

## SWT Audit and Governance Committee

Monday, 14th March, 2022,  
6.15 pm



Somerset West  
and Taunton

The John Meikle Room - The Deane House

[SWT MEETING WEBCAST LINK](#)

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**Members:** Lee Baker (Chair), Ed Firmin (Vice-Chair), Simon Coles, Hugh Davies, Dawn Johnson, Janet Lloyd, Andy Milne, Martin Peters, Steven Pugsley, Terry Venner and Sarah Wakefield

### Agenda

**1. Apologies**

To receive any apologies for absence.

**2. Minutes of the previous meeting of the Audit and Governance Committee**

To approve the minutes of the previous meeting of the Committee.

**3. Declarations of Interest**

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

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

**4. Public Participation**

The Chair to advise the Committee of any items on which members of the public have requested to speak and advise those members of the public present of the details of the Council's public participation scheme.

For those members of the public who have submitted any questions or statements, please note, a three minute time

(Pages 7 - 18)

limit applies to each speaker and you will be asked to speak before Councillors debate the issue.

### **Temporary measures during the Coronavirus Pandemic**

Due to the temporary legislation (within the Coronavirus Act 2020, which allowed for use of virtual meetings) coming to an end on 6 May 2021, the council's committee meetings will now take place in the office buildings within the John Meikle Meeting Room at the Deane House, Belvedere Road, Taunton. Unfortunately due to capacity requirements, the Chamber at West Somerset House is not able to be used at this current moment.

Following the Government guidance on measures to reduce the transmission of coronavirus (COVID-19), the council meeting rooms will have very limited capacity. With this in mind, we will be requesting that members of the public who have registered to speak attend the meetings in person at the office buildings, if they wish. (We will still be offering to those members of the public that are not comfortable in attending, for their statements to be read out by a Governance and Democracy Case Manager). Please can we urge all members of the public who are only interested in listening to the debate to view our live webcasts from the safety of their own home to help prevent the transmission of coronavirus (COVID-19).

- 5. Audit and Governance Committee Forward Plan** (Pages 19 - 20)  
To receive items and review the Forward Plan.
- 6. External Audit – Progress Report and Sector Update** (Pages 21 - 40)  
The attached report provides the Audit and Governance Committee with a progress update regarding the work of the external auditors, Grant Thornton, together with information relating to emerging issues relevant to the Council.
- 7. External Audit Risk Assessment 2021/22** (Pages 41 - 72)  
Grant Thornton LLP is the Council's appointed auditor responsible for the audit of the accounts for the periods 2019/20 through to 2022/23. As part of the preparation for the 2021/22 audit, Grant Thornton has followed its risk assessment procedures to obtain an understanding of management processes in several areas. This report shares the information provided by the Council's management to help inform this risk assessment.

- 8. External Audit - Audit Plan 2021/22** (Pages 73 - 74)
- This report introduces the External Audit Plan for 2021/22. The Plan is prepared by the Council's external auditors, Grant Thornton, ahead of the financial year-end (31 March).
- The purpose of the Plan is to summarise the approach to the 2021/22 audit programme together with the audit view on risk and materiality.
- A verbal report on the Plan will be provided by the Audit Director, covering all known aspects of the Plan ahead of it being issued.
- 9. SWAP Internal Audit - Progress Report 2021-22 Internal Audit Plan** (Pages 75 - 90)
- 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 December 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.
- 10. SWAP Internal Audit - 2022-23 Internal Audit Plan and Internal Audit Charter** (Pages 91 - 110)
- This report introduces the Internal Audit Plan for 2022/23 and also incorporates an 'Internal Audit Charter' which sets out the operational relationship between Somerset West and Taunton (SWT) and the South West Audit Partnership (SWAP).
- This is a flexible plan that may be amended during the year to deal with shifts in priorities or new and emerging risks. The following plan has the support of the Section 151 Officer and has been approved by the Senior Management Team.
- 11. Summary of Level 1 and 2 Internal Audit Actions** (Pages 111 - 118)
- The purpose of this report is to update the Committee on progress against level 1 and 2 Internal Audit Actions as at the end of January 2022.

