19 was approved at Full Council on 22 February 2018. The Council invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.
- 4.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a half-year and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 4.3 These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit, Governance and Standards Committee.
- 4.4 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital

expenditure and financing, treasury management and non-treasury investments. The Council's latest Capital Strategy, complying with CIPFA's requirement, was approved by Somerset West and Taunton Shadow Full Council on 21 February 2019.

4.5 Treasury management is defined as:

“The management of the local authority's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks”.

4.6 Overall responsibility for treasury management remains with the Council with operational responsibility delegated to the S151 Officer. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

5 External Context – Analysis by Arlingclose

5.1 Commentary related to the external context and economic analysis by Arlingclose, the Council's Treasury Management advisor, can be found in Appendix A to this report.

6 The Council's External Debt

6.1 On 31 March 2019 the Council had net borrowing of £48.344m arising from its revenue and capital income and expenditure. 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. These factors are summarised in Table 1 Below.

Table 1: Balance Sheet Summary

	31.03.19 Actual £000
General Fund CFR	15,395
HRA CFR	103,029
Total CFR	118,424
External Borrowing	(92,500)
Less: Usable Reserves	(42,262)
Less: Working Capital	(1,894)
(Net Borrowing Requirement) / Net Investment Capacity	(48,344)

6.2 The Council's strategy during the year was to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. Towards the end of the financial year it was necessary to temporarily borrow £10m externally to fund short term cash flow which was repaid on 15 May 2019. Total borrowing has remained below the CFR

throughout the period. This approach enabled the Council to maintain cash held in strategic longer term investments, and is consistent with our approach to managing risk and short term cash flow changes – the cost of short term borrowing is currently much lower than the return on strategic investments.

- 6.3 The treasury management position as at 31 March 2019 and the year-on-year change is shown in table 2 below.

Table 2: Treasury Management Summary

	31/03/18 Balance £000	2018/19 Movement £000	31/03/19 Balance £000
Long Term Borrowing	(82,500)	3,500	(79,000)
Short Term Borrowing	(3,000)	(10,500)	(13,500)
Total Borrowing	(85,500)	(7,000)	(92,500)
Long Term Investments	2,228	(67)	2,161
Short Term Investments	16,194	(11,181)	5,013
Cash and Cash Equivalents	17,818	2,525	20,343
Total Investments	36,240	(8,723)	27,517
Net Borrowing	(49,260)	(15,723)	(64,983)

Borrowing Activity

- 6.4 As at 31 March 2019, the Council held £92.5m of external loans which is an increase of £7m from the reported position at 31 March 2018. This is due to the temporary borrowing of £10m taken out towards the end of the financial year as referred to above.

Table 3: Borrowing Position

	31/03/18 Balance £000	2018/19 Movement £000	31/03/19 Balance £000
PWLB Fixed Rate Loans	77,500	(3,000)	74,500
PWLB Variable Rates Loans	5,000	0	5,000
Barclays Bank Fixed Rate Loan	3,000	0	3,000
Local Authority Loan	0	10,000	10,000
Total	85,500	7,000	92,500

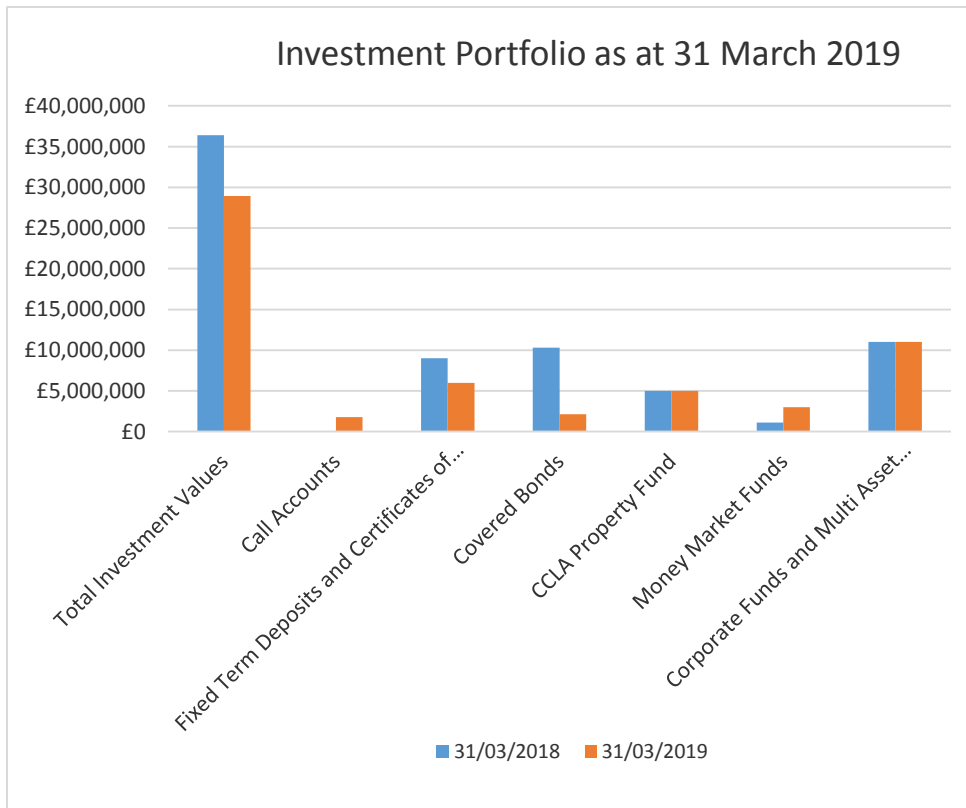
- 6.5 The Council's chief objective if it needs to borrow is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

Investment Activity

- 6.6 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2018/19, the Council's investment balance ranged between £21.069m and £48.686m. The year-end investment position and the year-on-year change is shown in table 4 below.

Table 4: Investment Position

Type of Investment	31/03/18 Balance £000	2018/19 Movement £000	31/03/19 Balance £000
Call Accounts	0	1,800	1,800
Fixed Term Deposits and Certificates of Deposits	9,000	(3,000)	6,000
Covered Bonds	10,295	(8,167)	2,128
CCLA Property Fund	5,000	0	5,000
Money Market Funds	1,100	1,900	3,000
Corporate Funds and Multi Asset Investments	11,022	(0,022)	11,000
Total Investments	36,417	(7,489)	28,928



- 6.7 A further breakdown can be found in Appendix B to this report.
- 6.8 Both the CIPFA Code and Government guidance require the Council to invest its funds prudently and to have regard to the security and liquidity of its 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.
- 6.9 In furtherance of these objectives and given the increasing risk and falling returns from short-term unsecured bank investments the Council has diversified into higher yielding asset classes. £8m which is available for longer term investment has been moved into property funds, bonds and multi-asset funds (£5m in CCLA Property Fund and £3m Investec Diversified Income Multi-Asset Fund). These funds have no defined maturity date but are available for withdrawal after a notice period, their performance and continued sustainability in meeting the Council's investment objectives, is regularly reviewed. In light of their performance and the Council's latest cash flow forecasts, investment in these funds has been maintained.
- 6.10 The table below shows counterparty credit quality as measured by credit ratings and the percentage of the in-house investment portfolio exposed to bail-in risk. This is an extract from Arlingclose's quarterly investment benchmarking.

Table 5: Investment Benchmarking – Treasury Investments Managed In-house

	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return %
31.03.2018	2.93	AA	39%	0.89
30.09.2018	4.10	AA-	72%	0.79
31.03.2019	4.29	AA-	86%	0.91
Similar LAs	4.13	AA-	53%	0.86
All LAs	4.20	AA-	55%	0.85

7 Non-Treasury Investments

- 7.1 The definition in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the MHCLG's Investment Guidance in which the definition of investments is further broadened to also include all such assets held particularly for financial return.
- 7.2 The Council also holds £2.676m of such investments held as loans to local businesses, charities, partnerships and sports clubs as at 31 March 2019. These investments generated £0.081m of investment income for the Council representing an average rate of return of 2.88%.

8 Treasury Performance

- 8.1 The Council measures and manages the financial performance of its treasury management activities in terms of its impact on the revenue budget as shown in Table 6 below.

