



Informal Consultative Meeting of Audit Committee

Wednesday 16th February 2022

2.00 pm

**A virtual meeting via Zoom Meeting
Software**

The following members are requested to attend this meeting:

Chairman: Martin Carnell
Vice-chairman: Mike Hewitson

Robin Bastable
Mike Best
Dave Bulmer

Malcolm Cavill
Brian Hamilton
Tim Kerley

Paul Maxwell
Colin Winder
Derek Yeomans (IM)
1 Vacancy

Any members of the public wishing to address the meeting at Public Question Time need to email democracy@southsomerset.gov.uk by 9.00am Tuesday 15th February 2022.

The meeting will be viewable online by selecting the committee meeting at:
https://www.youtube.com/channel/UCSDst3IHGj9WoGnwJGF_soA

For further information on the items to be discussed, please contact
democracy@southsomerset.gov.uk

This Agenda was issued on Tuesday 8 February 2022.

Jane Portman, Chief Executive Officer

This information is also available on our website
www.southsomerset.gov.uk and via the mod.gov app

Information for the Public

In light of the coronavirus pandemic (COVID-19), Audit Committee will meet virtually via video-conferencing to consider reports. As of 7 May 2021 some interim arrangements are in place for committee meetings.

At the meeting of Full Council on 15 April 2021 it was agreed to make the following changes to the Council's Constitution:

- a) To continue to enable members to hold remote, virtual meetings using available technology;
- b) To amend Part 3 (Responsibility for Functions) of the Council's Constitution to allow those remote meetings to function as consultative bodies and delegate decisions, including Executive and Quasi-Judicial decisions, that would have been taken by those meetings if the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 had continued in force to the Chief Executive (or the relevant Director in the Chief Executive's absence) in consultation with those meetings and those members to whom the decision would otherwise have been delegated under Part 3 of the Constitution;
- c) The delegated authority given under (b) will expire on 31 July 2021 unless continued by a future decision of this Council;

For full details and to view the report please see -

<https://modgov.southsomerset.gov.uk/ieListDocuments.aspx?CId=137&MId=2981&Ver=4>

Further to the above, at the meeting of Full Council on 8 July 2021, it was agreed to extend the arrangements for a further 6 months to 8 January 2022. For full details and to view the report please see -

<https://modgov.southsomerset.gov.uk/ieListDocuments.aspx?CId=137&MId=3033&Ver=4>

Further to the above, at the meeting of Full Council on 16 December 2021, it was agreed to extend the arrangements for a further 6 months to 8 July 2022 for all meetings apart from Full Council - Full Council will be in person. For full details and to view the report please see -

<https://modgov.southsomerset.gov.uk/ieListDocuments.aspx?CId=137&MId=2991&Ver=4>

Information about Audit Committee

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.

The Audit Committee should review the Code of Corporate Governance seeking assurance where appropriate from the Executive or referring matters to management on the scrutiny function.

The terms of reference of the Audit Committee are:

Internal Audit Activity

1. To approve the Internal Audit Charter and annual Internal Audit Plan;

2. To receive quarterly summaries of Internal Audit reports and seek assurance from management that action has been taken;
3. To receive an annual summary report and opinion, and consider the level of assurance it provides on the council's governance arrangements;
4. To monitor the action plans for Internal Audit reports assessed as "partial" or "no assurance;"
5. To consider specific internal audit reports as requested by the Head of Internal Audit, and monitor the implementation of agreed management actions;
6. To receive an annual report to review the effectiveness of internal audit to ensure compliance with statutory requirements and the level of assurance it provides on the council's governance arrangements;

External Audit Activity

7. To consider and note the annual external Audit Plan and Fees;
8. To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken;

Regulatory Framework

9. To consider the effectiveness of SSDC's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action is being taken;
10. To review the Annual Governance Statement (AGS) and monitor associated action plans;
11. To review the Local Code of Corporate Governance and ensure it reflects best governance practice. This will include regular reviews of part of the Council's Constitution and an overview of risk management;
12. To receive reports from management on the promotion of good corporate governance;

Financial Management and Accounts

13. To review and approve the annual Statement of Accounts, external auditor's opinion and reports to members and monitor management action in response to issues raised;
14. To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices. The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council;
15. To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules;

Overall Governance

16. The Audit Committee can request of the Section 151 Officer, the Monitoring Officer, or the Chief Executive (Head of Paid Services) a report (including an independent review) on any matter covered within these Terms of Reference;
17. The Audit Committee will request action through District Executive if any issue remains unresolved;
18. The Audit Committee will report to each full Council a summary of its activities.

Members questions on reports prior to the Meeting

Members of the Committee are requested to contact report authors on points of clarification prior to the Committee meeting.

Audit Committee

Meetings of the Audit Committee are usually held bi-monthly including at least one meeting with the Council's external auditor, although in practice the external auditor attends more frequently. However during the coronavirus pandemic these meetings will be held remotely via Zoom video-conferencing and the starting time may vary.

Agendas and minutes of this committee are published on the Council's website at <http://modgov.southsomerset.gov.uk/ieDocHome.aspx?bcr=1>

Agendas and minutes can also be viewed via the mod.gov app (free) available for iPads and Android devices. Search for 'mod.gov' in the app store for your device, install, and select 'South Somerset' from the list of publishers and then select the committees of interest. A wi-fi signal will be required for a very short time to download an agenda but once downloaded, documents will be viewable offline.

Public participation at meetings (held via Zoom)

Public question time

We recognise that these are challenging times but we still value the public's contribution to our virtual meetings.

If you would like to address the virtual meeting during Public Question Time, please email democracy@southsomerset.gov.uk by 9.00am on Tuesday 15th February 2022. When you have registered, the Chairman will invite you to speak at the appropriate time during the virtual meeting.

The period allowed for participation in Public Question Time shall not exceed 15 minutes except with the consent of the Chairman and members of the Committee. Each individual speaker shall be restricted to a total of three minutes.

This meeting will be streamed online via YouTube at:
https://www.youtube.com/channel/UCSDst3IHGj9WoGnwJGF_soA

Virtual meeting etiquette:

- Consider joining the meeting early to ensure your technology is working correctly.
- Please note that we will mute all public attendees to minimise background noise. If you have registered to speak during the virtual meeting, the Chairman or Administrator will un-mute your microphone at the appropriate time. We also respectfully request that you turn off video cameras until asked to speak.
- Each individual speaker shall be restricted to a total of three minutes.
- When speaking, keep your points clear and concise.
- Please speak clearly – the Councillors are interested in your comments.

Recording and photography at council meetings

Recording of council meetings is permitted, however anyone wishing to do so should let the Chairperson of the meeting know prior to the start of the meeting. The recording should be overt and clearly visible to anyone at the meeting, but non-disruptive. If someone is recording the meeting, the Chairman will make an announcement at the beginning of the meeting. If anyone making public representation does not wish to be recorded they must let the Chairperson know.

The full 'Policy on Audio/Visual Recording and Photography at Council Meetings' can be viewed online at:

<http://modgov.southsomerset.gov.uk/documents/s3327/Policy%20on%20the%20recording%20of%20council%20meetings.pdf>

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Informal Consultative Meeting of Audit Committee

Wednesday 16 February 2022

Agenda

Preliminary Items

1. Minutes

To approve as a correct record the minutes of the previous meeting held on Thursday November 25th 2021.

