Auditor's Annual Report on Somerset West and Taunton Council

2020-21

1 December 2021

Contents

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

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

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary

Value for money arrangements and key recommendation

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

2020/21 was an unprecedented year in which the Council operated with the majority of its staff home working whilst supporting local businesses and residents through the pandemic. The Council approved a revised budget in October 2020 which responded to the financial challenges of Covid-19. By the year end the pandemic resulted in £7.3m of cost and income pressures for the Council, with a net cost after government support of £1.6m.

We have identified one significant weakness in arrangements relating to the Commercial Property Investment Strategy. While the governance arrangements relating to the strategy are sound we consider that it is a departure from the principles of prudent activity that will be reinforced by the revised CIPFA Prudential Code and have made a key recommendation in relation to this. We have also identified five opportunities for improvement which are set out in our report.

Our work relating to the governance arrangements around significant partnerships that the Council participates in is not yet complete. Once this work is complete we will update the Audit and Governance Committee should any further weaknesses in arrangements or recommendations be identified.

Criteria	Risk assessment	Finding
Financial Sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but two improvement recommendations made.
Governance	A significant weakness has been identified relating to the Commercial Strategy.	A key recommendation has been made that the Council should develop a clear plan to address the risks it is exposed to in relation to commercial activity. We have also made one improvement recommendation.
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but two improvement recommendations made.

(green)	No significant weaknesses in arrangements identified.
(amber)	No significant weaknesses in arrangements identified, but improvement recommendations made.
(red)	Significant weakness in arrangements identified and key recommendations made

Executive summary

Financial sustainability

Overall we are satisfied that the Council had appropriate arrangements in place to manage the financial resilience risks it faced with regard to budget setting and the medium term financial plan. We have not identified any risks of significant weakness in these areas but have identified opportunities for improvement relating to the production of budget books and the level of information available to Members when approving capital programme carry forwards.

We have identified a significant weakness with regard to the Council's Commercial Strategy which is reported under the Governance Section of the Auditor's Annual Report.

Governance

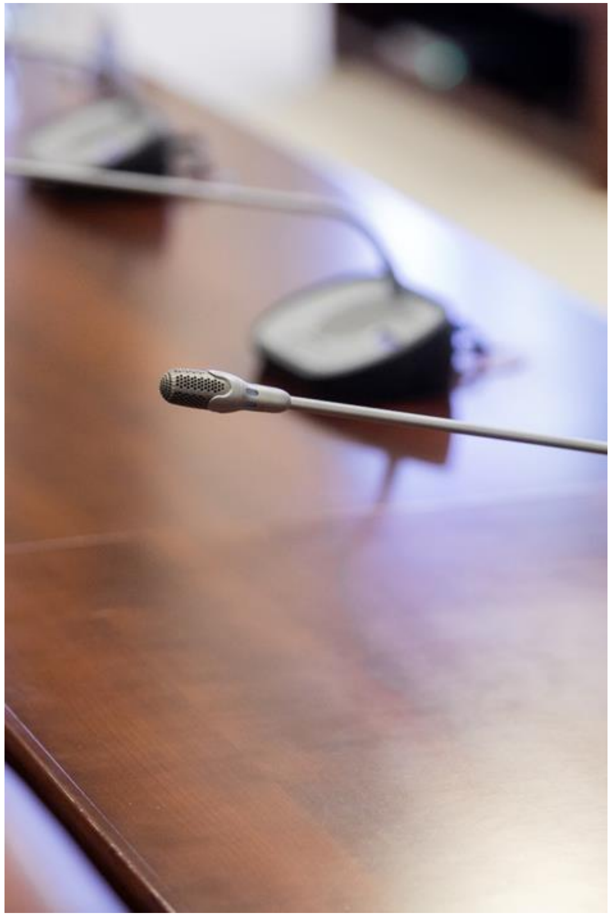
We have identified a significant weakness with regard to the Commercial Property Investment Strategy. While we judge the strategy's governance arrangements to be sound, and have not concluded that the Council is acting unlawfully, our view is that the strategy represents a departure from prudent activity that will be reinforced in the revised CIPFA Prudential Code. We have concerns around the scale of the commercial investment programme and risks associated with the level of commercial income, borrowing costs and refinancing. We have made a key recommendation that the Council should develop a clear plan to address these risks.

The Council has worked to improve governance arrangements during the year where weaknesses were identified. These relate to managing risk, internal control and budget monitoring. The Council has plans to implement further improvements during 2021/22 as set out in the Annual Governance Statement (AGS) Action Plan which also includes improving ethical awareness. We have identified an opportunity for improvement relating to reporting mitigating actions for key risks.

Improving economy, efficiency and effectiveness

We have not identified any areas of significant weaknesses in arrangements with regard to improving economy, efficiency and effectiveness.

The Council has approved its revised Procurement Strategy in March 2021 to address weaknesses in arrangements and should now roll out training to officers as set out in the AGS Action Plan. The Council does not have a Partnership Register and we have made an improvement recommendation that this should be addressed as an important tool in ensuring significant partnerships are considered during decision making. This is particularly pertinent in the run up to the proposed local government reorganisation in Somerset.



Opinion on the financial statements

We gave an unqualified opinion on the Council's financial statements on 30 September 2021, with our detailed findings reported to the Audit and Governance Committee on 27 September 2021.

Further information relating to the opinion on the financial statements is included on page 29.

Key recommendations

Governance

1	**Recommendation**	The Council should develop a clear plan to address and mitigate the risks that it is exposed to as a result of the Commercial Property Investment Strategy.
	Why/impact	The scale of the commercial strategy potentially exposes the Council to significant financial risk and is a key departure from key regulatory standards. The Council needs a clear plan to manage the following risks: • securing long term non-PWLB financing; • managing the impact on the General Fund if investment performance is below the budgeted targets; • ensuring prudent debt repayment costs are reflected in the budget, with the Council fully providing for the debt taken out to acquire these assets over the lifetime of the debt; • ensuring that the risks are understood by the Shadow Council in the run up to local government reorganisation; and • achieving full compliance with the revised CIPFA Prudential Code when it is implemented.
	Summary findings	The Council is acquiring a £100m commercial property portfolio over two years which is funded from borrowing, with £44m invested in 2020/21. From our review of the Council's Commercial Property Investment Strategy we consider that it is a departure from the principles of prudent activity that will be reinforced in the revised CIPFA Prudential Code. We have concerns around the scale of the commercial investment and the risks that it exposes the Council to. The General Fund will be dependent upon £7.1m commercial investment income by 2023/24. Regardless of the performance of the investment portfolio, the General Fund will have to pay the MRP costs associated with the commercial acquisitions, which is forecast as £2.0m for 2023/24. HM Treasury and CIPFA have continued to comment on commercial investment activity and it's prudence, with access to PWLB borrowing to finance investment activity of this nature stopped from November 2020 with a view to curtail this activity by Local Authorities.