Table 6: Performance

	Budget 2018/19 £000	Actual 2018/19 £000	Variance 2018/19 £000
Interest Paid	2,913	2,502	(411)
Interest Received	(746)	(728)	18

9 Compliance Report

- 9.1 The Section 151 Officer is pleased to report that all treasury management activities undertaken during 2018/19 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	31/03/19 Actual	2018/19 Limit	Complied
Any single organisation, except UK Government	£4.8m	£6m each	✓
UK Central Government	Nil	Unlimited	✓
Any group of organisations under the same ownership	£3.0m	£6m per Group	✓
Any group of pooled funds under the same management	£15.0m	£15m per Manager	✓
Negotiable instruments held in a broker's nominee account	£2.0m	£20m per Broker	✓
Foreign countries	Nil	£6m per Country	✓
Registered Providers	Nil	£14m in Total	✓
Loans to unrated corporates	Nil	£6m in Total	✓
Money Market Funds	£4.0m	£28m in Total	✓

- 9.2 Compliance with the authorised limit and the operational boundary for external debt is demonstrated in table 8 below.

Table 8: Debt Limits

	2018/19 Maximum £000	31/03/19 Actual £000	2018/19 Operational Boundary £000	2018/19 Authorised Limit £000	Complied
Borrowing	92,500	92,500	200,000	220,000	✓

- 9.3 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was never above the operational boundary during 2018/19.

10 Treasury Management Indicators

- 10.1 The Council measures and manages its exposures to treasury management risks using the following indicators.
- 10.2 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average 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.

	31/03/19 Actual	2018/19 Target	Complied
Portfolio average credit rating	AA-	A-	✓

- 10.3 The target of A- was recommended by the Council's Treasury Management advisors, Arlingclose, as the minimum rating Taunton Deane Borough Council should achieve in relation to its investments placed during the year. On a quarterly basis the Council submits details of its current investments and Arlingclose produce an investment benchmarking document, which as at 31 March 2019, reported that Taunton Deane Borough Council had an average credit rating of AA- which is above the recommendation suggested by Arlingclose. This therefore means that the Council's investments are exposed to less credit risk than is recommended by our advisors.
- 10.4 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period.

	31/03/19 Actual	2018/19 Target	Complied
Total cash available within 3 months	£24.8m	£6.0m	✓

10.5 **Interest Rate Exposures:** This indicator is set to control the Council’s exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed was:

	31/03/19 Actual	2018/19 Limit	Complied
Fixed			
Upper limit on fixed interest rate exposure on Debt	94.59%	100%	✓
Upper limit on fixed interest rate exposure on Investments	28.10%	100%	✓
Variable			
Upper limit on variable interest rate exposure on Debt	5.41%	100%	✓
Upper limit on variable interest rate exposure on Investments	71.90%	100%	✓

10.6 Fixed rate investment and borrowing are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

10.7 As at 31 March 2019 investment returns ranged between 0.25% (investment held in the Santander Instant Access Account) and 4.34% (CCLA Property Fund).

10.8 **Maturity Structure of Borrowing:** This indicator is set to control the Council’s exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31/03/19 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	15%	50%	0%	✓
1 year and within 2 years	4%	50%	0%	✓
24 months and within 5 years	24%	50%	0%	✓
5 years and within 10 years	44%	75%	0%	✓
10 years and within 20 years	6%	100%	0%	✓
20 years and within 30 years	0%	100%	0%	✓
30 years and within 40 years	4%	100%	0%	✓
40 years and within 50 years	0%	100%	0%	✓
50 years and above	3%	100%	0%	✓

10.9 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

- 10.10 **Principal Sums Invested for Periods Longer than 365 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2018/19	2019/20	2020/21
Actual principal invested beyond year end	£2.1m	£0.0m	£0.0m
Limit on principal invested beyond year end	£30.0m	£30.0m	£30.0m
Complied	✓	✓	✓

11 Compliance with Prudential Indicators 2018/19

- 11.1 **Introduction:** The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

- 11.2 This report compares the approved indicators with the outturn position for 2018/19. Actual figures have been taken from, or prepared on a basis consistent with, the Council's unaudited Statement of Accounts 2018/19. Therefore, these figures will be subject to the findings of the external audit by Grant Thornton.

- 11.3 **Capital Expenditure:** The Council's capital expenditure and financing may be summarised as follows:

Capital Expenditure	2018/19 Approved £000	2018/19 Actual £000
General Fund	55,678	15,398
HRA	24,886	11,379
Total	80,564	26,777

Capital expenditure has been financed as follows:

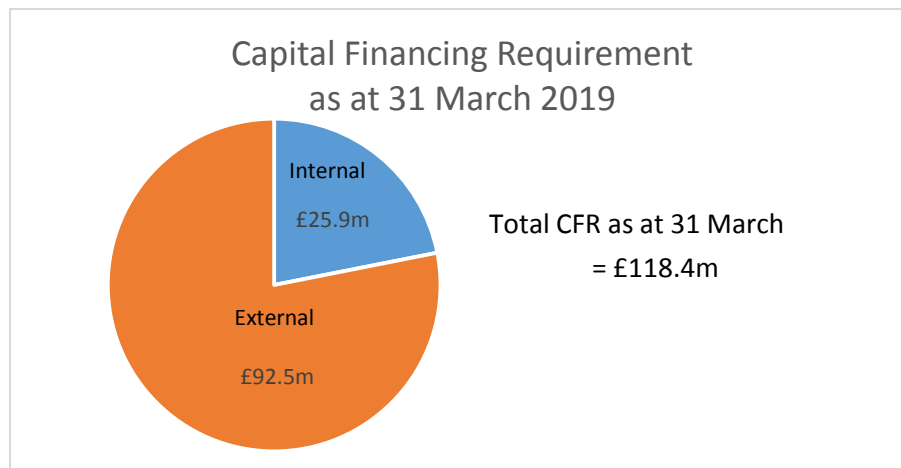
Capital Financing	2018/19 Approved £000	2018/19 Actual £000
Capital Receipts	5,184	2,899
Capital Grants and Contributions	3,897	2,471
Revenue Contributions	13,937	7,180

Capital Financing	2018/19 Approved £000	2018/19 Actual £000
Major Repairs Reserve	9,496	7,352
Borrowing	47,400	6,875
Capital Financing Reserve	650	0
Total Financing	80,564	26,777

11.4 While £80.564m has been approved on General Fund and HRA capital projects, only £26.777m was actually spent during the year. Taking into account under/overspends and budgets no longer required, £53.787m represents the slippage on approved schemes and budget approvals which have been profiled across future financial years.

11.5 **Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31/03/19 Estimate £000	31/03/19 Actual £000	Difference £000
General Fund	18,277	15,395	(2,882)
Housing Revenue Account	100,729	103,029	2,300
Total CFR	119,006	118,424	(582)



11.6 **Actual Debt:** The Council had £92.5m of external debt as at 31 March 2019.

11.7 **Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt and Capital Financing Requirement (CFR)	31/03/19 Estimate £000	31/03/19 Actual £000
Capital Financing Requirement	119,006	118,424
Gross Debt	(82,500)	(92,500)
Headroom	36,506	25,924
Borrowed in Excess of CFR (Y/N)	N	N

11.8 Total debt remained below the CFR during the forecast period.

11.9 **Operational Boundary for External Debt:** The Operational Boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

Operational Boundary and Total Debt	31/03/19 Boundary £000	31/03/19 Actual Debt £000	Complied
Borrowing	200,000	92,500	✓
Total Debt	200,000	92,500	✓

11.10 **Authorised Limit for External Debt:** The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit and Total Debt	31/03/19 Boundary £000	31/03/19 Actual Debt £000	Complied
Borrowing	220,000	92,500	✓
Total Debt	220,000	92,500	✓

11.11 **Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	31/03/19 Estimate %	31/03/19 Actual %	Difference %
General Fund	-0.35	-0.34	0.01
Housing Revenue Account	9.94	9.39	-0.55
Total	9.59	9.05	-0.54

- 11.12 **Incremental Impact of Capital Investment Decisions:** This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	31/03/19 Estimate £	31/03/19 Actual £	Difference £
General Fund – Increase in Annual Band D Council Tax	4.44	11.77	7.33
Housing Revenue Account – Increase in Average Weekly Rents	-0.82	-0.73	-0.09

12 Links to Corporate Aims / Priorities

- 12.1 The Treasury Management and Investment Strategy supports the delivery of the Corporate Aims.

13 Finance / Resource Implications

- 13.1 The Treasury Management function has been well-managed during the year in compliance with the Treasury Management Strategy Statement. As interest rates remain low the opportunities to generate significant income through short term investments has been limited.
- 13.2 This report provides full details of the Treasury Management activity during the year. A summary of the key points follows:

- As at 31 March 2019, Taunton Deane’s underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £118.424m, while usable reserves and working capital which were the underlying resources available for investment were £42.262m and £1.894m respectively.
- As at 31 March 2019, Taunton Deane had external borrowing of £92.5m, attributable to the Housing Revenue Account, and £28.928m of investments.
- The Council’s current strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.