2. Apologies for absence

3. Declarations of Interest

In accordance with the Council's current Code of Conduct (as amended 26 February 2015), which includes all the provisions relating to Disclosable Pecuniary Interests (DPI), personal and prejudicial interests, Members are asked to declare any DPI and also any personal interests (and whether or not such personal interests are also "prejudicial") in relation to any matter on the agenda for this meeting.

4. Public question time

5. Date of next meeting

Councillors are requested to note that the next Audit Committee meeting is scheduled to be held at 10.00am on Thursday 24th March, venue to be confirmed.

Items for Discussion

6. SWAP Internal Audit Progress Report 2021-22 (Pages 7 - 22)

7. Treasury Management Strategy Statement 2022/23 (Pages 23 - 50)

8. Cyber Security Update (Page 51)

9. Update from Audit Committee Terms of Reference Working Group (Pages 52 - 58)

10. Audit Committee Forward Plan (Pages 59 - 62)

11. Exclusion of the Press and Public - WITHDRAWN - Item moved to a future meeting

12. Briefing Paper on SSSC Opium Power Ltd. (Confidential Report) - WITHDRAWN - Item now moved to a future meeting

SWAP Internal Audit Progress Report 2021-22

SWAP CEO: Dave Hill – Chief Executive - SWAP
Lead Officer: Alastair Woodland – Assistant Director
Contact Details: Alastair.Woodland@SWAPAudit.co.uk

Purpose of the Report

To update members on the Internal Audit Plan 2021/22 progress and bring to their attention any significant findings identified through our work.

Public Interest

Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.

The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes.

Recommendations

1. Members are asked to note progress made in delivery of the 2021/22 internal audit plan and the significant findings since the previous update.

Background

The Internal Audit function plays a central role in corporate governance by providing independent assurance to the Audit Committee over the effectiveness of internal controls, governance and risk management. The 2021/22 Annual Audit Plan was approved by the Audit Committee at its March 2021 meeting and is to provide independent and objective assurance on SSDC's Internal Control Environment and this work will support the Annual Governance Statement.



Report Detail

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 October 2021.
- 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.

Please refer to the attached SWAP Progress Report 2021-22 for further details.

Financial Implications

There are no financial implications associated with these recommendations.

Council Plan Implications

Delivery of 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.

Carbon Emissions and Climate Change Implications

There are no implications arising from this report.

Equality and Diversity Implications

There are no implications arising from this report.

Background Papers

- Internal Audit Plan and Charter 2021-22 March 2021
- Internal Audit Progress Report July 2021
- Internal Audit Progress Report October 2021



SWAP

INTERNAL AUDIT SERVICES

Helping Organisations to Succeed

South Somerset District Council

Report of Internal Audit Activity

2021-22 Progress Update Report February 2022

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Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



Role of Internal Audit

The Internal Audit service for the South Somerset District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting in March 2021.

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
- Other Special or Unplanned Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Senior Management Team. This year's Audit Plan was reported to and approved by this Committee at its meeting in March 2021. Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 3 being minor or administrative concerns to 1 being areas of major concern requiring immediate corrective action.



Internal Audit Work Programme Update

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2021/22. 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.

The following table summarises Audits finalised since the last update in October 2021:

Audit Area	Opinion
Chard Regeneration Project – Lessons Learnt	Advisory
New: Green Homes Grant	Grant Certification
New: Ongoing urgent confidential matter	Advisory
Regeneration Project Governance	Follow Up

Further details can be found below on the Chard Regeneration Project – Lessons Learnt and progress made with the Regeneration Project Governance recommendations from our 2020-21 audit.

Internal Audit Plan Progress 2021-22

Significant Corporate Risks
Identified Significant Corporate Risks should be brought to the attention of the Audit Committee.

Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.

- **Limited or No Assurance Opinions**
- **Follow-ups**



Significant Corporate Risks

We provide a definition of the 3 Risk Levels applied within audit reports and these are detailed in **Appendix A**. For those audits which have reached report stage through the year, I will report risks we have assessed as 'High'.

In this update there are no final reports included with significant corporate risks.



Summary of Work Completed – Limited or No Assurance Opinions

There are no limited or no assurance opinion pieces of work to bring to your attention.

Internal Audit Plan Progress 2021-22

Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.

- Limited or No Assurance Opinions
- Follow-ups



Summary of Work Completed – Follow up Audits

Regeneration Project Governance - November 2021 - Follow Up

The original audit of Regeneration Project Governance was completed in July 2020 and received a Limited assurance opinion. The original audit review covered whether investment does not deliver regeneration as a result of poor project governance leading to financial loss and reputational damage.

Follow Up Progress Summary				
Priority	Complete	In Progress	Not Started	Summary
Priority 1	0	0	0	0
Priority 2	1	1	1	3
Priority 3	1	1	0	2
Total	2	2	1	5

One priority 2 and one priority 3 action remain in progress. One priority 2 action will not be completed. This relates to the implementation of a corporate project management framework and cannot be implemented due to a lack of staff capacity to drive the action forward.

Below summarises progress against the high priority findings (Priority 1 & 2 only) as of November 2021:

Priority 2 finding - *Inconsistent practices are in place to manage and control the regeneration programmes.*

An interim PMO Specialist had been recruited but was almost immediately moved to another role and then went on maternity leave. The vacant post will not be recruited into and the Lead Specialist – People Performance and Change does not have capacity to take this action forward, therefore it is unlikely that this will be progressed.

Revised target date: Not set

Internal Audit Plan Progress 2021-22

Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.

Summary of Work Completed – Follow up Audits Continued

Priority 2 finding - *The roles and responsibilities of the Strategic Development Board are unclear in relation to the regeneration programme.*

These have now been re-revised in line with other revisions to project governance arrangements. The Terms of Reference (ToR) for the Strategic Development Board and the three Regeneration Project Boards have been revised by the Director – Place and Recovery and the draft ToRs have gone out for comments before approval. Revised target date – 30 November 2021

Priority 2 finding - *There is an inconsistent approach to governance at the Regeneration Programme Boards (Reference: Standing agenda for Regeneration Boards).*

Agreed action now complete. Copies of standing agendas for Chard, Yeovil and Wincanton Regeneration Boards provided and I can confirm that it includes key items such as a review of the risk register. The third, fourth and fifth items on the agendas are variable depending on what's going on with the projects and the risk register is reviewed towards the end in case anything else in the meeting impacts the risk review. Revised target date – n/a – assessed as complete.

Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.



Summary of Work Completed – items for attention

Chard Regeneration Project – Lessons Learnt

The Chard Regeneration Programme has delivered a new leisure centre within the gross budget set by Full Council. While it has been delivered within the gross budget there were overspends on phase 1 that have impacted on the ability to deliver some of the other elements of the programme at this time as additional external funding will be required to enable this work to begin. In September 2021 a report was taken to District Executive to pause the next phase of this project until external funding could be obtained to enable the work to begin.