**12. Capital Investment and Treasury Strategy 2022/23**

(Pages 119 - 188)

The purpose of this report is to bring to Members three recommended strategies covering Capital, Investment and Treasury Management (CIT Strategies) for their consideration and adoption.

Appendix A to this report combines three Strategies together with the Council's Minimum Revenue Provision (MRP) Statement. Its format has been developed to meet the requirements of statutory guidance issued under Part 1 of the Local Government Act 2003, with particular reference to CIPFA's Prudential Code of Practice and Treasury Management Code of Practice.

**13. Audit and Governance Committee Chair's Annual Report 2021/22 - For Information Only**

(Pages 189 - 192)

This report provides an update from the Chair of the Audit and Governance Committee, Councillor Lee Baker, on the work of the Audit and Governance Committee for the year 2021/22.



**ANDREW PRITCHARD  
CHIEF EXECUTIVE**



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Following Government guidance on measures to reduce the transmission of coronavirus (COVID-19), we will be live webcasting our committee meetings and you are welcome to view and listen to the discussion. The link to each webcast will be available on the meeting webpage, but you can also access them on the [Somerset West and Taunton webcasting website](#).

If you would like to ask a question or speak at a meeting, you will need to submit your request to a member of the Governance Team in advance of the meeting. You can request to speak at a Council meeting by emailing your full name, the agenda item and your question to the Governance Team using [governance@somersetwestandtaunton.gov.uk](mailto:governance@somersetwestandtaunton.gov.uk)

Any requests need to be received by 4pm on the day that provides 2 clear working days before the meeting (excluding the day of the meeting itself). For example, if the meeting is due to take place on a Tuesday, requests need to be received by 4pm on the Thursday prior to the meeting.

The Governance and Democracy Case Manager will take the details of your question or speech and will distribute them to the Committee prior to the meeting. The Chair will then invite you to speak at the beginning of the meeting under the agenda item Public Question Time, but speaking is limited to three minutes per person in an overall period of 15 minutes and you can only speak to the Committee once. If there are a group of people attending to speak about a particular item then a representative should be chosen to speak on behalf of the group.

Please see below for Temporary Measures during Coronavirus Pandemic and the changes we are making to public participation:-

Due to the temporary legislation (within the Coronavirus Act 2020, which allowed for use of virtual meetings) coming to an end on 6 May 2021, the council's committee meetings will now take place in the office buildings within the John Meikle Meeting Room at the Deane House, Belvedere Road, Taunton. Unfortunately due to capacity requirements, the Chamber at West Somerset House is not able to be used at this current moment.

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For further information about the meeting, please contact the Governance and Democracy Team via email: [governance@somersetwestandtaunton.gov.uk](mailto:governance@somersetwestandtaunton.gov.uk)

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**SWT Audit and Governance Committee - 13 December 2021**

Present: Councillor Lee Baker (Chair)

Councillors Ed Firmin, Simon Coles, Hugh Davies, Tom Deakin (In place of Dawn Johnson), Janet Lloyd, Steven Pugsley, Terry Venner and Sarah Wakefield

Officers: Jackson Murray, Alastair Woodland, James Barra, John Dyson, Paul Fitzgerald, Chris Hall, Alison North, Sean Papworth, Steve Plenty, Marcus Prouse, Malcolm Riches, Dan Webb, Kevin Williams and Jessica Kemmish

Also Present: Councillors Ross Henley, Libby Lisgo and Brenda Weston

(The meeting commenced at 6.15 pm)

**41. Apologies**

Apologies were received from councillor Dawn Johnson who was substituted by councillor Tom Deakin.