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

Key recommendations

Governance

1	**Recommendation**	The Council should develop a clear plan to address and mitigate the risks that it is exposed to as a result of the Commercial Property Investment Strategy.
	Management Comment	The Council has been very robust in its identification and management of risk regarding the commercial strategy and related financing approach. This is clearly set out in the Commercial Strategy, Financial Strategy and Capital, Investment and Treasury Strategies. The Council has been open and transparent in its regard to the Prudential Code and the reasons for pursuing commercial investment as a means of diversifying its income streams to mitigate significant reductions in government funding and to support investment in local council services. We have complied with reporting requirements in respect of the Prudential Code and Capital Investment statutory guidance, and carefully considered aspects such as proportionality. The treasury approach to borrowing has been considered in view of advice from our treasury management advisors, medium term forecasts in respect of interest rates and volatility, the nature of investment and also with consideration to local government restructuring expected in April 2023. Securing long term borrowing: In view of the nature of the portfolio, preserving flexibility to scale down the portfolio and/or debt level, and balancing costs and risks, it is regarded as prudent to avoid 'locking in' to long term debt at this point. The refinancing risk is carefully monitored and is currently considered low. The Council's overall debt portfolio contains a blend of long term and short term borrowing. It is proposed to review total financing structures as part of the transition to the new unitary and taking into account its future policy in respect of commercial investment. Managing impact on the General Fund and Prudent Debt Repayments: Robust arrangements are already in place to manage risk to the General Fund. This includes: realistic budgeting for income and costs including: an optimism bias adjustment, budgeted annual MRP charges to the revenue account to reduce debt, a significant up-front Investment Risk and Volatility reserve balance of £3.7m with a strategy to increase year on year, Investment Financing Reserve of £2m; underpinned by strong governance and thorough due diligence to minimise risk. The MRP policy includes prudent provision for debt repayment annually which is reflected in the budget and MTFP. It is anticipated that in the longer term there will also be options to trade the portfolio and realise capital growth to further reduce debt.

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

Key recommendations

Governance

1	**Recommendation**	The Council should develop a clear plan to address and mitigate the risks that it is exposed to as a result of the Commercial Property Investment Strategy.
	Management Comment (cont)	Shadow Council risk awareness: Commercial Investment is included within the Finance Workstream as part of the LGR Implementation Programme, which will be the platform to enable the Shadow / Transition Council's appointed S151 Officer (when appointed) to inform and advise the successor authority. Full compliance with the revised Prudential Code: It is proposed to consider this through the transition to unitary and taking into account the new Prudential Code when published (expected late December 2021). There is no plan for SWTC to increase investment beyond the existing approved level which is expected to be completed by December 2021. Our understanding is that CIPFA does not intend local authorities to rapidly dispose of existing commercial properties and create a 'cliff edge' in councils' income, but require a halt to further capital investment purely for yield and a measured consideration of future opportunities for disposal of investment properties to reduce risk. It is anticipated this will require the unitary Council's financial strategy to consider risk and future options to mitigate the significant reduction in net income this investment currently provides if asset investment is reduced. As a general point, a comprehensive coverage of anticipated changes to the Codes and related risks is included in the mid-year Treasury Management report to the Audit and Governance Committee 13 December 2021, ensuring transparency and public accountability.

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

Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

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

Councils report on their arrangements, and the effectiveness of these arrangements as part of their Annual Governance Statement.

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

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

Financial sustainability

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

Governance

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

Improving economy, efficiency and effectiveness

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

Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 10 to 28. Further detail on how we approached our work is included in Appendix B.

Financial sustainability

We considered how the Council:

- responded to the financial challenges posed by the Covid-19 pandemic
- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Outturn 2020/21

The 2020/21 General Fund outturn position was a £1.25m underspend against the revised budget, after taking into account approved carry forward requests of £2.1m that reflected delayed activity largely as a result of the Covid-19 pandemic. This outturn position includes £4.5m in lost car parking income, which was partially offset by the national sales, fees and charges reimbursement scheme. The Housing Revenue Account (HRA) outturn position was a £0.02m overspend against a gross income budget of £26.8m.

General Fund capital expenditure was £63.3m against the £112.5m budget for 2020/21, with £41.6m carried forward for ongoing schemes. HRA capital expenditure totalled £9.1m against a budget of £113.8m, with £104.3m carried forward to future years, mainly relating to social housing developments. We have made an improvement recommendation that capital monitoring and outturn reports should include explanations for slippage when Members are asked to approve carry forwards into future years.

Covid-19 arrangements

Covid-19 posed a significant financial challenge to the Council's financial sustainability, resulting in additional cost and income pressures of £7.3m that were partly offset by government funding of £5.7m, to give a net cost of £1.6m which was met from reserves.

The Council responded to the financial challenges of the pandemic by setting a revised budget in October 2020 which realigned budgets to reflect the forecast impact of Covid-19, with particular pressures noted for supporting leisure operations and carparking income as were seen around the country. At this point total forecast pressures of £4.9m were balanced through a combination of £3.2m in government funding and a £1.7m contribution from reserves.

Budget 2021/22

The 2021/22 budget was set based on the funding announced in the local government finance settlement. This froze the Council's funding assessment at current levels but introduced additional measures to support councils through their recovery from the pandemic, such as additional tranches of general Covid-19 funding and sales, fees and charges (SFC) compensation grant. The Council's strategy with regard to these additional funding streams was prudent in allocating the £0.8m general grant to fund one-off budget pressures relating to Covid-19 and by not including the SFC compensation grant in the base budget, so that it was available to offset potential reductions in income.

The 2021/22 budget did not rely heavily on achieving service savings to balance the overall financial position, rather it included a £2.5m increase in commercial property income and a £1.2m contribution from general fund reserves. The most significant service savings related to the removal of £0.4m of one-off items relating to 2020/21 from the budget and leisure contract savings of £0.3m. Within this context there was no pubic consultation as part of the 2021/22 budget setting process nor detailed consideration of alternative proposals. The budget also included a £5 or 3.04% increase in council tax in accordance with referendum limits, which achieved £0.2m additional income after taking into account a 0.9% reduction in the tax base due to Covid-19.

The 2021/22 carparking budget was rolled forward at historic pre-pandemic levels. However, carparking income has not recovered due to new working and shopping habits that developed during the pandemic and further lockdown periods in the new financial year. The Quarter One 2021/22 budget monitoring position forecasts a net overspend of £2.0m for carparking income. This risk was recognised in the S151 Officer's Section 25 statement that accompanied the budget, and mitigation measures were included within the risk based calculation for general fund balances, and the budget volatility and risk reserve. There was also a strategy to leave budgets at the 2020/21 levels in the knowledge that the quarter one SFC compensation grant could be used to offset any adverse variances.

Therefore, while the assumption in the budget for carparking fees now appears over-optimistic, it is not considered an indicator of significant weakness in arrangements due to these mitigating actions.

Our work has confirmed that the budget is informed by the MTFP and that there is adequate engagement from the Scrutiny Committee during the process.