We were requested to carry out a lesson learnt review on the Chard Regeneration project focussing on the following areas:

- Financial Modelling process used
- Decision Making process
- Scrutiny of project
- Value for Money
- Transparency of progress to Members and officers

We identified weaknesses in some areas, particularly in relation to budget setting and transparency of the project. The following areas were identified for lessons to be learnt:

- Original cost estimations were unrealistic and not enough work was undertaken to ensure the initial cost information was realistic, budgets and funding was not updated as estimates became known.
- Budget monitoring was based purely on being within the overall gross and net budgets and not how this breaks down across the various proposed elements of the project. Without a breakdown it is not clear how approval of costs would impact on the ability to deliver all elements included in the project scope.
- Decision making did not follow delegated authority where decisions impacted on the overall scope of the project.
- Changes in staffing during the life of the project has resulted in knowledge being lost when they left, replacements have to spend time trying to understand the background and ensure they have all records they need.

There were limitations in completing the review as key officers who were involved in the project are no longer at the Council and due to weaknesses with record keeping, some supporting evidence could not be found.

Internal Audit Plan Progress 2021-22

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



SWAP Performance

SWAP now provides the Internal Audit service for 24 public sector bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for South Somerset District Council for the 2021/22 (as of January 2022) were as follows:

Performance Target	Target Year End	Average Performance
<p><u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress Yet to complete</p>	>90%	55% 32% 14%
<p><u>Quality of Audit Work</u> Customer Satisfaction Questionnaire</p>	>95%	100%
<p><u>Outcomes from Audit Work</u> Value to the Organisation <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i></p>	>95%	Reported Year End

Internal Audit Plan Progress 2021-22

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



Approved Changes to the Plan

We will regularly re-visit and adjust our rolling programme of audit work to ensure that it matches the changing risk profile of the organisation’s operations, systems, and controls. Details of our current work areas are provided in **Appendix B**.

Unplanned work, special reviews or projects carried out on a responsive basis which are requested as new and emerging risk areas and which result in significant changes to the agreed plan will be reported to the Audit Committee.

The following table highlights changes to the plan since the October update report. There are also some required/requested timing changes of reviews which would be separately identified if considered to be significant.

Assignment	Amendment	Reason
Decarbonisation Grant – CIA Sign Off	Added	Requirement for Head of Audit to sign off grant expenditure. Value c.£3.9M
Unitary Lessons Learned	Added	Piece of work to collate lessons learned from other Local Authorities that have recently transitioned to a Unitary Authority.

Assurance Definitions	
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Substantial	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
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.

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

Categorisation of Recommendations	
In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:	
Priority 1	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

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Audit Type	Audit Area	Status	Opinion	No of Rec	1 = Major	↔	3 = Minor	Comments
					Recommendation			
					1	2	3	
Completed Work								
Advisory	Fraud Risk Assessment	Final	Advisory	0	0	0	0	
Assurance	Boden Mill & Chard Regeneration Scheme Accounts Review	Final	Advisory	0	0	0	0	
Assurance	New: Growth Deal Capital Expenditure Certification	Final	Advisory	0	0	0	0	
Assurance	Yeovil Cemetery & Crematorium Annual Accounts	Final	Advisory	1	0	0	1	
Assurance	New: Patch Management	Final	Reasonable	2	0	0	2	
Assurance	Procurement	Final	Reasonable	4	0	1	3	
Assurance	Homelessness Follow Up	Final	Follow Up (Advisory)	5	0	3	2	Relates to outstanding recommendations raised in 2020-21
Assurance	Chard Regeneration Project – Lessons Learnt	Final	Advisory	-	-	-	-	No formal recommendation raised but lessons learnt have been captured for future work.
Grant Certification	New: Green Homes Grant	Final	Grant Certification	-	-	-	-	
Confidential matter	New: Ongoing urgent confidential matter	Final	Advisory	-	-	-	-	Review includes separate controls assurance report.
Assurance	Project Governance Regeneration Projects Follow Up	Final	Follow Up (Advisory)	3	-	2	1	Two recommendations complete. 1 P2 and 1 P3.

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Audit Type	Audit Area	Status	Opinion	No of Rec	1 =	↔	3 =	Comments
					Major		Minor	
					Recommendation			
					1	2	3	
Reporting								
Assurance	Covid-19 - External Recovery plan	Under Review / Drafting						
In Progress								
Assurance	Covid-19 Discretionary grants	In Progress						On Hold – due to Omicron Grant
Grant Certification	Covid-19 Grants – Post Payment Assurance Restart Grant	In Progress						On Hold – due to Omicron Grant
Assurance	Council Tax & NNDR	In Progress						
Assurance	Opium arrangements	In Progress						
Assurance	Debtors	In Progress						
Advisory	NEW: Unitary Lessons Learned	In Progress						
Assurance	User Access Management arrangements	In Progress						On-Hold
Not Started								
Assurance	NEW: S106 Follow up Audit	Not Started						
Fraud, Corruption and Governance	Commercial investments	Not Started						
Grant Certification	NEW: Decarbonisation Grant CIA Sign-Off	Not Started						

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Audit Type	Audit Area	Status	Opinion	No of Rec	1 =	↔	3 =	Comments
					Major		Minor	
					Recommendation			
1	2	3						
Deferred (moved to rolling schedule of Audits) or Removed (no longer risk/area to audit)								
Fraud, Corruption and Governance	Complaint Procedures	Deferred	Reported to Audit Committee July 2021					
ICT	Incident management or Information Security (IS)	Deferred	Reported to Audit Committee October 2021					
Follow Up	Income Generation Follow up	Removed	Separate update on recommendations to be provided from management					
Operational	Health & Safety Framework	Deferred	Reported to Audit Committee October 2021					
Key Control	Housing Benefit	Deferred	Reported to Audit Committee October 2021					
Fraud, Corruption and Governance	Covid-19 - Financial Impacts and Lessons learned	Removed	Reported to Audit Committee October 2021					
Fraud, Corruption and Governance	Restart Grants – Bank Account Check	Removed	Reported to Audit Committee July 2021					
Fraud, Corruption and Governance	Planning policy Change - Phosphate	Deferred	Reported to Audit Committee July 2021					
Fraud, Corruption and Governance	Decarbonisation Grant	Deferred	Reported to Audit Committee July 2021					

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Treasury Management Strategy Statement 2022/23

Executive Portfolio Holder: Peter Seib, Finance and Legal Services
S151 Officer: Karen Watling, Chief Finance Officer
Lead Officer: Paul Matravers, Lead Specialist – Finance
Emily Wilce, Finance Specialist
Contact Details: Paul.Matravers@southsomerset.gov.uk
Emily.wilce@southsomerset.gov.uk

Purpose of the Report

1. The purpose of this report is to inform Members of the recommended strategy in relation to investments and treasury management activities. The Committee is requested to review the draft annual Treasury Management Strategy Statement, the Prudential Indicators and MRP statement which are due to be submitted to full Council for approval in February 2022.

Forward Plan

2. This report appeared on the Audit Committee Forward Plan with an anticipated Committee date of 16th February 2022.

Public Interest

3. In line with regulatory guidance, annually the Council is required to produce a Capital Strategy, an Investment Strategy and a Treasury Management Strategy.

Recommendations

4. That the Audit Committee:
 - a. reviews and recommends that the Full Council approves the 2022/23 Treasury Management Strategy Statement;
 - b. reviews and recommends the proposed borrowing and investment limits;
 - c. notes the Minimum Revenue Provision statement for 2022/23.