14 Legal Implications

- 14.1 The S151 Officer has a statutory responsibility to ensure appropriate arrangements are in place to adequately control the Council’s resources. The Council is required to have regard to the Prudential Code, Treasury Management Code and relevant statutory guidance.

15 Environmental Impact, Safeguarding and/or Community Safety, Equality and Diversity, Social Value, Partnership, Health and Wellbeing, Asset Management, Data Protection, and Consultation Implications

15.1 None in respect of this report.

Democratic Path:

- **Audit, Governance and Standards Committee – Yes**
- **Full Council – Yes**

Reporting Frequency: Annual

Contact Officers

Name	Steve Plenty
Direct Dial	01984 600173
Email	s.plenty@somersetwestandtaunton.gov.uk

Name	Emily Collacott
Direct Dial	01823 218742
Email	e.collacott@somersetwestandtaunton.gov.uk

Name	Paul Fitzgerald
Direct Dial	01823 217557
Email	p.fitzgerald@somersetwestandtaunton.gov.uk

Economic Commentary: After spiking at over \$85/barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over \$50 in late December before steadily climbing toward \$70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.

With the 29th March 2019, the original EU 'exit day' now been and gone, having failed to pass a number of meaningful votes in Parliament, including shooting down Theresa May's deal for the third time, MPs voted by a majority of one (313 to 312) to force the prime minister to ask for an extension to the Brexit process beyond 12th April in order to avoid a no-deal scenario. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs have yet to yield any positive results. The EU must grant any extension and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.

While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

Financial markets: December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate

sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the New Year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3 month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

Credit background: Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.

The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/NatWest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.

In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

Appendix B

Investments as at 31 March 2019

Borrower	Amount £	Rate of Interest %	Date of Investment	Date of Maturity
Lloyds Bank Plc	1,000,000	1.000	19/10/2018	18/04/2019
Lloyds Bank Plc	2,000,000	1.000	16/01/2019	16/07/2019
Standard Chartered Bank	3,000,000	0.950	15/11/2018	15/05/2019
Leeds Building Society	1,064,814	1.565	24/04/2015	16/11/2020
Leeds Building Society	1,063,530	1.622	01/05/2018	16/11/2020
Santander UK Plc	1,800,000	Variable	N/A	On Demand
Invesco	200,000	Variable	N/A	On Demand
CCLA Public Sector Deposit Fund	1,000,000	Variable	N/A	On Demand
CCLA Property Fund	5,000,000	Variable	N/A	On Demand
Investec	3,000,000	Variable	N/A	On Demand
Columbia Threadneedle	2,000,000	Variable	N/A	On Demand
Royal London	1,000,000	Variable	N/A	On Demand
Aberdeen Liquidity Short Duration	1,000,000	Variable	N/A	On Demand
Aberdeen Liquidity Fund Sterling	2,800,000	Variable	N/A	On Demand
Payden	2,000,000	Variable	N/A	On Demand
Federated Cash Plus	1,000,000	Variable	N/A	On Demand
TOTAL	28,928,344			

Somerset West and Taunton Council

Audit, Governance and Standards Committee – 26 June 2019

West Somerset Council Treasury Management Outturn Report 2018/19

This matter is the responsibility of Cllr Ross Henley, Portfolio Holder for Corporate Resources

Report Author: Steve Plenty, Finance Specialist

1 Executive Summary / Purpose of the Report

- 1.1 To provide members with an update on the Treasury Management activity of West Somerset Council and performance against the Prudential Indicators for 2018/19.
- 1.2 Treasury management performance during the year has reflected the agreed strategy for the Council, with low risk investment exposure delivering relatively low returns. This is appropriate for the local context.
- 1.3 The Council has complied with the Code of Practice and local Treasury Management Indicators and Prudential Indicators.
- 1.4 This is the final outturn report for West Somerset Council with cash balances and investments transferring to Somerset West and Taunton Council on 1 April 2019.

2 Recommendations

- 2.1 To note the Treasury Management activity for the 2018/19 financial year and compliance with the Prudential Indicators before recommendation to Full Council for information.

3 Risk Assessment (if appropriate)

Risk Matrix

Description	Likelihood	Impact	Overall
Risk: The Council fails to maintain an adequate system of internal control	Possible (3)	Moderate (3)	Medium (9)
<i>Mitigation: The Council has an agreed Treasury Management Strategy Statement (TMSS) and effective management practices to ensure compliance</i>	Rare (1)	Moderate (3)	Low (3)

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
Impact							

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Background and Full details of the Report

- 4.1 The Council's treasury management strategy for 2018/19 was approved at Full Council on 23 February 2018. The Council invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.
- 4.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a half-year and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 4.3 These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit, Governance and Standards Committee.
- 4.4 The 2017 Prudential Code includes a requirement for local authorities to provide a

Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's latest Capital Strategy, complying with CIPFA's requirement, was approved by Somerset West and Taunton Shadow Full Council on 21 February 2019.

4.5 Treasury management is defined as:

“The management of the local authority's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks”.

4.6 Overall responsibility for treasury management remains with the Council with operational responsibility delegated to the S151 Officer. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

5 External Context – Analysis by Arlingclose

5.1 Commentary related to the external context and economic analysis by Arlingclose, the Council's Treasury Management advisor, can be found in Appendix A to this report.

6 Local Context

6.1 As at 31 March 2019, the Council had no external borrowing and £13.468m of investments (31 March 2018 no external borrowing and £16.349m of investments). This is a decrease of £2.881m compared to 2017/18. A significant proportion of the investment balance, £7.453m of the closing balance relates to Hinkley S106 / Community Impact Mitigation funds.

6.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

6.3 These factors and the year-on-year change are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31/03/18 Actual £m	2018/19 Movement £m	31/03/19 Actual £m
General Fund CFR	5.204	(143)	5.061
Less: Usable reserves	(8.115)	(61)	(8.176)
Add: Working capital	5.495	(114)	5.381
Net Investments	2.584	(318)	2.266

6.4 Over the year the Council has reduced its CFR and was not required to borrow

externally in the year.

- 6.5 The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31 March 2019 and the year-on-year change is shown in table 2 below.

Table 2: Treasury Management Summary

	31/03/18 Balance £m	2018/19 Movement £m	31/03/19 Balance £m
Short-term investments	12.938	(0.896)	12.042
Cash and cash equivalents	3.462	(1.777)	1.685
Total investments	16.400	(2.673)	13.727

Note: the figures in the table above are from the balance sheet in the Council's Statement of Accounts 2018/19.