The Council could not provide evidence that the £1.97m MRP charge per the Capital Strategy was accurately reflected in the 2021/22 budget as the relevant working paper was not available. There is however a working paper setting out the calculation of the revised 2021/22 budget MRP charge of £1.58m, and so we have not made any recommendations in relation to this.

We have made an improvement recommendation that the Council should consider whether there would be benefit in producing and publishing budget books as a single accessible source of detailed budget information for Members, officers and the public. It would enable interested parties to drill down to more detailed service cost information and would contribute to a better understanding of the budget and potential for improved challenge during the year. The budget book could include relevant non-financial information such as employee data ad service performance information.

Overall we found no evidence of significant weaknesses in the Council's budget setting arrangements, although we have identified an opportunity to improve the information available to stakeholders.

Medium term financial plan (MTFP)

Review of the Council's Financial Strategy confirms that financial planning is based on realistic assumptions and that these are clearly set out in reports to Members. The Financial Strategy includes assumptions around council tax increases, including sensitivity analysis of the impact of different council tax increase strategies. Business rates income is modelled taking into account the impact of the business rate reset, now deferred until 2022/23, and also the impact of local issues such as Hinkley Point.

The Council has relied heavily on commercial property income to balance the financial position, increasing the budget by £2.5m in 2021/22 to a total net income figure of £3.4m. The Council's Commercial Property Investment Strategy is considered separately in the next section of this report.

The Council's financial planning usually covers the current year plus five in accordance with best practice. We note that due to local government reorganisation and the proposed creation of a unitary council in Somerset, that the latest financial strategy approved in July 2021 covers a three year period, with detailed projections for 2021/22 and 2022/23 along with an indicative budget gap of £5.0m for 2023/24 by which time the new council is expected to be in place.

The Council's strategy is to balance the financial position, protect services and maintain capacity to implement local government reorganisation, rather than achieve savings through reductions in service, which appears to be appropriate in the circumstances. The 2022/23 budget gap was estimated as £3.9m in the July 2021 Financial Strategy with the proposal to bridge this through £1.0m of general reserves, £2.0m investment financing reserve and £0.7m business rate reserves. The only saving built into the Financial Strategy for 2022/23 is £0.2m for modernisation, which is significantly less than the £2.5m target set for 2022/23 when the previous strategy was approved in October 2020.

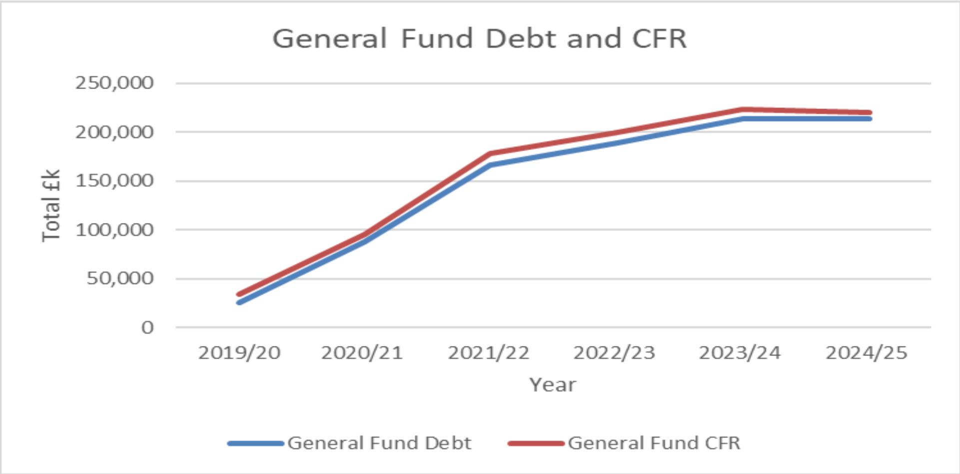
While the use of one off funding from reserves is not sustainable in the long term, the Council is utilising this method in order to protect services and capacity while local government reorganisation is delivered, with longer term savings realised through the design of the new unitary council. Again, this seems a sensible approach.

We have found no evidence of significant weakness in the Council's financial planning arrangements.

Commercial property investment strategy

In accordance with the Commercial Property Investment Strategy, the Council is actively investing in commercial properties in order to secure revenue income with the aim of balancing the financial position and protecting services as government grant funding is reduced. The Council acquired £44.1m of investment property in 2020/21 and intends to complete the £100m portfolio in 2021/22. The Council's commercial property portfolio is made up from existing commercial office, retail, business and manufacturing investments that are not confined to the Council's administrative area.

This investment is funded from debt and so is contributing to an increase in the General Fund capital financing requirement (CFR) and forecast levels of debt as set out in the Capital Strategy approved in March 2021 and summarised in the graph below.



General Fund debt levels are forecast to increase from £25.5m as at 31 March 2020 to £166.9m in 2021/22 over the period when the commercial investment property portfolio is acquired, a significant increase.

The Council's financial planning forecasts significant increases in net commercial property income, and the table overleaf sets out the position in the MTFP update that accompanied the 2021/22 budget report. The 2021/22 budget as approved in February 2021 included a £3.4m net investment property income forecast, which is a £2.5m increase from the revised 2020/21 budget. Gross commercial investment income is forecast to reach £7.1m by 2023/24.

Net Commercial Property Income Projections				
	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k
Net commercial property income	947	3,407	3,407	3,827

The Council mitigates the risk associated with these commercial property investments through reducing the annual income budgets for optimism bias, and through the investment risk reserve which had a £3.7m balance as at 31 March 2021, equivalent to 50% of the anticipated gross income from commercial property. The Council also has strong governance arrangements in the form of the Investment Panel and Investment Board and regular reporting to Executive and Council. Thorough due diligence is undertaken before investments are acquired.

From our review of the Council's Commercial Property Investment Strategy we consider that it is a departure from the principles of prudent activity that will be reinforced in the revised CIPFA Prudential Code. The types of investment that the Council is acquiring are existing commercial enterprises, often some distance outside of the Council's administrative area. They are not regeneration projects and the Council's Capital Strategy confirms that financial return is their main objective. CIPFA have recently consulted on the revised Prudential Code that will clarify that local authorities must not borrow to fund primarily yield generating investments and that this is not prudent activity. The revised Prudential Code will support the new lending terms that HM Treasury implemented in November 2020 where councils must confirm they do not have investments primarily for yield in their capital programmes in order to access PWLB loan funding.

We have concerns around the scale of the commercial investment and the potential risks that it exposes the Council to. The General Fund will be dependent upon £7.1m commercial investment income by 2023/24. Regardless of the performance of the investment portfolio, the General Fund will have to pay the MRP costs associated with the commercial acquisitions, which is forecast as £2.0m for 2023/24. The Council is currently financing these long term acquisitions through short term debt which creates additional risk around the availability of non-PWLB funding to refinance in the future, and the impact if interest rates rise. There are also the implications for the proposed new unitary council that will be created through local government reorganisation in March 2023 to consider, as they will inherit the commercial portfolio and its associated risks and costs.