Background

5. In line with regulatory guidance, annually the Council is required to produce a Capital Strategy, an Investment Strategy and a Treasury Management Strategy.



South Somerset District Council

6. The strategy is reviewed and updated to take account of any legislative changes required and to provide updated estimates, and actual financial information where available.
7. As per the terms of reference, the Audit Committee is required to review the draft Treasury Management Strategy.
8. It should be noted that the terms of reference for Audit Committee in respect of Treasury Management is to:

'provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices. The Committee will also review and

Recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators.'

9. The remainder of this report provides an overview of the information included in the attached strategy document.

Treasury Strategy Statement

- The current and forecast position of the Council's borrowing requirement and investments.
- Details of the proposed borrowing strategy including the objectives of the strategy and information on the approved sources of long-term and short-term borrowing.
- Information on the treasury investment strategy and counterparty types, the cash limits and the time limits applicable per counterparty.
- Proposed Treasury Management indicators which measure and manage exposure to treasury management risk.

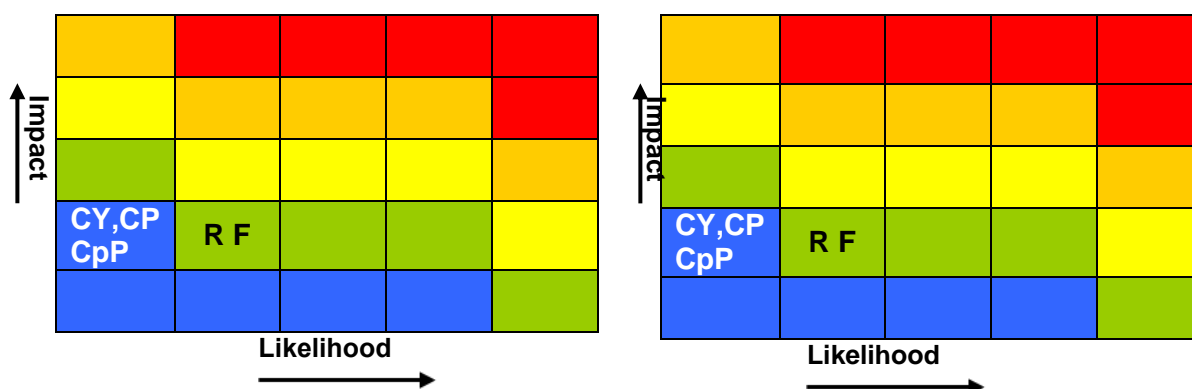
Minimum Revenue Provision (MRP) Statement

- The MRP statement includes details on voluntary overpayments of MRP which is not included in the current MRP policy. Voluntary overpayments can be made in a financial year with the impact of the overpayment being a reduction in the charge to revenue in future years.
- The statement provides information on the process of determining if an MRP overpayment can be made in a particular year. This has not occurred in recent years.

- The proposed strategies align with the 2022/23 Capital Programme and the updated Medium Term Financial Plan, those reports seek to establish approval of spending and funding requirements to meet the Council’s priorities. This report establishes the borrowing and investment limits that are considered to be prudent and affordable in meeting those plans.
- There are no additional financial implications in reviewing the attached treasury management strategy.

Risk Matrix

Risk Profile before officer recommendations Risk Profile after officer recommendations



Key

Categories	Colours (for further detail please refer to Risk management strategy)
R - Reputation	High impact and high probability
CpP - Corporate Plan Priorities	Major impact and major probability
CP - Community Priorities	Moderate impact and moderate probability
CY - Capacity	Minor impact and minor probability
F - Financial	Insignificant impact and insignificant probability

Council Plan Implications

The proposed treasury management strategy aligns with the 2022/23 Capital Programme and the updated Medium Term Financial Plan which is closely linked to the Council Plan. The strategies establish the borrowing and investment limits that are considered to be prudent and affordable and directly contribute to maintaining financial resilience which will enable the council to continue to fund its priorities for the local community.

Carbon Emissions and Climate Change Implications

- There are no implications in approving this report.



South Somerset
District Council
Equality and Diversity Implications

13. There are no implications in approving this report

Privacy Impact Assessment

14. There is no personal information included in this report.

Background Papers

15. The background papers relevant to the report are:

- CIPFA Treasury Management Code of Practice
 - CIPFA Prudential Code
 - Treasury Management Practices
 - CIPFA Prudential Code (revised December 2021)
 - Statutory guidance on Local Government Investments (revised February 2018)
-



**South Somerset
District Council**

**Investment and Treasury
Strategies**

2022/23 to 2024/25

Introduction

1. Treasury management is the management of the Council's cash flows, borrowing and investments and the associated risks. The Council has borrowed and invested substantial sums of money and is, therefore, exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are, therefore, central to the Council's prudent financial management.
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. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
3. Investments held for service purposes and for commercial income generation (investments undertaken purely for yield) are also considered in this section of the Budget Report.
4. All the indicators required to be published under CIPFA's (Chartered Institute of Public Finance & Accountancy) and DLUHC (Department for Levelling Up, Housing & Communities) Investment Code are found in Appendix B.

Overall Position to-date and medium term forecast

5. On 31st December 2021, the Council had external borrowing of £121m and £31m of treasury investments. These balances are summarised below.

Table 1: Existing Debt and Investment Position

	01/04/2021 Balance £'000	31/12/2021 Balance £'000
External Borrowing:		
Local Authorities	(98,000)	(121,000)
Total External Borrowing	(98,000)	(121,000)
Treasury Investments:		
Covered Bonds (secured)	1,000	0
Term Deposits (Other LA's and Banks)	0	0
Money Market Funds & Business Reserve	0	7,500
Property and Pooled funds	23,500	23,500
Total Treasury Investments	24,500	31,000
Net Debt(-)/Investment	(73,500)	(90,000)

6. Forecast changes in these sums are shown in the balance sheet analysis in the table below.

Table 2: Balance Sheet Summary and Forecast

	2020/21 Actual £'000	2021/22 Projection £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Capital Financing Requirement	133,985	144,761	166,238	169,068	171,534
Less: External Borrowing	(98,000)	(122,000)	(145,976)	(150,807)	(155,273)
Less: Other Debt Liabilities (Leases)	(20)	0	0	0	0
Internal Borrowing	35,965	22,761	20,261	18,261	16,261
Less: Usable Reserves	(69,437)	(42,777)	(27,213)	(21,555)	(17,146)
Less: Working Capital Surplus (-) / Deficit	(2,800)	(2,800)	(2,800)	(2,800)	(2,800)
Treasury Investments / New Borrowing (-)	(36,273)	(22,816)	(9,751)	(6,093)	(3,685)

Borrowing Strategy

7. 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 investments. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.
8. The Council has an increasing CFR due to the planned spending within the capital programme including significant expenditure on regeneration schemes. The trend of increased expenditure indicates it will be required to borrow up to £160m over the forecast period.
9. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The table 3 included in Appendix E includes information on the Council's total debt position and demonstrates that the projected level of outstanding debt is lower than the CFR for the period.
10. The Council currently holds £121m of loans (as at 31 December 2021), compared to £98m on 1 April 2021, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 2 shows that the Council expects to borrow up to £146m in 2022/23. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the proposed authorised limit for borrowing of £195m as set out in Appendix E.