Borrowing Activity

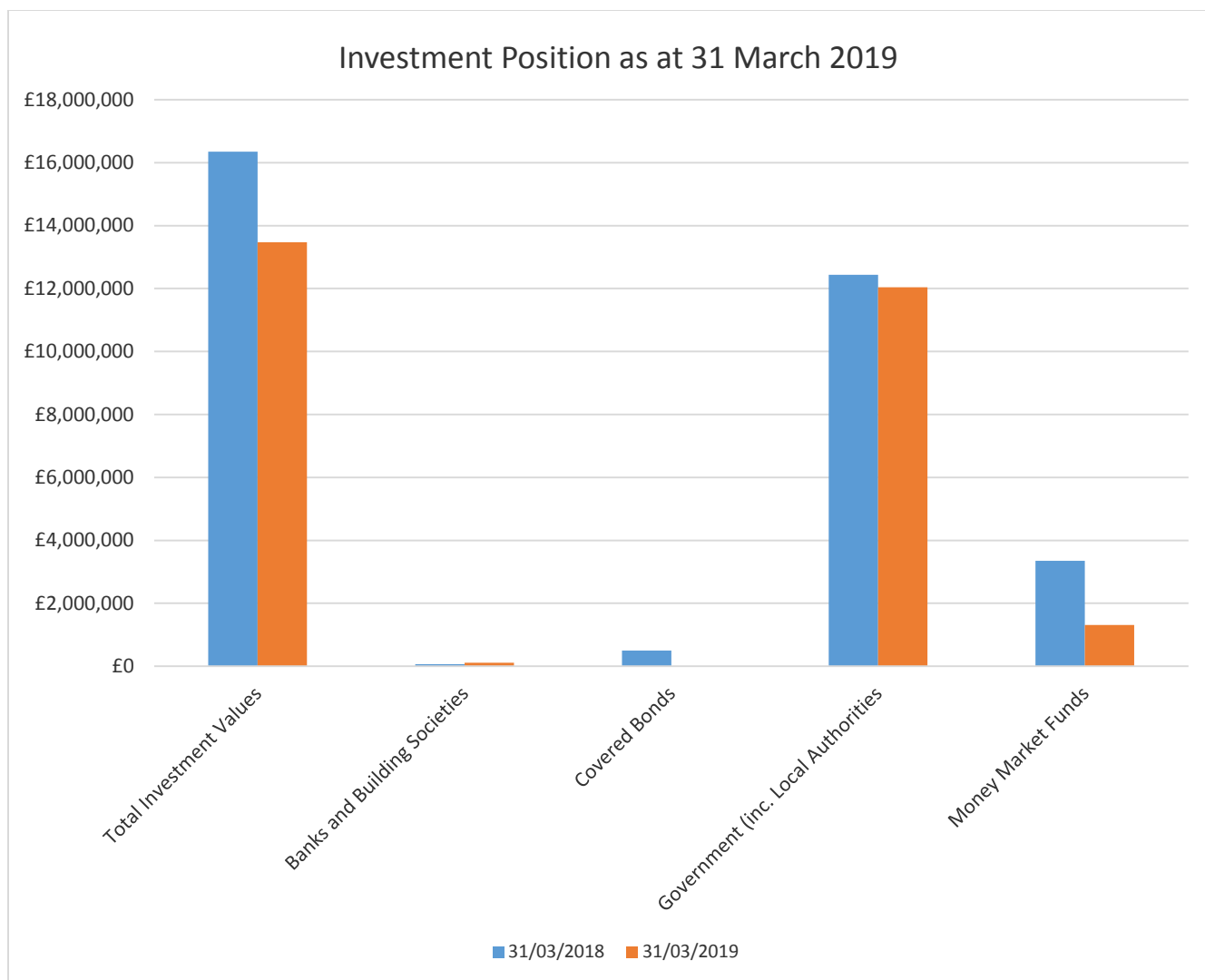
- 6.6 As at 31 March 2019, the Council had no external borrowing, no change from the position as at 31 March 2018.

Investment Activity

- 6.7 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2018/19, the Council's investment balance ranged between £11.430m (£7.994m Hinkley Funds) and £23.805m (£10.550m Hinkley Funds).
- 6.8 The year-end investment position and the year-on-year change is shown in table 3 below.

Table 3: Investment Position

	31/03/18 Balance £m	2018/19 Movement £m	31/03/19 Balance £m
Banks & building societies (unsecured)	0.063	0.053	0.116
Covered bonds (secured)	0.500	(0.500)	0.000
Government (Inc. local authorities)	12.436	(0.394)	12.042
Money Market Funds	3.350	(2.040)	1.310
Total investments	16.349	(2.881)	13.468



6.9 A further breakdown can be found in Appendix B to this report.

6.10 Both the CIPFA Code and Government guidance require the Council to invest its funds prudently and to have regard to the security and liquidity of its 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.

6.11 In furtherance of these objectives and given the increasing risk and low returns from short-term unsecured bank investments, the Council has continued with its policy of moving funds into more secure investments. In particular, Hinkley funds are invested with more secure lenders all be it at a cost of lower investment returns.

6.12 Security of capital has remained the Council’s main investment objective. This has been maintained by following the Council’s counterparty policy as set out in its

Treasury Management Strategy Statement for 2018/19.

7 Performance Report

- 7.1 The average cash balance during the year was £18.349m including Hinkley funds. The UK Bank Rate increased from 0.50% to 0.75% in August 2018. New deposits were made at an average rate of 0.55%. Investments in Money Market Funds generated an average rate of 0.61%.
- 7.2 The Council's General Fund budgeted investment income for the year was £0.028m and actual investment income received for the year was £0.069m. In addition, £0.042m of investment income has been achieved during the year and allocated to the Hinkley funds.

8 Compliance Report

- 8.1 The Section 151 Officer is pleased to report that all treasury management activities undertaken during 2018/19 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 4 below.

Table 4: Investment Limits

	2018/19 Maximum	31/03/19 Actual	2018/19 Limit	Complied
Any single organisation, except UK Government	£2m	£0.1m	£2m	✓
UK Central Government	Unlimited	£12.0m	Unlimited	✓
Any group of organisations under the same ownership	£2m per Group	£0.0m	£2m per Group	✓
Any group of pooled funds under the same management	£2m per Manager	£0.0m	£2m per Manager	✓
Negotiable instruments held in a broker's nominee account	£5m per Broker	£0.0m	£5m per Broker	✓
Foreign countries	£2m per Country	£0.0m	£2m per Country	✓
Registered Providers	£5m in Total	£0.0m	£5m in Total	✓
Loans to unrated corporates	£2m in Total	£0.0m	£2m in Total	✓
Money Market Funds	£10m in Total	£1.3m	£10m in Total	✓

- 8.2 Compliance with the authorised limit and the operational boundary for external debt is demonstrated in table 5 below.

Table 5: Debt Limits

	2018/19 Maximum	31/03/19 Actual	2018/19 Operational Boundary	2018/19 Authorised Limit	Complied
Borrowing	0	0	£12.0m	£24.0m	✓
Total debt	0	0	£12.0m	£24.0m	✓

- 8.3 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was never above the operational boundary during 2018/19.

9 Treasury Management Indicators

- 9.1 The Council measures and manages its exposures to treasury management risks using the following indicators.
- 9.2 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average 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.

	31/03/19 Actual	2018/19 Target	Complied
Portfolio average credit rating	AA	A-	✓

- 9.3 The target of A- was recommended by the Council's Treasury Management advisors, Arlingclose, as the minimum rating West Somerset should achieve in relation to its investments placed during the year. On a quarterly basis the Council submits details of its current investments and Arlingclose produce an investment benchmarking document, which as at 31 March 2019, reported that West Somerset had an average credit rating of AA, which is above the recommendation suggested by Arlingclose. This therefore means that the Council's investments are exposed to less credit risk than is recommended by our advisors.
- 9.4 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period.

	31/03/19 Actual	2018/19 Target	Complied
Total cash available within 3 months	£10.0m	£15.0m	✓

- 9.5 **Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate

exposures, expressed as the proportion of net principal borrowed was:

	31/03/19 Actual	2018/19 Limit	Complied
Upper limit on fixed interest rate exposure	90.27%	100.00%	✓
Upper limit on variable interest rate exposure	9.73%	100.00%	✓

9.6 Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

9.7 As at 31 March 2019 investment returns ranged between 0.20% (investments held in Call Accounts held with National Westminster Bank) and 0.85% (Local Authority deposit).

9.8 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31/03/19 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	0%	100%	0%	✓
12 months and within 24 months	0%	100%	0%	✓
24 months and within 5 years	0%	100%	0%	✓
5 years and within 10 years	0%	100%	0%	✓
10 years and above	0%	100%	0%	✓

9.9 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

9.10 **Principal Sums Invested for Periods Longer than 365 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2018/19	2019/20	2020/21
Actual principal invested beyond year end	£0.0m	£0.0m	£0.0m
Limit on principal invested beyond year end	£10.0m	£6m	£6m
Complied	✓	✓	✓

10 Compliance with Prudential Indicators 2018/19

10.1 Introduction: The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code

for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

10.2 This report compares the approved indicators with the outturn position for 2018/19. Actual figures have been taken from, or prepared on a basis consistent with, the Council's unaudited Statement of Accounts 2018/19. Therefore, these figures will be subject to the findings of the external audit by Grant Thornton.

10.3 **Capital Expenditure:** The Council's capital expenditure and financing is summarised as follows:

Capital Expenditure and Financing	2018/19 Approved Programme £m	2018/19 Actual Spend £m	Difference £m
General Fund	13.867	2.311	11.556
Total Expenditure	13.867	2.311	11.556
Capital Receipts	(0.906)	(0.403)	(0.503)
Government Grants	(1.492)	(0.603)	(0.889)
Earmarked Reserves	(0.086)	(0.014)	(0.072)
Revenue Contributions	(0.050)	0.000	(0.050)
Borrowing	(6.419)	0.000	(6.419)
Planning Obligation Grants (S106)	(4.914)	(1.291)	(3.623)
Total Financing	(13.867)	(2.311)	(11.556)

10.4 **Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31/03/19 Estimate £m	31/03/19 Actual £m	Difference £m
General Fund	5.061	5.061	0
Total CFR	5.061	5.061	0

10.5 The CFR fell in line with what was estimated in the Treasury Management Strategy Statement approved in February 2018, as capital expenditure financed by debt was outweighed by resources put aside for debt repayment.