It should be noted that we have not concluded that the Council is acting unlawfully. The Council also has in place good governance arrangements around the appraisal of investments and has implemented some risk mitigation strategies through reserves. The strategy was also approved in December 2019, before the CIPFA Prudential Code consultation and new HM Treasury borrowing rules.

Within the Governance section of this Auditor's Annual Report we are therefore identifying a significant weakness with regard to decision making that could lead to significant loss or exposure to significant financial risk, and which is a significant departure from key regulatory standards.

Capital strategy and treasury management

The Council approves the Capital Strategy, Investment Strategy and Treasury Management Strategy annually. These reports set out the risks associated with the different types of investment held by the Council, how the capital programme will be funded over the period of the MTFP, including the amount of borrowing required.

The Council approved a General Fund five year capital programme of £218.4m in February 2021, of which £92.2m is forecast to be spent in 2021/22. A ten year HRA capital programme was approved for a total £190.2m, with forecast spend of £32.7m in 2021/22.

The 2021/22 General Fund capital programme contains bids of £5.2m, including employment land (£0.6m), disabled facility grants (£0.8m), asset compliance (£0.6m), car park improvements (£0.7m) and housing grants (£1.0m). The funding strategy for these bids is not dependent on borrowing but seeks to utilise capital receipts, with schemes only progressing once income has been received to finance them.

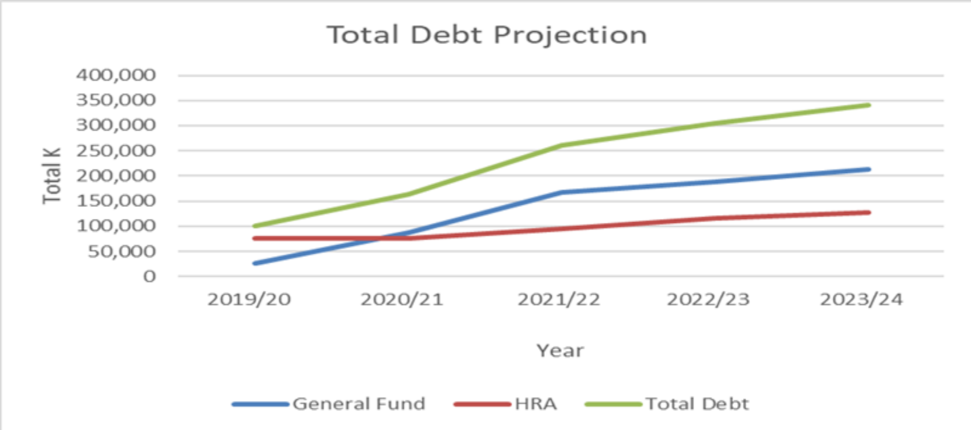
The Capital Strategy approved in March 2021 reflects the level of spend in the capital programme. The majority of spend is financed from borrowing as demonstrated in the table overleaf where 75% of capital spend is funded from debt for the period to 2023/24.

Capital Financing Summary

	2021/22 £k	2022/23 £k	2023/24 £k	Total £k	%
External sources	8,918	3,900	3,708	16,526	7%
Capital receipts	9,133	6,763	1,076	16,972	7%
Revenue and reserves	9,969	7,642	7,942	25,553	11%
Debt:					
HRA	17,684	22,449	11,118	51,251	
GF	79,231	21,892	24,522	125,645	
Total debt	96,915	44,341	35,640	176,896	75%
Total funding	**124,935**	**62,646**	**48,366**	**235,947**	**100%**

The graph overleaf is based on the projections in the Capital Strategy and show that the Council plans to increase its total debt position significantly over the period to 2023/24. The projection is that total debt will increase from £101.0m in 2019/20 to £340.9m in 2023/24, with the Commercial Property Investment Strategy accounting for £100.0m of additional General Fund debt. The revenue costs of this borrowing are reflected in the minimum revenue payment projections within the MTFP and the Capital Strategy. Total MRP is forecast to increase from £2.6m in 2019/20 to £6.6m by 2023/24, with the General Fund charge increasing by £3.3m over this period.

We note that the General Fund summaries included in the 2021/22 budget setting report net off investment property income and MRP as one figure, but that from July 2021 the Financial Strategy summary reports total MRP payable for the General Fund and gross investment income separately. This improves the transparency of reporting and enables a better understanding of the impact of both borrowing and commercial investments on the revenue budget.



The 2020/21 outturn position was £63.3m of expenditure for the General Fund capital programme against a budget of £112.5m, resulting in £41.6m being carried forward. The HRA capital spend for the year was £9.1m out of an approved budget of £113.7m, with £104.3m caried forward to future years. Members were asked to approve these carry forwards of the approved capital budgets and were provided detailed analysis of the schemes that make up the capital programmes, but were not provided with detailed explanations as to why the slippage occurred. We have made a an improvement recommendation that capital monitoring should include detailed reasons for slippage as this would increase accountability for the delivery of the capital programme and give the opportunity for timely Member challenge.

From our value for money work we have not found any significant weaknesses in the Council's arrangements for managing capital and treasury activity.

Reserves

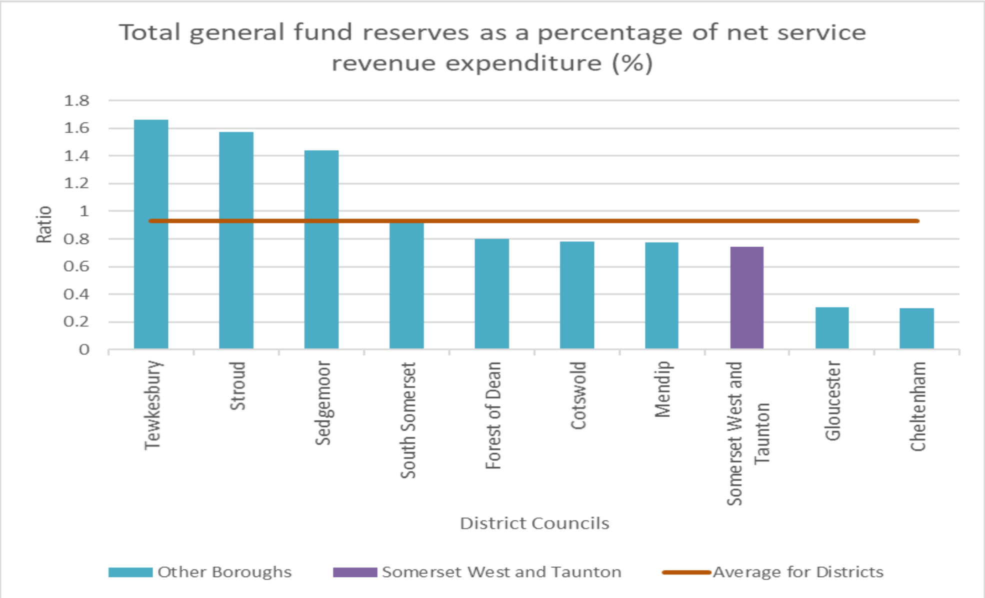
As part of the 2021/22 budget a risk based approach was used to calculate the £2.4m minimum prudent level of General Fund reserves plus a £2.4m Budget Volatility Reserve. The risk based calculation recognises the significant exposure within the Council's budgets to additional Covid-19 related costs and reductions in carparking income. The calculation for the minimum General Fund balance represents 12.8% of the £18.7m net revenue budget for 2021/22 and so exceeds the minimum CIPFA benchmark of 5-10%, recognising the specific risks within the budget.