11. The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective. In addition, given that a new unitary authority will come into being on 1st April 2023 there is need to not undertake longer term loan agreements, unless required, in order to give maximum flexibility to the new council to best manage the consolidated Capital Financing Requirement of the five councils.
12. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short term to either use internal resources, or to borrow short term loans instead. By doing so, the Council is able to reduce net borrowing costs (despite foregoing investment income) and reduce overall treasury risk.
13. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
14. Discussions will also be held with the other S151 Officers within Somerset to assess on a combined basis whether it is beneficial that the council/s borrow additional sums in 2022/23 at long-term fixed rates.
15. Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period (although forward loan interest rates will usually factor in an allowance for interest rate risk during the intervening period).
16. Additionally, the Council may borrow further short term loans to cover unplanned cash flow shortages.
17. The approved sources of long-term and short-term borrowing are:
 - HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
 - Any institution approved for investments (see below)
 - Any other bank or building society authorised to operate in the UK
 - Any other UK public sector body
 - UK public and private pension funds (except Somerset County Pension Fund)
 - Capital market bond investors
 - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

18. Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- Leasing
 - Hire purchase
 - Private finance initiative
 - Sale and leaseback
19. Debt rescheduling: The HM Treasury's PWLB lending facility allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury Investment Strategy

20. The Council invests funds that it holds for three broad purposes:
- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
 - to support local public services by lending to or buying shares in other organisations (service investments), and
 - to earn investment income (known as commercial investments where this is the main purpose).
21. This investment strategy meets the requirements of statutory guidance issued by the Government in January 2018.

Treasury Management Investments

22. The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and Central Government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). The balance of treasury management investments is expected to fluctuate between £30m and £60m during the 2022/23 financial year.
23. The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.
24. The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest

rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

25. Given the increasing risk and very low returns from short-term unsecured bank investments, the Council has diversified into more secure and/or higher yielding asset classes during 2020/21 and 2021/22. The Council has increased its strategic (long-term) investments from £23.25m at the start of the financial year to £23.50m and it is estimated to remain at this level as at the end of 2021/22. We do not plan to make any new strategic investments but will continue to review the portfolio with Arlingclose and will make any necessary investments based on risk and return.
26. The Council will continue to monitor the risk and returns on its strategic (long-term) investments and will work closely with its treasury advisors ensuring that strategic investments continue to be an appropriate option for the Council.
27. A proportion of the Council's surplus cash is currently invested in short-term unsecured bank deposits, money market funds and other local authorities.
28. Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's 'business model' for managing them. The Council aims to achieve value for money from its internally managed treasury investments by a business model of collecting the contractual cash flows and, therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
29. **Approved Counterparties:** The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved investment counterparties and limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3 m 5 years	£6 m 20 years	£6 m 50 years	£3 m 20 years	£3 m 20 years
AA+	£3 m 5 years	£6 m 10 years	£6 m 25 years	£3 m 10 years	£3 m 10 years
AA	£3 m 4 years	£6 m 5 years	£6 m 15 years	£3 m 5 years	£3 m 10 years
AA-	£3 m 3 years	£6 m 4 years	£6 m 10 years	£3 m 4 years	£3 m 10 years
A+	£3 m 2 years	£6 m 3 years	£3 m 5 years	£3 m 3 years	£3 m 5 years
A	£3 m 13 months	£6 m 2 years	£3 m 5 years	£3m 2 years	£3 m 5 years
A-	£3 m 6 months	£6 m 13 months	£3 m 5 years	£3 m 13 months	£3 m 5 years
None	n/a	n/a	£6 m 25 years*	n/a	£3 m 5 years
Money market funds, Strategic pooled funds and real estate investment trusts		£10m (nominal value) per fund or trust			

30. **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
31. **Banks unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.
32. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

33. **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £2m per company as part of a diversified pool in order to spread the risk widely.
34. **Registered providers (unsecured):** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.
35. **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.
36. **Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.
37. **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.
38. **Operational bank accounts:** The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £200,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

39. **Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty
40. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.
41. **Other information on the security of investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
42. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.
43. **Investment Limits:** The Council's revenue reserves available to cover investment losses are forecast to be £3m on 31 March 2022. In order that no more than 20% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and

multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£20m per group
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker's nominee account	£30m per broker
Foreign countries	£12m per country
Registered providers and registered social landlords	£8m in total
Unsecured investments with building societies	£8m in total
Loans to unrated corporates	£4m in total
Money market funds	£20m in total
Real estate investment trusts	£10m in total

44. **Liquidity management:** The Council uses an in-house spreadsheet based cash flow forecasting model to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.
45. The Council will spread its liquid cash over at least three providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Service Investments – Loans

46. The Council lends money to local businesses, local charities, other local authority partnerships, and local residents to support local public services and priorities, and stimulate local economic growth. Currently the Council has loans invested with:
- Hinton St George Shop
 - Somerset Waste Partnership – for waste vehicles, with added benefit of keeping waste contract costs down
47. The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to minimise this risk and ensure that total exposure to service loans remains proportionate to the

size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 5: Loans for Service Purposes

Category of Borrower	Actual as at 31/03/2021			2022/23 Approved Limit £k
	Balance Owing £k	Loss Allowance £k	Net Figure in Accounts £k	
Local Businesses	140	0	140	200
Local Authorities	4,363	0	4,363	7,500
Community (small) Loans	0	0	0	1,000
Employees	12	0	12	100
Total	4,515	0	4,515	8,800

48. Accounting standards require the Council to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Councils statement of accounts will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.
49. No loss allowance is set aside for the current loans made for service purposes. In the case of the loan to the local business and the loan to the joint operation, the Council has a charge over the asset. The asset values are currently higher than the value of the balance owing on the respective loans, therefore no loss allowance is currently required. Assets are revalued in line with the accounting policies and the loss allowance will be revised if asset value reduces to a level below the balance outstanding on the loan.
50. The Council assesses the risk of loss before entering into and whilst holding service loans by working up a robust business case and applying due diligence to all requests for service loans, and proportionate monitoring of credit risk of borrowers. For example, with loans to key businesses the Council's finance specialist team (qualified accountants) will review financial statements and service officers will maintain communication with the borrower in order that emerging risks are identified promptly. The Council will use credit rating information where available, and will use external specialist advisors if appropriate.

Service Investments – Shares

51. The Council does not currently hold any direct investment in the shares of subsidiaries, its suppliers or local businesses.

Commercial Investments – Property

52. The Council has invested in a diverse investment property portfolio both locally and nationally with the intention of generating surplus income that will be spent on local public services delivered within the district. This was in

response to significant reductions in government funding over recent years and in order to meet service delivery objectives and the place making role of the Council.