10.6 **Actual Debt:** The Council had no external debt as at 31 March 2019.

10.7 **Gross Debt and the Capital Financing Requirement:** In order to ensure that

over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt and CFR	31/03/19 Estimate £m	31/03/19 Actual £m	Difference £m
Total debt	0	0	0
Capital financing requirement	5.061	5.061	0
Headroom	5.061	5.061	0

10.8 Total debt remained below the CFR during the forecast period. All of the capital financing requirement was met through internal borrowing throughout the year.

10.9 **Operational Boundary for External Debt:** The Operational Boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

Operational Boundary and Total Debt	31/03/19 Boundary £m	31/03/19 Actual Debt £m	Complied
Borrowing	12.000	0	✓
Total Debt	12.000	0	✓

10.10 **Authorised Limit for External Debt:** The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit and Total Debt	31/03/19 Boundary £m	31/03/19 Actual Debt £m	Complied
Borrowing	24.000	0	✓
Total Debt	24.000	0	✓

10.11 **Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	31/03/19 Estimate %	31/03/19 Actual %	Difference %
General Fund	1.85	2.22	0.37

11 Links to Corporate Aims / Priorities

- 11.1 The Treasury Management and Investment Strategy supports the delivery of the Corporate Aims.

12 Finance / Resource Implications

- 12.1 The Treasury Management function has been well-managed during the year in compliance with the Treasury Management Strategy Statement. As interest rates remain low the opportunities to generate significant income through investments has been limited.

- 12.2 This report provides full details of the Treasury Management activity during the year. A summary of the key points follows:

- As at 31 March 2019, West Somerset's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £5.061m, while usable reserves and working capital which were the underlying resources available for investment were £8.176m and £5.381m respectively.
- As at 31 March 2019, West Somerset had no external borrowing and £13.468m of investments, of which £7.453m is in respect of Hinkley S106 funds managed by the Council.
- The Council's current strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.

13 Legal Implications

- 13.1 The S151 Officer has a legal requirement to ensure appropriate arrangements are in place to adequately control the Council's resources.

14 Environmental Impact, Safeguarding and/or Community Safety, Equality and Diversity, Social Value, Partnership, Health and Wellbeing, Asset Management, Data Protection, and Consultation Implications

- 14.1 None in respect of this report.

Democratic Path:

- **Audit, Governance and Standards Committee – Yes**
- **Full Council – Yes**

Reporting Frequency: Annual

Contact Officers

Name	Steve Plenty
Direct Dial	01984 600173
Email	s.plenty@somersetwestandtaunton.gov.uk

Name	Emily Collacott
Direct Dial	01823 218742
Email	e.collacott@somersetwestandtaunton.gov.uk

Name	Paul Fitzgerald
Direct Dial	01823 217557
Email	p.fitzgerald@somersetwestandtaunton.gov.uk

Economic Commentary: After spiking at over \$85/barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over \$50 in late December before steadily climbing toward \$70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.

With the 29th March 2019, the original EU 'exit day' now been and gone, having failed to pass a number of meaningful votes in Parliament, including shooting down Theresa May's deal for the third time, MPs voted by a majority of one (313 to 312) to force the prime minister to ask for an extension to the Brexit process beyond 12th April in order to avoid a no-deal scenario. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs have yet to yield any positive results. The EU must grant any extension and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.

While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

Financial markets: December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate

sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the New Year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3 month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

Credit background: Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.

The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.

In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

Investments as at 31 March 2019

Borrower	Amount £	Rate of Interest %	Date of Investment	Date of Maturity
Leeds City Council	1,000,000	0.750	20/04/18	18/04/19
Fife Council	1,000,000	0.750	01/05/18	30/04/19
Liverpool City Council	2,000,000	0.700	15/08/18	14/08/19
Conwy Council	1,000,000	0.850	01/11/18	01/05/18
Debt Management Office	1,871,000	0.510	10/12/18	08/04/18
Debt Management Office	1,900,000	0.520	14/01/19	13/05/19
Debt Management Office	1,815,000	0.510	11/02/19	10/06/19
Debt Management Office	1,456,000	0.510	11/03/19	08/07/19
National Westminster Call Account	115,947	0.200	N/A	On Demand
Aviva Investors	410,000	Variable	N/A	On Demand
Aberdeen Asset Management	450,000	Variable	N/A	On Demand
Federated Investors (UK)	450,000	Variable	N/A	On Demand
TOTAL	13,467,947			

Somerset West and Taunton Council

Audit, Governance and Standards Committee – 26th June 2019

Code of Corporate Governance

This matter is the responsibility of Executive Councillor for Corporate Resources

Report Author: Christine Fraser, Head of Performance and Governance

1 Executive Summary / Purpose of the Report

To present the Committee with the updated Code of Corporate Governance.

2 Recommendations

That the Committee approves the Code of Corporate Governance.

3 Risk Assessment

- 3.1 Failure to have an up to date Code of Corporate Governance could impact on the quality of the Council's Annual Governance Statement and could ultimately impact on the external auditors Annual Governance Report.

4 Background and Full details of the Report

- 4.1 Corporate Governance is the system by which Somerset West and Taunton Council direct / control our functions and relate to our community.
- 4.2 Good Corporate Governance is required to ensure that the public services provided by the Council are delivered with both confidence and credibility.
- 4.3 The Council is committed to the principles of effective corporate governance and has therefore adopted a Code of Corporate Governance which follows the latest guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE), entitled 'Delivering Good Governance in Local Government (2016)'.
- 4.4 The guidance defines the seven core principles, each supported by sub-principles that should underpin the governance framework of a local authority.
- 4.5 7 core principles at the heart of the CIPFA/SOLACE governance framework are:
- A) Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.
 - B) Ensuring openness and comprehensive stakeholder engagement.

C) Defining outcomes in terms of sustainable economic, social and environmental benefits.

D) Determining the interventions necessary to optimize the achievement of the intended outcomes.

E) Developing the entity's capacity including the capability of its leadership and the individuals within it.

F) Managing risk and performance through robust internal control and strong public financial management.

G) Implementing good practices in transparency, reporting and audit to deliver effective accountability.

5 Links to Corporate Aims / Priorities

5.1 Having effective and efficient governance arrangements is a fundamental element of being a 'well managed' council

6 Finance / Resource Implications

6.1 None arising from this report

7 Legal Implications

7.1 None arising from this report

8 Environmental Impact Implications (if any)

8.1 None arising from this report

9 Safeguarding and/or Community Safety Implications (if any)

9.1 None arising from this report

10 Equality and Diversity Implications (if any)

10.1 None arising from this report

11 Social Value Implications (if any)

11.1 None arising from this report

12 Partnership Implications (if any)

12.1 None arising from this report

13 Health and Wellbeing Implications (if any)

13.1 None arising from this report

14 Asset Management Implications (if any)

14.1 None arising from this report

15 Data Protection Implications (if any)

15.1 None arising from this report

16 Consultation Implications (if any)

16.1 None arising from this report

Democratic Path:

- **Audit, Governance and Standards Committee – Yes**
- **Cabinet/Executive – No**
- **Full Council – No**

Reporting Frequency: Annually

List of Appendices (delete if not applicable)

Appendix A	Code of Corporate Governance
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Contact Officers

Name	Amy Tregellas, Governance Manager
Direct Dial	01823 785034
Email	a.tregellas@somersetwestandtaunton.gov.uk

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law		
<p>Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law</p>		
Sub-principle	SWT Council is committed to achieving good governance and will	The Council's commitment to achieving good governance in practice is demonstrated by the following:
Behaving with Integrity	<ul style="list-style-type: none"> • Ensure members and officers behave with integrity and promote a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation • Ensure members take the lead in establishing specific standard operating principles or values for the organisation and its staff (building on the Seven Principles of Public Life - The Nolan Principles) and that they are communicated and understood • Lead by example and use the above standard operating principles or values as a framework for decision making and other actions • Demonstrate, communicate and embed the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively 	<ul style="list-style-type: none"> • Members Code of Conduct • Officers Code of Conduct • Register of Interests • Policy & procedure for declaration of Gifts & Hospitality • Constitution • Public access to meetings and minutes • Role of Audit, Governance & Standards Committee • Member Training programme • Government guidelines for politically restricted posts • Financial Regulations • Contract Procedure Rules • Freedom of information • Behaviours framework • Whistleblowing policy/procedure • Anti-Bribery Policy • Anti-Fraud Strategy • Complaints Policy • Grievance Policy