Unallocated General Fund reserves exceeded the minimum prudent balance as at 31 March 2021. After accounting for planned movements in the reserve to support the 2021/22 and 2022/23 budgets, the forecast balance as at 31 March 2023 is £4.9m, or 26.2% of the net revenue budget.

The Council also had £33.8m in earmarked General Fund reserves as at 31 March 2021, although this includes £14.8m business rate S31 grant that will be used to fund the collection fund deficit which will be applied from 2021/22. Included in this balance are other earmarked reserves that are available to manage unforeseen budget variances such as the budget volatility, business rate volatility and investment risk reserves.

The graph overleaf compares the Council's total General Fund reserves as a percentage of net service spend to the other authorities in Somerset and Gloucestershire. The Council has a ratio of 74.3% compared to an average of 93.0% for these councils, but as can be seen from the analysis is not a significant outlier in the level of reserves it holds. The data used is for 2019/20 as reserve levels in 2020/21 are skewed by the S31 business rate grant to fund the collection fund deficit. A mitigating factor is also the level of unearmarked General Fund balances held by the Council in addition to the budget volatility reserve.

The Council will need to consider how it will allocate resources from reserves in order to fund the implementation costs relating to local government reorganisation during the period to March 2023.



Managing financial risk

The Council has appropriate arrangements for incorporating risks into its financial plans, with all budget reports including a financial risk assessment section. As part of the budget setting process for 2021/22, the Section 25 Statement provided a detailed commentary on the assumptions and risks relevant to the budget. In consideration of the increased financial risk associated with the 2021/22 budget, a £2.4m Budget Volatility and Risk Reserve was approved in addition to the £2.4m minimum prudent level of General Fund Reserves.

Other risk mitigation strategies included in the 2021/22 budget include:

- allocating the £0.8m Covid-19 grant to fund a one-off Covid-19 pressures budget;
- not budgeting for the SFC compensation grant, enabling it to be used to offset reductions in income;
- the business rate volatility reserve with a £5.4m balance as at 31 March 2021;
- The investment risk reserve with a balance of £3.7m as at 31 March 2021.

Cash flow forecasting has been undertaken during 2020/21 and no projected gaps were identified. The cash position was eased by the various sources of government funding and support to businesses that were paid through the Council.

We have found no evidence of significant weakness in the Council's arrangements for managing financial risk.

Sustainable delivery of services

The priority of the Council as a relatively new organisation has been to stabilise rather than to seek savings through reducing service levels. The local government reorganisation planned for Somerset in 2023 has led to a strategy of protecting services and capacity rather than reducing services for the interim period to the proposed new organisation being formed.

Discretionary spend is prioritised to support the corporate strategy. This can be seen in the agreed budget growth for 2021/22 relating to climate change, the local plan, tree planting and the community enhancement fund which can be linked to corporate priorities of environment and economy, and homes and communities. The growth for landlord asset compliance addresses a strategic risk within the risk register.

Therefore we see a coherent link between corporate priorities and the design of the budget, particularly in regard to investment in services. We found no evidence that the council has been unable to deliver its financial plans, other than the impact of Covid-19.

Consistency between financial and other corporate plans

Once the realignment of staff and management structures to the new Council Directorates was completed by April 2020, budgets were mapped to reflect this. The October 2020 Financial Strategy was updated to reflect the 632 posts included in the establishment.

The Council does not have a People or Workforce Strategy that aligns with the Corporate strategy or MTFP. This is recognised in the AGS Action Plan and whilst we agree that this is an important strategy, have not raised an improvement recommendation given the Council already recognises it's need. Under the current circumstances a Workforce Strategy will be developed through a local government reorganisation workstream to ensure it meets the requirements of the new unitary council.

We have found no evidence of inconsistencies between financial and other corporate plans.

Improvement recommendations

Financial Sustainability

1	**Recommendation**	The Council should consider whether there would be benefit in producing and publishing budget books as a single accessible source of detailed budget information for Members, officers and the public.
	Why/impact	Budget books would enable interested parties to drill down to more detailed service cost information and would contribute to a better understanding of the budget and potential for improved challenge during the year. The budget book could include relevant non financial information such as employee data and service performance information.
	Summary findings	The Council does not produce budget books and information provided in public reports is on a high level summary basis, although there is a breakdown of service spend by cost centre included as an appendix to the budget setting report.
	Management comment	The Council's predecessor councils stopped producing Budget Books many years ago due to time and cost implications, prioritising access to the full and detailed access to budget information in the finance system for those responsible for managing budgets. The auditor's recommendation will be considered for the 2022/23 Budget and shared with the Finance Workstream for consideration by the unitary council.

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

Improvement recommendations

Financial sustainability

2	**Recommendation**	Capital monitoring and outturn reports should include explanations for slippage and amounts recommended for carrying forward to future years.
	Why/impact	There was significant slippage in year for the general fund and HRA capital programmes. Providing more information during the year and at outturn regarding the reasons for slippage would increase accountability for the delivery of the capital programme and give the opportunity for timely Member challenge.
	Summary findings	Explanations for slippage are not included when Members are asked to approve capital carry forwards.
	Management comment	Management will provide greater clarity in the 2021/22 outturn report.

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

Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards
- considered the impact of Covid-19 on the governance arrangements.

Covid-19 arrangements

During the 2020/21 financial year the Council supported the community, businesses and the delivery of critical services through the pandemic, implementing emergency response measures as appropriate. Daily Gold meetings were held, scaled up to twice a day at the start of the pandemic, in order to ensure timely decision making. These meetings were minuted and provide a record of the agreed the actions and decisions. Silver meetings were also held to manage more detailed service level risks and actions.

Full Council approved changes to the Constitution in April 2020 to give delegated authority to the Chief Executive to take decisions that would usually be made by the Executive or Planning, Licencing and Audit, Governance and Standards Committees, in consultation with the Leader and relevant portfolio holder. This was to come into effect if quorate virtual meetings were not able to be held. The Council was able to hold virtual meetings for all committees during the year, thus ensuring that the democratic process could continue. Members of the public could participate in these virtual meetings and the meetings were also webcast live.

Regular reports were taken to Full Council during the year regarding decisions taken by the Chief Executive under existing urgency provisions in the Constitution. These included decisions relating to the Discretionary Business Grants, Test and Trace Payments, and Local Restrictions Grants.

The Council distributed £65m of business support grants during the year. The Internal Audit plan was reprioritised to reflect financial risk, and additional assurance work was carried out on the business grant process controls.

All of the above provides evidence of appropriate actions being taken to address the risks and challenges presented by the Covid-19 pandemic.