53. The Council agreed at its meeting on 16th December 2021 to no longer make such investments due to changes in the revised Prudential Code that no longer allowed such investments to be undertaken.
54. The total value of property acquired for investment purposes as at 31 December 2021 is £99.251m. The current value in the accounts in respect of these purchases is not known at the stage as the gains and losses on properties are undertaken as part of the closure of accounts.
55. In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. The Council also recognises that asset values may increase and decrease over time due to market volatility, and takes a long term perspective with the assumption that capital values are likely to hold or grow over the life of the asset.
56. Where value in accounts is at or above purchase cost: A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2021/22 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

Or

57. Where value in accounts is below purchase cost: The fair value of the Council's investment property portfolio is no longer sufficient to provide security against loss, and the Council is therefore taking mitigating actions to protect the capital invested. These actions include: planning to hold the assets for the long term; maintaining assets to appropriate quality; mitigating risk of realised losses through maintaining adequate funds in an Investment Risk Reserve, and reducing capital borrowing through its MRP policy.
58. The Council assesses the risk of loss whilst holding property investments by undertaking appropriate due diligence including full valuation surveys and operating an asset management plan. The Council also considers strength of local market conditions to give confidence on future re-letting and also considers possible alternative uses if appropriate, and actively monitors the portfolio to ensure tenant obligations for maintaining assets are fulfilled.

59. Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Council actively manages cash flow through its treasury management arrangements and plans to under-borrow against its CFR so that it can temporarily borrow at short notice if required.
60. The Council's asset disposal policy includes the approved process for asset disposal and performance indicators (property management indicators) which provide the information on the performance of each property. The performance indicators provide information on assets which are not yielding the level of return required.
61. The Council uses industry standard software, to track the performance of its investment portfolio. The software is capable of monitoring running yields asset by asset and across the portfolio, and adopting multiple scenarios. By continually reviewing the market, the tenant covenant and unexpired lease term of each property, the Council is able to find the optimum time to dispose of assets.

Other Categories of Investment

Table 6: Other Categories of Investment

Category of Borrower	Actual as at 31/03/2021			2022/23 Approved Limit £k
	Balance Owing £k	Loss Allowance £k	Net Figure in Accounts £k	
Joint Operations	31,600	0	31,600	35,000
Total	31,600	0	31,600	35,000

62. **Special Purpose Vehicles** - The Council has setup a special purpose vehicle (SSDC Opium Power Ltd) which has successfully delivered a renewable energy project, a second project is nearing completion and a third project is in the early stages of development. The Council's is continuing its journey into ownership and development of renewable energy which will provide essential support to the National Grid for balancing power demand and storing renewable energy. The company is 50:50 owned between the Council and Opium Power Limited, with the Council providing a secured term loan facility to the SPV. A repayment schedule for both projects has been agreed with the SPV as part of the loan conditions.

Proportionality

63. The table below shows the extent to which the expenditure planned to meet the service delivery objectives and place making role of the Council is dependent on achieving the expected net income from investments over the lifecycle of the Medium Term Financial Plan.
64. Should it fail to achieve the expected net income, the Council's contingency plans for continuing to provide these services including holding adequate funds in an earmarked Investment Risk Reserve as well as carrying adequate General Reserves. Budget estimates are also set using prudent assumptions about net income from the portfolio

Table 7: Proportionality of Investments

	2020/21 Actual £'000	2021/22 Projection £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Gross Service Expenditure	81,003	66,988	74,279	69,807	72,618
Investment Income:					
Treasury Investments	3,958	1,973	2,486	2,906	2,587
Commercial Investments	5,744	8,213	7,410	5,732	5,385
Total Investment Income	9,702	10,186	9,896	8,638	7,972
Proportion %	11.98%	15.21%	13.32%	12.37%	10.98%

65. Investment income shown in the above table is the gross income included in the budget estimates, disregarding asset management and capital financing costs.

Borrowing In Advance of Need

66. Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Up to December 2021, the Council has chosen not to follow this guidance and borrowed for this purpose to generate income to lessen the impact of reductions in grant funding from Government.
67. On the 16 December 2021, Council agreed not to undertake any new commercial investments in order to be compliant with the revised prudential code.

Related Matters

68. **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
69. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
70. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.
71. In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.
72. **Markets in Financial Instruments Directive:** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the S151 Officer believes this to be the most appropriate status.

Financial Implications

73. The budget for investment income and debt interest in 2022/23 is summarised as follows:

Table 8: Interest Income and Costs Budget Estimates

	2022/23 Investment Income £'000	2022/23 Average Interest Rate %	2022/23 Interest Costs £'000	2022/23 Average Interest Rate %	2022/23 Net Income or Costs £'000
Total	(2,486)	2.00%	1,197	1.00%	(1,289)

74. If actual levels of investments and borrowing, or actual interest rates differ from those forecast, performance against budget will be correspondingly different. Significant variances will be identified in budget monitoring reports to the Senior Leadership Team and the District Executive.

Other Options Considered

75. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The S151 Officer, having consulted the Portfolio Holder for Finance believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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

APPENDIX B – Prudential and Investment Indicators

Capital Expenditure Estimates

Capital expenditure is incurred where the Council spends money on constructing or acquiring assets such as land and buildings, vehicles, plant and equipment, which will be used for more than one year, as well as larger scale maintenance works that maintain or enhance the Councils existing assets.

In 2021/22, the Council is planning capital expenditure of £46m as summarised below:

Table 1: Prudential Indicator: Actual and Estimates of Capital Expenditure

	2020/21 Actual £'000	2021/22 Projection £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
General Fund Services	11,330	21,708	45,986	18,905	10,901
Capital Investments	30,847	18,842	0	0	0
Total	42,177	40,550	45,986	18,905	10,901

Capital Financing Requirement

The Council's cumulative amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP repayments and capital receipts used to replace debt. Based on the above figures for expenditure and financing the Council's estimated CFR is as follows:

Table 2: Prudential Indicator – Actual and Estimated Capital Financing Requirement

	2020/21 Actual £'000	2021/22 Projection £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
CFR Balance B/F	96,933	133,985	144,761	166,238	169,068
Capital Expenditure	42,177	40,550	45,986	18,905	10,901
MRP	(951)	(1,209)	(1,510)	(1,593)	(1,672)
Capital Receipts used to replace Debt	(2,146)	(16,172)	(2,891)	(975)	0
Grants and Contributions	(2,028)	(12,392)	(20,109)	(13,507)	(6,763)
Total CFR	133,985	144,761	166,238	169,068	171,534

Total Debt Position

Projected levels of the Council's total outstanding debt are shown below, compared with the CFR (as detailed above). Statutory guidance is that actual debt should

remain below the CFR, except in the short-term. As can be seen from the table the Council expects to comply with this in the medium term.

Table 3: Prudential Indicator – Gross Debt and the CFR

	2020/21 Actual £'000	2021/22 Projection £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Debt	98,000	122,000	145,976	150,807	155,273
CFR	133,985	144,761	166,238	169,068	171,534

Affordable Borrowing Limit

The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach this limit. The Operational Boundary has been calculated based on the forecast CFR plus a tolerance for variations in spending plans during the year and possible volatility in availability of internal and external resources.