<p>Demonstrating strong commitment to ethical values</p>	<ul style="list-style-type: none"> • Seek to establish, monitor and maintain the organisation’s ethical standards and performance • Underpin personal behaviour with ethical values and ensure they permeate all aspects of the organisation’s culture and operation • Develop and maintain robust policies and procedures which place emphasis on agreed ethical values • Ensure that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the organisation 	<ul style="list-style-type: none"> • Members code of conduct • Officers code of conduct • Audit, Governance & Standards Committee • Constitution • Scheme of delegation • Member training programme
<p>Respecting the rule of law</p>	<ul style="list-style-type: none"> • Ensure members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations • Create the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements Strive to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders • Deal with breaches of legal and regulatory provisions effectively • Ensure corruption and misuse of power are dealt with effectively 	<ul style="list-style-type: none"> • Constitution • SHAPE Legal advice • Recruitment and selection procedures • Members code of conduct • Officers code of conduct • Audit, Governance & Standards Committee • Process for Gifts & Hospitality • Recruitment and Selection guidelines • One Team online training • Monitoring Officer provisions and record of legal advice provided by officers • Compliance with CIPFA’s Statement on the Role of the Chief Financial Officer in Local Government

Principle B: Ensuring openness and comprehensive stakeholder engagement		
Local government is run for the public good; organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders		
Sub-principle	SWT Council is committed to achieving good governance and will	The Council's commitment to achieving good governance in practice is demonstrated by the following:
Openness	<ul style="list-style-type: none"> • Ensure an open culture through demonstrating, documenting and communicating the organisation's commitment to openness • Make decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided • Provide clear reasoning and evidence for decisions in both public records and explanations to stakeholders, being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear • Use formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action 	<ul style="list-style-type: none"> • Corporate Plan • Record of public consultations • Minutes and reports of Council Committees on website • Records of decision making and supporting materials • Standard format for Committee reports • Committee work programmes • Statement of Accounts • Whistleblowing policy • Annual Governance Statement • Local Government Transparency Code
Engaging comprehensively with institutional stakeholders	<ul style="list-style-type: none"> • Effectively engage with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably • Develop formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively • Ensure that partnerships are based on trust, a shared 	<ul style="list-style-type: none"> • Corporate Plan • Work programme of the Strategy team • Contract Compliance Manager role for managing contracts

	<p>commitment to change, a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit</p>	
<p>Engaging with individual citizens and service users effectively</p>	<ul style="list-style-type: none"> • Establish a clear policy on the type of issues that the organisation will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes • Ensure that communication methods are effective and that members and officers are clear about their roles with regard to community engagement • Encourage, collect and evaluate the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs • Implement effective feedback mechanisms in order to demonstrate how views have been taken into account • Balance feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity • Take account of the impact of decisions on future generations of tax payers and service users 	<ul style="list-style-type: none"> • Corporate Plan • Work programme of the Strategy team • Scrutiny Committee work programme • Constitution • Committee Reporting Template

Principle C: Defining outcomes in terms of sustainable economic, social and environmental benefits		
<p>The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available</p>		
Sub-principle	SWT Council is committed to achieving good governance and will	The Council's commitment to achieving good governance in practice is demonstrated by the following:
Defining outcomes	<ul style="list-style-type: none"> • Have a clear vision, which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation's overall strategy, planning and other decisions • Specify the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer • Deliver defined outcomes on a sustainable basis within the resources that will be available • Identify and manage risks to the achievement of outcomes • Manage service users' expectations effectively with regard to determining priorities and making the best use of the resources available 	<ul style="list-style-type: none"> • Corporate Plan • Work programme of the Strategy team • Risk Management Policy
Sustainable economic, social and environmental benefits	<ul style="list-style-type: none"> • Consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions about service provision • Take a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints • Determine the wider public interest associated with 	<ul style="list-style-type: none"> • Corporate Plan • Work programme of the Strategy team • Budget Monitoring reports • Annual Governance Statement • Record of public consultations • Reports and minutes available on the website

	balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs <ul style="list-style-type: none"> • Ensure fair access to services 	
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Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes		
<p>Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised.</p>		
Sub-principle	SWT Council is committed to achieving good governance and will	The Council's commitment to achieving good governance in practice is demonstrated by the following:
Determining interventions	<ul style="list-style-type: none"> • Ensure decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided • Consider feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts 	<ul style="list-style-type: none"> • Council reports, and underlying Business Case where appropriate, required to outline options considered and inherent risks • Medium Term Financial Strategy
Planning interventions	<ul style="list-style-type: none"> • Establish and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets • Engage with internal and external stakeholders in determining how services and other courses of action should be planned and delivered 	<ul style="list-style-type: none"> • Corporate Plan • Forward Plan • Risk Management Policy • Constitution • Schedule of meetings • Budget and Policy Framework within the

	<ul style="list-style-type: none"> • Consider and monitor risks facing each partner when working collaboratively, including shared risks • Ensure arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances • Establish appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured • Ensure capacity exists to generate the information required to review service quality regularly • Prepare budgets in accordance with objectives, strategies and the medium term financial plan • Inform medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy 	<p>Constitution</p> <ul style="list-style-type: none"> • Medium Term Financial Strategy • Financial Regulations • Contract Procedure Rules
Optimising achievement of intended outcomes	<ul style="list-style-type: none"> • Ensure the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints • Ensure the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term • Ensure the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage • Ensure the achievement of 'social value' through service planning and commissioning. 	<ul style="list-style-type: none"> • Medium Term Financial Strategy • Corporate Plan • Work programme of the Strategy team • Constitution • Budget and Policy Framework • Financial Regulations • Contract Standing Orders • Role of the Project Management Office • Contract Compliance Manager role for managing contracts

Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it		
<p>Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities</p>		
Sub-principle	SWT Council is committed to achieving good governance and will	The Council's commitment to achieving good governance in practice is demonstrated by the following:
Developing the entity's capacity	<ul style="list-style-type: none"> • Review operations, performance and use of assets on a regular basis to ensure their continuing effectiveness • Improve resource use through appropriate application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently • Recognise the benefits of partnerships and collaborative working where added value can be achieved • Develop and maintain an effective workforce plan to enhance the strategic allocation of resources. 	<ul style="list-style-type: none"> • Corporate Plan • Work programme of the Strategy team • Heads of Functions Operational Plans • Role of the Project Management Office • Contract Compliance Manager role for managing contracts • Role of the People Managers
Developing the capability of the entity's leadership and other individuals	<ul style="list-style-type: none"> • Develop protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained • Publish a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body • Ensure the leader and the chief executive have clearly defined and distinctive leadership roles within a structure 	<ul style="list-style-type: none"> • Elected Member Training and Development Programme • Corporate Plan • Audit, Governance and Standards Committee • Induction programme • One Team online learning • Corporate Governance Group • Internal Audit Reports • External Audit Reports

	<p>whereby the chief executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority</p> <ul style="list-style-type: none"> • Develop the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by: ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged • Ensure members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensure that they are able to update their knowledge on a continuing basis • Ensure personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external • Ensure that there are structures in place to encourage public participation • Take steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspection. • Hold staff to account through regular performance reviews which take account of training or development needs • Ensure arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing 	<ul style="list-style-type: none"> • Role of People Managers • Constitution • Scheme of Delegation • Top team development • Public Question Time as standing item on each Committee agenda
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Principle F: Managing risk and performance through robust internal control and strong public financial management

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities. A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability. It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

Sub-principle	SWT Council is committed to achieving good governance and will	The Council's commitment to achieving good governance in practice is demonstrated by the following:
Managing Risk Page 111	<ul style="list-style-type: none"> • Recognise that risk management is an integral part of all activities and must be considered in all aspects of decision making • Implement robust and integrated risk management arrangements and ensure that they are working effectively • Ensure that responsibilities for managing individual risks are clearly allocated 	<ul style="list-style-type: none"> • Risk Management Policy • Corporate Risk Register • Modgov system • Members Code of Conduct • Register and declaration of Interests • Officer Code of Conduct • Audit, Governance and Standards Committee • One team online learning
Managing Performance	<ul style="list-style-type: none"> • Monitor service delivery effectively including planning, specification, execution and independent post implementation review • Make decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook • Ensure an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible 	<ul style="list-style-type: none"> • Corporate Plan • Operational Plans • Complaints Policy • Committee work programmes • Scrutiny Committee work programme • Public access to meetings and minutes • Publication of agenda and accompanying papers • Committee reports • Self Assessment of the Audit Committee • Budget Monitoring Reports • Constitution