Managing risk

The Audit, Governance and Standards Committee approved the updated Risk and Opportunity Strategy in February 2021. This incorporated suggested amendments as a result of the internal audit review of the January 2020 strategy, including risk identification and scoring. Following the approval of the Risk and Opportunity Strategy, the Executive received a corporate risk management update in May 2021. This was the first risk management update that the Executive received and included the entire corporate risk register. The intention going forward is that quarterly risk updates will be submitted as part of the performance monitoring reports to Scrutiny Committee and Executive and these will only include key business risks.

The AGS Action Plan recognises that there have been weaknesses in the arrangements to manage risk during 2020/21 and includes the following actions for completion in 2021:

- quarterly risk management reporting was not undertaken during 2020/21 and that quarterly reports will be taken to the Scrutiny Committee and Executive from June 2021;
- the level and detail of risks captured at service level is weak. Once the service risk register pilot is complete the process will be rolled out across the whole organisation; and
- staff will receive risk management training.

The Council has a Corporate Risk Register and Corporate issues Log, and from 2021/22 these are supported by registers for each Directorate.

The senior management team Corporate Performance Management Board met monthly during 2020/21. Part of the standing agenda for these meetings is consideration of the corporate risk and issues register.

We note that the risk register was reported to Corporate Scrutiny Committee and the Executive in July 2021 and included only key business risks with a score of 15 or more. The risks identified are referenced to corporate objectives, contain impact and probability scores and are assigned a risk owner. An improvement recommendation has been made that reporting on and understanding of risks would benefit by including information on mitigating actions, timescales to implement mitigations and gross compared to residual risk scores.

The lack of risk management reporting to Members during 2020/21 is a weakness in governance arrangements, but has been recognised and addressed in the AGS Action Plan. We have made a recommendation to further improve the reporting and management of risk within the Council with regard to mitigating actions.

Internal control

Internal audit is undertaken by South West Audit Partnership (SWAP), who revised their work programme to address specific risks relating to the pandemic. By May 2021 some 92% of the revised audit plan was at final, draft or discussion stage. The quality of SWAP's work was scored at 98% through customer satisfaction questionnaires and an independent assessment reported to the Audit, Governance and Standards Committee in August 2020 confirmed that "SWAP is a high performing and well managed internal audit partnership, delivering professional and high quality services".

SWAP issued a "reasonable" assurance opinion for 2020/21, concluding that "there is generally a sound system of governance, risk management and control in place".

The Audit, Governance and Standards Committee receives regular updates concerning the progress made implementing high priority audit recommendations. In December 2020 the Committee received an update on financial control and reporting procedures and the progress made in addressing the recommendations from key control audits in 2019/20. Partial assurance had been given for several financial system audits, including payroll, banking, treasury and main accounting. Good progress was noted in addressing the issues and the majority of high priority actions were complete.

From our work we have found no areas of significant weakness in the management and reporting on internal control, and note the progress made during the year in improving financial control and reporting procedures.

Monitoring standards

Ethical governance and culture was given a limited assurance audit opinion during the year. Weaknesses related to staff understanding of and access to key information and a lack of training. Key documents such as the Anti-Money Laundering and Fraud Reporting Policy were found to be out of date. The Executive approved the Anti-Fraud and Corruption Strategy, Anti-Bribery Policy, Anti-Money Laundering Policy and Whistle Blowing Policy in April 2021 and hence we have not identified an improvement recommendation.

We have reviewed the Members register of gifts and hospitality and note there was only one declaration in 2020/21. To date in 2021/22 there have been five Member declarations. Review of the officer register of gifts and hospitality confirmed no declarations were made in 2020/21 with five made in the current year. The Council should ensure that Members and officers are aware of the policies for recording gifts and hospitality as set out in their respective Codes of Conduct.

Member's registers of interests are available on the Council's website. While there is evidence that some have been updated during the pandemic through email correspondence appended to the declarations, the Council should ensure that Members are aware of the requirement to keep registers of interest up to date. Internal audit reported in the year that only six officer interests have been recorded since 2016, which appears to be low.

The AGS Action Plan recognises ethical awareness needs to be improved and contains the following actions:

- ethical training to be rolled out for Members and staff induction process to be reviewed; and
- reminders to be sent to Members and officers relating to declaring interests and gifts and hospitality.

The Council has a range of officers who are responsible for ensuring and monitoring compliance with statutory standards, such as the Monitoring Officer and the Section 151 Officer. Through our review we are not aware of any instances where officers or elected members have not complied with the necessary standards.

The weaknesses during the year in relation to ethical governance have been recognised by the Council and are in the process of being addressed. The Council should ensure that there is a formal process in place for Members and officers to declare interests, and that regular reminders and training are conducted regarding the requirements of the respective Codes of Conduct.

Budgetary control 2020/21

We have considered the Council's processes for monitoring the 2020/21 budget during what was a difficult year to accurately forecast costs and income due to the effects of the pandemic, periods of lockdown, and incremental announcements of government funding. The Council faced additional challenges as budgets were aligned to Directorate structures.

Budget monitoring reports were submitted quarterly during the year to the Scrutiny Committee and the Executive. These contain detailed forecasts of spend by Directorate and narrative explaining the risks and uncertainties associated with the budget forecasts.

As the financial year progressed the overall forecast outturn position improved as the costs of the pandemic and associated government funding became more certain. When the revised budget was agreed in October 2020 the General Fund was forecast to overspend by £1.0m, the position improving to an underspend of £1.5m at Quarter Three, and with a final outturn position of £3.3m underspent before carry forwards.

The Council introduced arrangements to identify and monitor the additional costs arising from the pandemic through setting up a bespoke project code in the finance system to which all related spend was allocated.

The internal audit review of the progress made implementing high priority budget monitoring recommendations from 2019/20 confirms that processes have been reviewed and improvements made during 2020/21. New monitoring reports have been developed and monthly forecasting undertaken from June 2020. Monthly performance reports are taken to the Corporate Performance Board which include financial monitoring, and budget managers have self service access to budget reports from the finance system with monthly meetings held with the finance team.

We have reviewed the arrangements in place to monitor major capital scheme spend against budget and progress against expected delivery. Detailed monitoring takes place monthly at a programme level and key issues are reported to the Directorate Board and Senior Management Team. We note that there were significant capital budget carry forwards into the 2021/22 financial year and have made an improvement recommendation that capital monitoring and outturn reports should include explanations for slippage and amounts recommended for carrying forward to future years.

We have not identified any significant weaknesses with regard to the Council's arrangements for budget monitoring. The Council should continue to work on refining its budget monitoring processes to ensure forecasts are as accurate as possible.

Commercial property investment strategy

As set out in the Financial Sustainability section of the Auditor's Annual Report we consider that the Council's Commercial Property Investment Strategy is a departure from the principles of prudent activity that will be reinforced in the revised CIPFA Prudential Code. We have not concluded that the Council is acting unlawfully and judge the governance arrangements relating to the strategy to be sound, but we do have concerns around the scale of the commercial investment and the risks that it exposes the Council to.