Table 4: Prudential Indicator – Authorised Limit and Operational Boundary for external debt

	2020/21 Actual £'000	2021/22 Projection £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Operational Boundary:					
Borrowing	120,000	130,000	160,000	160,000	160,000
Leases	15,000	20,000	20,000	20,000	20,000
Total Operational Boundary	135,000	150,000	180,000	180,000	180,000
Authorised Limit:					
Borrowing	140,000	140,000	170,000	170,000	170,000
Leases	20,000	25,000	25,000	25,000	25,000
Total Authorised Limit	160,000	165,000	195,000	195,000	195,000

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans/leases and capital debt repayment provisions are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 5: Prudential Indicator – Proportion of financing costs to net revenue stream

	2020/21 Actual	2021/22 Projection	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Financing Costs £'000	(2,133)	(3,062)	(2,904)	(2,991)	(1,644)
Proportion of Net Revenue Stream %	-14.04%	-18.83%	-14.73%	-16.11%	-8.51%

Liability Benchmark

To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. With an assumption that cash and investment balances are kept to a minimum level of £30m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 6: Prudential Indicator - Liability benchmark

	2020/21 Actual £'000	2021/22 Projection £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Total CFR	133,985	144,761	166,238	169,068	171,534
Less: Usable Reserves	(69,437)	(42,777)	(27,213)	(21,555)	(17,146)
Less: Working Capital	(2,800)	(2,800)	(2,800)	(2,800)	(2,800)
Plus: Minimum Investments	30,000	30,000	30,000	30,000	30,000
Liability Benchmark	31,747	69,184	106,225	114,713	121,588

Total Investment Exposure

This indicator shows the Council's total exposure to potential investment losses. It includes amounts the Council is contractually committed to lend but have yet to draw down and the guarantees the Council has issued.

Table 7: Total Investment Exposure

	01/04/2021 Actual £'000	31/03/2022 Estimate £'000	31/03/2023 Estimate £'000	31/03/2024 Estimate £'000
Treasury Management Investments - Strategic Funds	23,500	30,000	30,000	30,000
Treasury Management Investments - Other	2,480	2,000	2,000	2,000
Service Investments - Loans	4,503	4,913	4,412	3,911
Commercial Investment - Property	79,809	96,699	96,699	96,699
Other investments - SPV	31,555	42,958	40,634	37,204
Total Investments	141,847	176,570	173,745	169,814
Guarantees Issued on Pension Liabilities	496	496	496	496
Total Commitments and Guarantees	496	496	496	496
Total Exposure	142,343	177,066	174,241	170,310

How Investments are funded

Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, it is difficult to comply with this guidance. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of need.

Table 8: Investments funded by Borrowing

	01/04/2021 Actual £'000	31/03/2022 Estimate £'000	31/03/2023 Estimate £'000	31/03/2024 Estimate £'000
Treasury Management Investments	0	0	0	0
Service Investments - Loans	4,503	4,913	4,412	3,911
Commercial Investment - Property	79,809	96,699	96,699	96,699
Other investments - SPV	31,555	42,958	40,634	37,204
Total Funded by Borrowing	115,867	144,570	141,745	137,814

Rate of Return Received

This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 9: Investment Net Rate of Return

	01/04/2021 Actual %	31/03/2022 Estimate %	31/03/2023 Estimate %	31/03/2024 Estimate %
Treasury Management Investments	2.77%	2.00%	2.00%	2.00%
Service Investments - Loans	1.98%	2.72%	2.72%	2.72%
Commercial Investment - Property	3.71%	3.50%		
Other Investments - SPV	5.00%	6.00%	6.00%	6.00%
Total All Investments	13.46%	3.56%	3.56%	3.56%

Other Investment Indicators

The Government's investment guidance suggests authorities should consider a range of other quantitative indicators to show risks and opportunities in respect of investment and borrowing. The table below summarises three additional indicators shown by this Council.

Table 10: Other investment indicators

	01/04/2021 Actual	31/03/2022 Estimate	31/03/2023 Estimate	31/03/2024 Estimate
Commercial Income to Net Service Expenditure %	37.82%	50.49%	37.59%	30.88%
Investment Cover Ratio	1.43	1.37	1.25	1.19
Loan to Value Ratio	70.45%	69.72%	78.07%	81.25%

Commercial Income to Net Service Expenditure: Indicates dependence on commercial income to deliver core services.

Investment cover ratio: The total net income from commercial property investment compared to the interest expense relating to investment properties funded by borrowing.

Loan to value ratio: The amount of debt compared to the total assets value on the Council's balance sheet.

Voluntary Treasury Management Indicators

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

Security

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit Risk Indicator	Target
Portfolio Average Credit Rating	5

Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

Liquidity Risk Indicator	Target
Total cash available within 3 months	£10m

Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest Rate Risk Indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£200,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£150,000

Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The limits set for each category within this indicator is wide since the indicator is only to cover the risk of replacement loans being unavailable, not interest rate risk. 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. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing Rate Risk Indicator	Upper limit	Lower limit
Under 12 months	100%	100%
12 months and within 24 months	100%	100%
24 months and within 5 years	100%	100%
5 years and within 10 years	100%	100%
10 years and above	100%	100%

Principal Sums Invested For Periods Longer Than a Year

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price Risk Indicator	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£25m	£25m	£25m



Cyber Security Update

Strategic Director:	Nicola Hix, Director Strategy & Support Services
Lead Specialist:	Toffer Beattie
Contact Details:	Toffer.beattie@southsomerset.gov.uk

The Lead Specialist, Digital Change will be providing members with a verbal update on Cyber Security.

Report: Update from Audit Committee Terms of Reference Working Group

Strategic Director:	Nicola Hix, Director Support Services & Strategy
Section 151 Officer	Karen Watling, S151 Officer
Lead Officer:	Alastair Woodland
Contact Details:	Alastair.woodland@SWAPaudit.co.uk

Purpose of the Report

For members of the Audit Committee to comment on, and recommend for Full Council approval, the proposed updated Audit Committee Terms of Reference (Appendix A) produced by the Audit Committee Terms of Reference Working Group.

Public Interest

Audit Committees are a key component of corporate governance and an important source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance.

It is good practice to periodically review the remit and working practices of the Audit Committee to ensure they are in line with any updated national guidance and/or legislative changes and therefore remaining fit for purpose.

This report updates Members on the Member/Officer Work Group that was created following the May 2021 Audit Committee to review the Audit Committee's existing Terms of Reference (ToRs) in line with the guidance contained in the CIPFA (Chartered Institute of Public Finance and Accountancy) publication entitled "Audit Committees; Practical Guidance for Local Authorities and Police" (2018 edition).

The working group will also review any changes that may be needed arising from MHCLG's (Ministry of Housing, Communities & Local Government) response to Sir Tony Redmond's "Independent review into the oversight of local audit and the transparency of local authority financial reporting".

Recommendations

1. To recommend the proposed Audit Committee Terms of Reference (Appendix A) to Full Council for approval.

Background

There have been a number of significant developments in local authority governance and audit practices over the last 8 years. This includes “Delivering Good Governance in Local Government: Framework” (CIPFA/Solace 2016), development and updates to the Public Sector Internal Audit Standards (PSIAS), and the introduction of the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) and the Local Audit and Accountability Act 2014.

CIPFA defines the purpose of an audit committee as being to provide those charged with governance an independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting and annual governance processes. By doing this, the committee brings an important source of assurance to the Council’s arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance matters.

The Audit Committee satisfies the wider requirement for sound financial management, as set out in the Accounts and Audit Regulations, ‘for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which include the arrangements for the management of risk.’ In addition, Section 151 of the Local Government Act 1972 requires the authority to, ‘make arrangements for the proper administration of its financial affairs’. In discharging sound financial management, the Section 151 Officer requires an effective audit committee and an internal audit service which evaluates the effectiveness of its risk management, control and governance processes. Both elements are enshrined in the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Government Application Note (LGAN).