	<ul style="list-style-type: none"> • Provide members and senior management with regular reports on service delivery plans and on progress towards outcome achievement • Ensure there is consistency between specification stages (such as budgets) and post implementation reporting (e.g. financial statements). 	<ul style="list-style-type: none"> • Role of the Project Management Office • Contract Compliance Manager role for managing contracts • Role of the People Managers • Risk Management Policy • Budget and Policy Framework • Scheme of delegation • Financial Regulations • Contract Standing Orders
Robust Internal Control	<ul style="list-style-type: none"> • Align the risk management strategy and policies on internal control with achieving objectives • Evaluate and monitor risk management and internal control on a regular basis • Ensure effective counter fraud and anti-corruption arrangements are in place • Ensure additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor • Ensure an audit committee which is independent of the executive and accountable to the governing body provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment and that its recommendations are listened to and acted upon 	<ul style="list-style-type: none"> • Code of Corporate Governance • Annual Governance Statement • Internal Audit Plan • Internal Audit reports • Internal Audit progress reports to Audit, Governance and Standards Committee • Role of the Audit, Governance and Standards Committee • Chief Internal Auditors Annual Report and opinion • Risk Management Policy • Anti-Fraud Strategy • Self Assessment of the Audit Committee • Corporate Governance Group • Training for Audit, Governance and Standards Committee members
Managing data	<ul style="list-style-type: none"> • Ensure effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data • Ensure effective arrangements are in place and operating effectively when sharing data with other bodies • Review and audit regularly the quality and accuracy of data used in decision making and performance monitoring 	<ul style="list-style-type: none"> • General Data Protection Regulations training for officers and Members • Data Protection Policy • Information Governance Policies •
Strong public financial management	<ul style="list-style-type: none"> • Ensure financial management supports both long term achievement of outcomes and short-term financial and operational performance 	<ul style="list-style-type: none"> • Medium Term Financial Strategy • Budget and Policy Framework • Budget Monitoring

	<ul style="list-style-type: none"> • Ensure well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls 	<ul style="list-style-type: none"> • Financial Regulations • Contract Standing Orders
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Principle G: Implementing good practices in transparency, reporting and audit to deliver effective accountability

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability

Sub-principle	SWT Council is committed to achieving good governance and will	The Council's commitment to achieving good governance in practice is demonstrated by the following:
Implementing good practice in transparency <div style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 113</div>	<ul style="list-style-type: none"> • Write and communicate reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate • Strike a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand. 	<ul style="list-style-type: none"> • Members Code of Conduct • Officers Code of Conduct • Register of Interests • Declarations of Interest recorded in Committee Minutes • Role of the Scrutiny Committee • Role of the Audit, Governance and Standards Committee • Public access to meetings and minutes • Public access to agendas and reports • Complaints Procedure • Local Government Transparency Code
Implementing good practices in reporting	<ul style="list-style-type: none"> • Report at least annually on performance, value for money and the stewardship of resources to stakeholders in a timely and understandable way • Ensure members and senior management own the results reported • Ensure robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publish the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement) 	<ul style="list-style-type: none"> • Corporate Plan • Statement of Accounts • Annual Governance Statement and review process including the Code of Corporate Governance • Mod.gov system • Delegated Portfolio decision making template

	<ul style="list-style-type: none"> • Ensure that this Framework is applied to jointly managed or shared service organisations as appropriate • Ensure the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other, similar organisations 	
<p>Assurance and effective accountability</p>	<ul style="list-style-type: none"> • Ensure that recommendations for corrective action made by external audit are acted upon • Ensure an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon • Welcome peer challenge, reviews and inspections from regulatory bodies and implement recommendations • Gain assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement • Ensure that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met. 	<ul style="list-style-type: none"> • Internal Audit Annual Plan • Internal Audit Reports • Internal Audit Annual Report • Internal Audit progress reports to the Audit Governance and Standards Committee • Compliance with the Public Sector Internal Audit Standards • External Auditor Reports • Annual Governance Statement • Corporate Governance Group

Somerset West and Taunton Council

Audit, Governance and Standards Committee – 26th June 2019

Constitution

This matter is the responsibility of Executive Councillor for Corporate Resources

Report Author: Christine Fraser, Head of Performance and Governance

1 Executive Summary / Purpose of the Report

To update part of the Constitution.

2 Recommendations

That the Committee recommends to Council the following amendments:

- 1) The terms of reference for the Employment Committee are removed from the Constitution
- 2) The revised Officer Employment Procedure Rules (attached at Appendix A) are approved

3 Risk Assessment

- 3.1 Failure to have an appropriate a workable Constitution could impact on the Council's ability to operate in an economic, efficient and effective manner.

4 Background and Full details of the Report

- 4.1 As part of the work completed by Officers and the Shadow Council prior to the inception of Somerset West and Taunton Council on 1st April 2019, a new Constitution was drafted. At the time of drafting it was confirmed that this was a starting point and that the document would be a 'living' document and reviewed and updated on a regular basis.
- 4.2 The Officers Employment Procedure Rules have now been reviewed to ensure that the appointments process to Senior Officer posts is appropriate. Members are included in the process of appointing Senior Officers but the final decision will rest with the Chief Executive (with the exception of the statutory posts which are a Council decision).
- 4.3 The revised Officer Employment Procedure Rules are attached as Appendix A

5 Links to Corporate Aims / Priorities

- 5.1 Having effective and efficient governance arrangements is a fundamental element of being a 'well managed' council

6 Finance / Resource Implications

6.1 None arising from this report

7 Legal Implications

7.1 The proposed changes have been discussed with SHAPE Legal and they have confirmed that they meet legislative requirements

8 Environmental Impact Implications (if any)

8.1 None arising from this report

9 Safeguarding and/or Community Safety Implications (if any)

9.1 None arising from this report

10 Equality and Diversity Implications (if any)

10.1 None arising from this report

11 Social Value Implications (if any)

11.1 None arising from this report

12 Partnership Implications (if any)

12.1 None arising from this report

13 Health and Wellbeing Implications (if any)

13.1 None arising from this report

14 Asset Management Implications (if any)

14.1 None arising from this report

15 Data Protection Implications (if any)

15.1 None arising from this report

16 Consultation Implications (if any)

16.1 None arising from this report

Democratic Path:

- **Audit, Governance and Standards Committee – Yes**
- **Cabinet/Executive – No**
- **Full Council – Yes**

Reporting Frequency: Updates to the Constitution will be as and when appropriate

List of Appendices

Appendix A	Constitution – Officer Employment Procedure Rules
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Contact Officers

Name	Amy Tregellas, Governance Manager
Direct Dial	01823 785034
Email	a.tregellas@somersetwestandtaunton.gov.uk

Officer Employment Procedure Rules

1. Recruitment and Appointment

1.1. Declarations

1.1.1. The Council will draw up a statement requiring any candidate for appointment as an Officer to state in writing whether they are related to an existing Councillor or Officer of the Council; or the partner or ex-partner of such a person.

1.1.2. No candidate so related to a Councillor or an Officer will be appointed without the authority of the relevant Senior Officer (as set out in Appendix A) or an Officer nominated by him/her.

1.2. Seeking Councillor Support for Appointment

1.2.1. Subject to paragraph 1.2.3 below, the Council will disqualify any applicant who directly or indirectly seeks the support of any Councillor for any appointment with the Council. The content of this paragraph will be included in any recruitment information.

1.2.2. Subject to paragraph 1.2.3 below, no Councillor will seek support for any person for any appointment with the Council.

1.2.3. Nothing in paragraphs 1.1.1 and 1.1.2 above will preclude a Councillor from giving a written reference for a candidate for submission with an application for appointment.

1.3. Senior Officer Posts Covered by These Rules

1.3.1 Except where stated in these rules, Parts 2 to 8 apply to the following posts: Chief Executive, Monitoring Officer, Section 151 Officer, Director, Heads of Functions and any other posts who are /become permanent members of the Senior Leadership Team. For the purposes of these rules, these posts will be referred to as 'Senior Officer Posts'. The current list of posts is set out at Appendix A but failure to include a post on this list will not exclude it from the provisions of these rules.

2. Recruitment

2.1. Where the Council proposes to recruit and appoint to a Senior Officer Post and it is not proposed that the appointment be made exclusively from among their existing Officers, the Council will:

a) Draw up a statement specifying:

- i. The duties of the post concerned; and
- ii. Any qualifications or qualities to be sought in the person to be appointed;
- iii. Make arrangements for the post to be advertised in such a way as is likely to bring it to the attention of persons who are qualified to apply for it; and
- iv. Make arrangements for a copy of the statement mentioned in paragraph (2.1.1) to be sent to any person on request.

b) The Head of Performance and Governance is responsible for keeping this list up to date in the light of changes to the Council's organisational structure.