We are therefore identifying a significant weakness with regard to decision making that could lead to significant loss or exposure to significant financial risk, and which is a significant departure from key regulatory standards.

The Council needs to develop a clear plan to mitigate the risks that they have incurred as a result of the Commercial Property investment Strategy. The plan should address the following:

- securing long term non-PWLB financing for the commercial portfolio;
- managing the impact on the General Fund if investment performance is below the target;
- ensuring prudent debt repayment costs are reflected in the budget with the Council fully providing for the debt taken out to acquire these assets over the life time of the debt;
- ensuring that the risks are understood by the Shadow Council in the run up to local government reorganisation; and
- ensuring that the Council fully complies with the revised CIPFA Prudential Code when it is implemented in 2023/24.

Local referendum on the future of local government in Somerset

In May 2020 the Council, in collaboration with the other district councils in Somerset, conducted a local referendum on the two proposals for unitary local government in the county. In response to concerns raised by the Secretary of State as to the lawfulness and value of the exercise, the Council obtained independent legal advice and satisfied itself that it had the powers to conduct the referendum, and that its results would have value and would need to be taken account of.

Annual governance statement action plan

The Council has an ambitious Annual Governance Statement Action Plan that seeks to address identified weaknesses in arrangements including risk management, ethical awareness, data quality and procurement. The Council should ensure that actions are implemented as planned, or where appropriate are considered as part of local government workstreams.

Improvement recommendations

Governance

3	**Recommendation**	Risk management reporting to Corporate Scrutiny Committee and the Executive should include details of mitigating actions, timescales for implementation, and gross compared to residual risk scores.
	Why/impact	The risk management reporting does not give enough information to allow Members to understand how risks are being managed and mitigated, over what period the actions are to be implemented, and what the risk score is after mitigating action has been taken.
	Summary findings	The risk register reported to Corporate Scrutiny Committee and the Executive in July 2021 contained the key business risks and their corresponding impact and probability scores. Risks are cross referenced to the corporate objectives and assigned a risk owner.
	Management comment	The recommendation is noted and will be fully considered to determine if actions already taken are sufficient. The reporting of risk to Scrutiny Committee and Executive has already been further developed during the 2021/22 financial year which largely addresses the recommendation. For each risk and issue, the report now contains further information about the development and implementation of the mitigation plan. A RAG status is included for the mitigation plan development, and another RAG status for the mitigation plan implementation. Given that many of the risks and issues contain elements that are confidential and/or commercially sensitive, it was felt that this was the most appropriate way to provide further updates on the mitigation. Portfolio Holders are briefed on the details and other members can be updated as required.

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

Improving economy, efficiency and effectiveness

We considered how the Council:

- responded to the changes required as a result of Covid-19
- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Performance management

The Corporate Strategy 2020-2024 was approved in October 2019 and sets out the Council's strategic themes, objectives and desired outcomes for the period. The Annual Plan 2020/21 sets out the focus areas for achieving Corporate Strategy objectives for the year as well as a review of the achievements made in 2019/20.

The Council has a Performance Management Framework which describes the golden thread that links performance management processes to strategic aims and objectives; linking the Corporate Strategy to the Annual Plan, Directorate Plans and personal objectives. A tiered approach to performance reporting operated during the year with the Corporate Performance Board receiving detailed monthly reports, and with quarterly reporting of key performance indicators to the Scrutiny Committee and Executive. From 2021/22 each Directorate has a Programme Board that meets monthly to monitor performance and key projects. Throughout the year the performance reports were submitted to Scrutiny Committee and Executive at the same meeting that considered quarterly financial monitoring thus giving Members the opportunity to consider financial and non-financial aspects of service delivery at the same time.

The 2020/21 performance outturn report was considered by the Executive in July 2021. The majority of performance indicators were met or exceeded during the year. Indictors that were flagged as red or amber related to complaint and freedom of information (FOI) response times, licencing application processing times, and the collection rates for council tax and business rates. The response times for complaints and FOIs were identified during the year as underperforming and action was taken to improve processes. Improvements in performance were noted for complaints, FOI and licencing application response times during the last quarter of the financial year. The reduced collection rates for council tax and business rates reflect the impact of the pandemic on residents, businesses and the level of recovery action that could be undertaken.

The progress update on the 28 commitments in the Annual Plan 2020/21 confirmed that 23 were rated green as progress was on track. There were 5 amber rated commitments relating to slippage and the impact of Covid-19.

The Performance Management Framework recognises the importance of data quality and transparency to performance management. The Council does not currently have a Data Quality Policy and the AGS Action Plan sets a target for this to be drafted by 31 December 2021, although we understand from discussions with officers that it is likely to be considered as part of a local government reorganisation workstream.

Our review of the Council's arrangements for managing performance has not identified any significant areas of weakness other than the requirement to draft a Data Quality Policy which is already recognised by the Council. Therefore we have not made any improvement recommendations in this area.

Learning from others

Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can provide a basis for collaboration and identify areas for improvement.

The Council does not routinely undertake financial comparisons or benchmarking of service performance with other local authorities.

The benchmarking that we undertook using our management tool 'CFO Insights' compared the units costs for a range of services and identified the following areas where the unit costs were very high in comparison to other district councils:

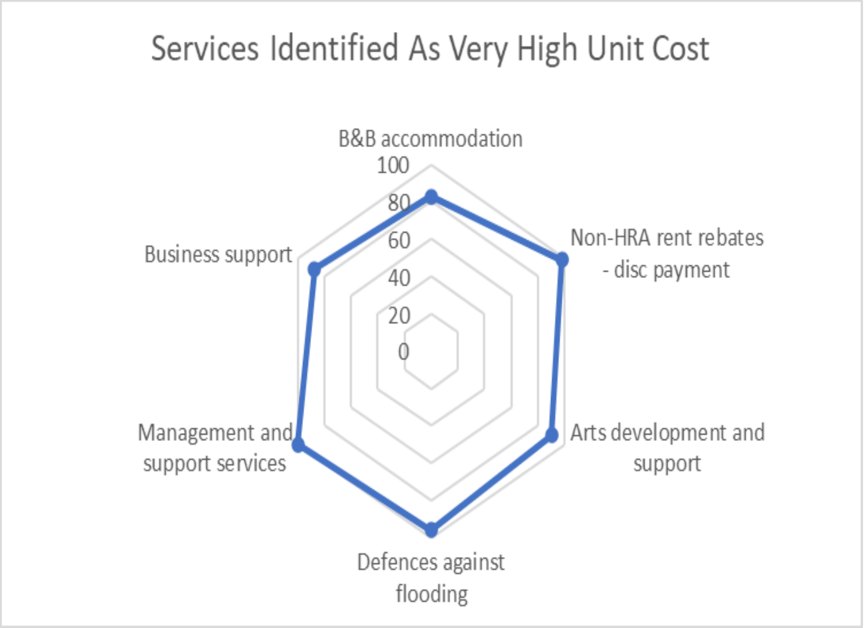
- Bed and breakfast accommodation - reflecting the impact of the Homeless Reduction Act and associated increase in caseload;
- Non HRA rent rebate discretionary payments – the spend reflecting agreed funding from the Department of Work and Pensions;
- Arts Development – due to the cost of grant funding local theatres;
- Defences against flooding – reflecting the cost of levies and payments to the Environment Agency and Rivers Authority;
- Business Support – which includes consultancy and feasibility costs relating to regeneration projects.