Effective audit committees bring many benefits to the Council. They can:

- Increase public confidence in the objectivity and fairness of financial and other reporting;
- Reduce the risk of illegal or improper acts;
- Reinforce the importance and independence of internal and external audit and any other review processes that report to the Committee;
- Provide a sharper focus on financial reporting, both during the year and at year end, leading to increased confidence in the objectivity and fairness of financial reporting;
- Assist the co-ordination of sources of assurance and, in so doing, make management more accountable;
- Provide additional assurance through a process of independent and objective review;
- Raise awareness of the need for internal control and the implementation of audit recommendations.

It is therefore important that the Terms of Reference are reviewed periodically to ensure relevant matters of governance, risk management and internal control are incorporated into the scope of the Audit Committee.

Financial Implications

The Accounts and Audit Regulations 2015 state that the Council must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk.

Furthermore, Section 151 of the Local Government Act 1972 requires the Council “to make arrangements for the proper administration of its financial affairs”.

The Section 151 Officer role is key to discharging the requirement for sound financial management at the Council. To be truly effective, the role requires an effective Audit and Governance Committee to receive assurances on the effectiveness of the Council’s arrangements and provide support and challenge. There are no direct financial costs associated with this paper.

Council Plan Implications

The proposals in this report contribute to SSDC’s vision of being open and transparent and actively communicating, engaging and listening to feedback.

Carbon Emissions and Climate Change Implications

There are no implications arising from agreeing this report.

Equality and Diversity Implications

There are no implications arising from agreeing this report.

Background Papers

- [CIPFA \(Chartered Institute of Public Finance and Accountancy\) “Audit Committees; Practical Guidance for Local Authorities and Police” \(2018 edition\).](#)
- [MHCLG’s “Local authority financial reporting and external audit: government response to the Redmond review” \(December 2020\)](#)
- [Review of Audit Committee’s Terms of Reference Agenda Item 11 May 2021 Audit Committee](#)
- [Update on Audit Committee’s Terms of Reference from the Work Group Agenda Item 8 30 September 2021](#)
- [Existing Audit Committee Terms of Reference – Constitution](#)

Appendix A – Proposed Audit Committee Terms of Reference

Statement of purpose

Our audit committee is a key component of South Somerset District Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of our audit committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of South Somerset District Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

1. Governance, risk and control

- 1.1 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 1.2 To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
- 1.3 To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 1.4 To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- 1.5 To monitor the effective development and operation of risk management in the council.
- 1.6 To monitor progress in addressing risk-related issues reported to the committee.
- 1.7 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 1.8 To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 1.9 To monitor the counter-fraud strategy, actions and resources.
- 1.10 To review the governance and assurance arrangements for significant partnerships or collaborations.



2. Internal audit

- 2.1 To approve the internal audit charter.
- 2.2 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- 2.3 To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 2.4 To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 2.5 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 2.6 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.
- 2.7 To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
 - a) updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
 - b) regular reports on the results of the QAIP
 - c) reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.
- 2.8 To consider the head of internal audit's annual report:
 - a) The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.
 - b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the AGS.
- 2.9 To consider summaries of specific internal audit reports as requested.
- 2.10 To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- 2.11 To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
- 2.12 To consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations (see Appendix A).



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- 2.13 To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

3. External audit

- 3.1 To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.
- 3.2 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- 3.3 To consider specific reports as agreed with the external auditor.
- 3.4 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 3.5 To commission work from internal and external audit.
- 3.6 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

4. Financial reporting

- 4.1 To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- 4.2 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
- 4.3 To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules.

5. Treasury Management

- 5.1 To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices.
- 5.2 The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council.

6. Accountability arrangements

- 6.1 To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.



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- 6.2 To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- 6.3 To publish an annual report on the work of the committee.



Audit Committee Forward Plan

SLT Lead: Karen Watling, Chief Finance Officer
Lead Officer: Michelle Mainwaring, Case Officer (Strategy & Commissioning)
Contact Details: michelle.mainwaring@southsomerset.gov.uk

Purpose of the Report

This report informs Members of the agreed Audit Committee Forward Plan.

Recommendations

Members are asked to note and comment upon the proposed Audit Committee Forward Plan as attached.

Audit Committee Forward Plan

The forward plan sets out items and issues to be discussed over the coming few months and is reviewed annually.

Items marked *in italics* are not yet confirmed.

Background Papers

None.

Audit Committee Forward Plan

Meeting Date	Item	Responsible Officer
24th March 2022 (in person to sign off accounts)	1. Auditor's Annual Report and External Audit Plan for 2021-22	Beth Garner, Manager - Grant Thornton
	2. Approval of audited Statement of Accounts for 2020/21	Chief Finance Officer and Lead Specialist – Finance (Deputy S151 Officer)
	3. Certificate of Claims Report	Lead Specialist Finance (Deputy S151 Officer)
	4. Informing the Audit Risk Assessment	Lead Specialist Finance (Deputy S151 Officer)
	5. Internal Audit Plan 2022-2023 and Charter	Alistair Woodland, Assistant Director (SWAP)
	6. Investigation Action Plan	
	7. Proposed changes to Financial Procedures Rules (to go to Full Council)	Chief Finance Officer
26th May 2022	1. Internal Audit Outturn Report 2021-22	Alistair Woodland, Assistant Director (SWAP)
	2. Internal Audit Annual Opinion Report 2021-22	Alistair Woodland, Assistant Director (SWAP)
	3. Annual Treasury Management Activity Report 2021-22	Lead Specialist Finance (Deputy S151 Officer)
	4. Annual review of Treasury Management Practices	Lead Specialist Finance (Deputy S151 Officer)

	5. Auditor's annual value for money review (to go to Full Council)	Beth Garner, Manager - Grant Thornton
	6. Risk Management Update	Lead Specialist, PPC
	7. Whistleblowing Update	Monitoring Officer
	8. Annual Health & Safety Update	Lead Specialist – Strategic Planning
	9. Annual Civil Contingencies	Lead Specialist – Strategic Planning
28th July 2022	Internal Audit Progress Report 2022-23	Alistair Woodland, Assistant Director (SWAP)
	Review of unaudited Statement of Accounts for 201/22	Chief Finance Officer and Lead Specialist – Finance (Deputy S151 Officer)
22nd September 2022	External Audit Findings Report	Beth Garner - Manager (Grant Thornton)
	Approval of audited Statement of Accounts for 2021/22	Chief Finance Officer and Lead Specialist – Finance (Deputy S151 Officer)
24th November 2022	Treasury Management mid-year treasury performance and strategy update	Lead Specialist Finance (Deputy S151 Officer)
26th January 2023		
23rd March 2023	Whistleblowing Update	Monitoring Officer
	Annual Health & Safety Update	Lead Specialist – Strategic Planning

	Annual Civil Contingencies	Lead Specialist – Strategic Planning
TBC	<i>Annual review of Treasury Management Practices - CIPFA are currently updating the Treasury Management Code and consultation will finish early November 2021. This report will therefore go to Audit Committee when the Code changes are known</i>	<i>Lead Specialist – Finance (Deputy S151 Officer)</i>
	<i>Update on S106 process following recent internal audit report</i>	TBC
	<i>Monitoring the recommendations of SWAP following audits.</i>	TBC