3. Appointment of Chief Executive (Head of Paid Service)

3.1 An appointment panel will be appointed by the Proper Officer.

3.2 The appointment panel shall include:-

(a) The Chair or Vice Chair of the Scrutiny Committee or the Chair or Vice Chair of a Regulatory Committee;

(b) The Leader and two other Members of the Executive;

(c) The Chair or Vice Chair of the Council. The above representatives may appoint a substitute as necessary and that all the above, where possible, should reflect the political balance of the Council.

- 3.3 The Proper Officer communicates the panel's recommendations to each Member of the Executive giving a deadline for responses.
- 3.4 If no Member of the Executive objects, the recommendation then goes forward before the Council for approval.
- 3.5 If any Member of the Executive objects they must notify the Leader. The Leader is then required to consult the Executive. If the Executive wishes to pursue the objection the Leader notifies the Proper Officer. The Proper Officer then reconvenes the appointment panel to consider whether the objection is material and well founded. Following this process the appointment panel either reconsiders its recommendation or affirms its recommendation. Any revised recommendation is subject to the process above.
- 3.6 The appointment panel's recommendation is placed before the Council for approval prior to any offer being made.

4. Appointment to Other Senior Officer Posts (including the Section 151 Officer and Monitoring Officer)

- 4.1 An appointment panel will be appointed by the Proper Officer.
- 4.2 The appointment panel shall include:-
 - (a) The Chair or Vice Chair of the Scrutiny Committee or the Chair or Vice Chair of a Regulatory Committee;
 - (b) The Leader and one Member of the Executive
- 4.3 The Chief Executive to make the appointment having consulted the members of the panel.
- 4.4 In the case of the S151 Officer and Monitoring Officer, Full Council will confirm their appointment.

5. Other Appointments Below Senior Officer Posts

- 5.1 **Officers not covered by these Rules:** Other than statutory assistants to political groups, all other appointments are the responsibility of the Chief Executive as Head of Paid Service, or her/his nominees, and may not be made by Councillors.
- 5.2 **Assistants to political groups.** Appointment of an assistant to a political group shall be made in accordance with the wishes of that political group.

Note: The Council is not able to make any political assistant appointment until the Council has allocated posts to all political groups which qualify for one. The Council is required to consider the allocation of a political assistant to a political group in accordance with the relevant regulations. Non-qualifying groups are not allowed political assistants. More than one advisor per group is not permitted.

6. Disciplinary Action Against and Dismissal of the Head of Paid Service, Monitoring Officer or Section 151 Officer ('the Statutory Officers').

- 6.1 A Disciplinary Panel will be appointed by the Proper Officer.
- 6.2 The Disciplinary Panel shall include:-
- (a) The Chair or Vice Chair of the Scrutiny Committee or the Chair or Vice Chair of a Regulatory Committee;
 - (b) The Leader and two other Members of the Executive;
 - (c) The Chair or Vice Chair of the Council. The above representatives may appoint a substitute as necessary and that all the above, where possible, should reflect the political balance of the Council.
- 6.3 The Disciplinary Panel has power to decide whether to investigate any allegation of misconduct by a Statutory Officer, all matters relating to the conduct of the investigation (save as set out in 6.4) and may suspend the Statutory Officer on full pay whilst any investigation and/or any subsequent disciplinary process takes place.

- 6.4 Where the Statutory Officer is the Chief Executive the Disciplinary Panel will follow the procedures set out in the Joint Negotiating Committee for Local Authority Chief Executives National Salary Framework & Conditions of Service Handbook regarding the appointment of its' Independent Panel and any Independent Investigator and review of any suspension.
- 6.5 The Disciplinary Panel will consider the investigation report, any other evidence it considers relevant and the Officer will have an opportunity to state their case.
- 6.6 The Disciplinary Panel will consider whether disciplinary action is needed and, if so, the appropriate sanction. Where the proposed sanction is less than dismissal, the Panel will instruct Officers to implement any sanctions.
- 6.7 Where required, an Appeals Panel will consider an appeal against a disciplinary sanction. Where the Statutory Officer concerned is the Chief Executive, an Appeals Panel will be convened (which will be a politically balanced Panel of five members who are not members of the Disciplinary Panel and will include at least one Member of the Executive). The Appeals Panels purpose is to hear appeals against action taken short of dismissal and to take a decision either to confirm the action or to impose no sanction or a lesser sanction.
- 6.8 Where the Panel proposes dismissal:
- a) A Statutory Officer Independent Panel (the SOI Panel) consisting of at least three Standards Regime Independent Persons drawn from the pool of Independent Persons of the principal councils in Somerset will be established to consider the matter and report its recommendations direct to Full Council.
 - b) The SOI Panel's recommendations will be independent of and separate to any recommendations made by the Disciplinary/Appeals Panel;
 - c) The SOI Panel must be established at least 20 working days before the Full Council meeting scheduled to consider any proposal to dismiss a Statutory Officer.

d) Full Council will decide whether or not to approve the dismissal taking into account: the investigation and its conclusions; the SOI Panel's recommendations and the recommendations of the Disciplinary/Appeals Panel, together with any representations by the relevant Statutory Officer. Statutory Officers will be allowed to attend this meeting and address Council. Following consideration Full Council should either confirm or reject the recommendation to dismiss. It may at this stage impose a lesser sanction. This stage in the process constitutes any Statutory Officer's final right of appeal against any decision to dismiss. The detailed process for considering such matters will be in accordance with such arrangements agreed by the Council subject to relevant statutory requirements.

7. Disciplinary Action Against and Dismissal of Other Senior Officers ('Non-Statutory Officers')

7.1 The Disciplinary Panel has power to decide whether to investigate any allegation of misconduct by a non-Statutory Senior Officer, all matters relating to the conduct of the investigation and may suspend the non-Statutory Senior Officer on full pay whilst any investigation is undertaken and/or any determine any subsequent disciplinary process that takes place.

7.2 The Disciplinary Panel has power to impose any sanction up to and including dismissal, subject to Section 8 below.

7.3 Where required, the Disciplinary Panel will consider an appeal against a disciplinary sanction or dismissal of a non-Statutory Senior Officer.

8. Executive Objections to Appointments or Dismissals

8.1. Where a Panel makes the decision to appoint or dismiss a Senior Officer Post any Executive member has the right to object before an appointment is made or a notice of dismissal is given.

8.2 The Chief Executive will inform all Executive members about the proposed appointment or dismissal in writing. The Chief Executive will advise:

- a) The name of the person who is the subject of the proposed appointment or dismissal
- b) Any other particulars relevant to the appointment or dismissal which the Panel has notified to the Chief Executive
- c) That objections must be received within five working days; and
- d) That any objections must be made to the Leader of the Executive.

8.3. The appointment or dismissal can only be made if:

- a) There is no objection from the Members of the Executive within five working days; or
- b) An objection is received and considered by the Panel but is not considered to be material or well founded.

9. Organisational Restructuring

9.1 Restructuring within a single Function Area is the responsibility of the relevant Head of Function or Director following consultation with the Chief Executive and all other Heads of Function/Director.

9.2 Restructuring involving more than one Function Area is the responsibility of the Chief Executive following consultation with all Heads of Function/Director.

9.3 Restructuring that affects all Function Areas is the responsibility of the Chief Executive, following consultation with all Heads of Function/Director, subject to the approval of the Executive.

9.4 Restructuring/changes to the senior management structure/senior officer posts is the responsibility of the Chief Executive, subject to the relevant requirements set out in these procedural rules.

10. Annual Pay Policy Statement

10.1 Section 38 of the Localism Act 2011 requires the Council to prepare and publish a pay policy statement for the following financial year. The statement will set out

the authority's policies relating to remuneration of chief Officers and its lowest paid Officers; and the relationship between the remuneration of its chief Officers and that of its employees who are not chief Officers.

- 10.2 The annual pay policy statement for the following financial year will be adopted by Council before the end of March of each year. The Council has the power to amend the statement in-year.

APPENDIX A

APPLICABLE POSTS

Chief Executive

Section 151 Officer

Monitoring Officer

Executive Director and Deputy Chief Executive

Head of Customer

Head of Strategy

Head of Localities

Head of Communications and Engagement

Head of Performance and Governance

Head of Commercial, Investment and Change