A difficulty in using the 2019/20 data for benchmarking was identified when reviewing the very high unit costs for management and support service costs. Following the establishment of the Council and transformation programme, all pay costs were allocated to this service line in the data return rather than being allocated to services. Following the budget mapping exercise in 2020/21 employee costs are now allocated to services and will allow for more meaningful benchmarking to be undertaken.

While the charts opposite are only able to provide an indication of where costs are high, we consider that the Council should be routinely benchmarking service costs in order to identify areas where efficiencies could be achieved. While we recognise that during the first two years of its existence, the focus of the new Council has been stabilisation and bringing services together, we have made an improvement recommendation that the Council should undertake corporate benchmarking going forward.

On the spider chart a rank of 50 represents the group median. The group in this case is all district councils. If a measure is closer to the outside of the chart it would be classed as 'very high cost', whereas if the line is closer to zero, then it would be classed as 'very low cost' in comparison to the group.

The data is based on the 2019/20 Revenue Outturn submissions to the government.



Significant partnerships

Our work relating to the governance arrangements around significant partnerships that the Council participates in is not yet complete. Once this work is complete we will update the Audit and Governance Committee should any further weaknesses in arrangements or recommendations be identified.

The draft business plan 2021/26 for the Somerset Waste Partnership (SWP) was approved by the Executive in January 2021 prior to approval by the SWP Board. The Council has Member representation on the quarterly SWP Board which considered performance, the roll out of key schemes such as Recycle More, and the financial position of the SWP during the year.

The Council recognises that there are improvements it could make with respect to partnership working. The Council does not currently have a partnership register although the target date to develop one in the AGS Action Plan is 30 September 2021. The development of a register would help ensure that significant partnerships are considered during decision making and that significant partnership risks are identified and managed. The existence of a partnership register would therefore be particularly pertinent in the lead up to local government reorganisation.

We are making an improvement recommendation that the Council could improve the governance arrangements for significant partnerships by ensuring that a partnership register is developed.

Procurement

In order to support businesses during the pandemic, the Council's terms for paying suppliers were changed to enable much quicker payments. During April and May 2020 the Council paid £6.4m to suppliers with an average turnaround time for processing invoices of 4.8 days.

Internal audit reported a limited assurance opinion in relation to strategic procurement in December 2020 due to the lack of an up to date procurement strategy, no detailed published operational guidance and a lack of procurement training. Executive has since approved the revised Procurement Strategy in March 2021 to ensure compliance with the latest procurement legislation. There is an action in the AGS to roll out procurement training to officers, although from our enquiries we understand that this has not yet been implemented.

The absence of a procurement strategy and training during the year is a weakness in arrangements, but has been identified by the Council and actions to improve arrangements have already been implemented, with further improvements planned. As such we have not raised an improvement recommendation.

Improvement recommendations

Improving economy, efficiency and effectiveness

4	**Recommendation**	The Council should undertake corporate benchmarking of service cost and performance.
	Why/impact	Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can provide a basis for collaboration and identify areas for improvement.
	Summary findings	The Council does not routinely undertake financial comparisons or benchmarking of service performance with other local authorities.
	Management comment	The recommendation is noted. In view of local government restructuring it is proposed to highlight this recommendation for consideration by the successor unitary council through the Implementation Programme

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

Improvement recommendations

Improving economy, efficiency and effectiveness

5	**Recommendation**	The Council should develop a partnership register in accordance with the AGS Action Plan.
	Why/impact	The development of a partnership register would help ensure that significant partnerships are considered during decision making and that significant partnership risks identified and managed.
	Summary findings	The Council does not have a partnership register in place.
	Management comment	Agreed. This will be done.

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

Opinion on the financial statements

Audit opinion on the financial statements

We gave an unqualified opinion on the Council's financial statements on 30 September 2021.

Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which was published and reported to the Council's Audit and Governance Committee on 27 September 2021.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

These instructions have yet to be issued and as such we cannot complete this work or formally certify the closure of our audit.

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Preparation of the accounts

The Council provided draft accounts in line with the national deadline. Whilst progress has been made on the prior year, we experienced some challenges in the audit and identified a significant number of amendments to the draft financial statements. More detail is included in our Audit Findings Report.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.

Appendices

Appendix A - Responsibilities of the Council

Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

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

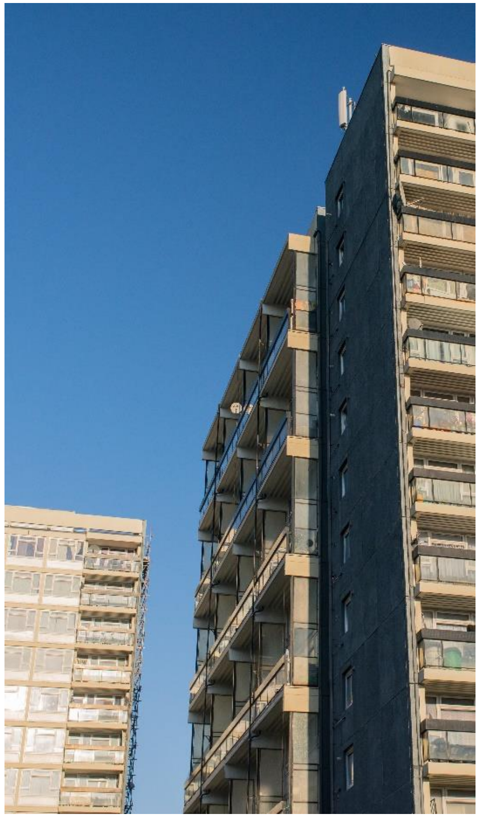
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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



Appendix B - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was not identified as a potential significant weakness, see pages 10 to 18 for more details	No additional procedures undertaken	No significant weaknesses identified	Appropriate arrangements were in place, two improvement recommendations raised.
Governance was not identified as a potential significant weakness, see pages 19 to 23 for more details.	No additional procedures undertaken	A significant weaknesses was identified in relation to the Commercial Strategy	One key recommendation and one improvement recommendation raised.
Improving economy, efficiency and effectiveness was not identified as a potential significant weakness, see pages 24 to 28 for more details.	No additional procedures undertaken	No significant weaknesses identified	Appropriate arrangements were in place, two improvement recommendations raised.

Appendix C - An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	P6
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	P17 – P18 P23 P27 – P28

Appendix D - Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	We have not issued any statutory recommendations.
Public interest report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We have not issued a public interest report.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We have not made an application to the Courts.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We have not issued any advisory notices.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We have not applied for a judicial review.

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