Councillor Ross Henley, who was due to present reports to the Committee, also gave apologies as a road closure had prevented him from attending the meeting in person and he instead joined the meeting via Zoom.

**42. Minutes of the previous meetings of the Audit and Governance Committee**

The Audit and Governance Committee resolved to approve the minutes of the meeting held on 13<sup>th</sup> September 2021 as an accurate record.

The Audit and Governance Committee resolved to approve the minutes of the meeting held on 27<sup>th</sup> September 2021 as an accurate record subject to the wording being changed on page 15 of the minutes to read 'would have' instead of 'should have'.

**43. Declarations of Interest**

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

Name	Minute No.	Description of Interest	Reason	Action Taken
Cllr L Baker	All Items	Cheddon Fitzpaine & Taunton Charter Trustee	Personal	Spoke and Voted
Cllr S Coles	All Items	SCC & Taunton	Personal	Spoke and Voted

		Charter Trustee		
Cllr H Davies	All Items	SCC	Personal	Spoke and Voted
Cllr T Deakin	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr L Lisgo	All Items	Taunton Charter Trustee	Personal	Spoke
Cllr J Lloyd	All Items	Wellington & Sampford Arundel	Personal	Spoke and Voted
Cllr T Venner	All Items	Minehead	Personal	Spoke and Voted
Cllr B Weston	All Items	Taunton Charter Trustee	Personal	Spoke

44. **Public Participation**

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

45. **Audit and Governance Committee Forward Plan**

The Audit and Governance Committee resolved to note the Forward Plan.

46. **External Auditor's Annual Report 2020/21**

The Portfolio Holder for Corporate Resources introduced the report:

- The Council successfully published audited accounts on time this year and was one of only 9% of councils to do so this year.
- The next stage of the external auditor's work would be to review value for money. This has taken on a higher profile in the audit regulations and impacts all councils.
- The Auditor's report did not include any statutory recommendations but it did include one key recommendation and five improvement recommendations for the committee to consider.

The Corporate Finance Manager provided a further introduction to the report:

- The report sets out the findings of the External Auditors report on financial sustainability, governance and improving economy, efficiency and effectiveness. These were all reviewed at a high level across the Council.
- The recommendations for the committee to consider were to note the report, note and endorse the management responses that are set out by the recommendations as management comments and to note the signing off and publication of the Statement of accounts for the year ended 31<sup>st</sup> March 2021.

Jackson Murray, Director - Grant Thornton introduced the report and raised the below points:

- This was the first time this committee will have seen an audit in this format as the Audit Code of Practice had changed meaning an opinion of value for money was no longer received but rather a commentary on value for money instead which was more detailed.
- The Executive Summary set out the risk assessment and the findings against the financial sustainability, governance and improving economy, efficiency and effectiveness.
- The impact of Covid 19 is reflected throughout the report.
- There were some improvement recommendations identified regarding the financial sustainability criteria and the improving economy, efficiency and effectiveness criteria.
- There was a key recommendation made in respect of the governance criteria and that centred on the commercial investment strategy of the Council.
- For financial sustainability criteria satisfied that there are appropriate arrangements to achieve financial resilience. The Council was still fairly young but the medium-term financial planning had been considered and deemed reasonable. The improvement recommendations made relate to the production of budget books to provide further information and around the information supplied to members when approving capital carry forwards.
- Regarding governance the key recommendation is around the governance for the commercial investment strategy. Grant Thornton had not concluded that the Council was undertaking any unlawful activity but had concluded that the strategy represented a departure from prudent activity considering government guidance through the CIPFA prudential code.
- The commercial investment activity did raise financial risks to the council. This report did not say that any unlawful activity has occurred, nor did it say that those risks had materialised as to date they had not. However, decisions taken have led to the Council being exposed to risk.
- There have been a number of changes and improvements to governance arrangements over the last year and an ambitious Annual Governance Statement and Action Plan had been produced. It was important the changes outlined in the action plan were implemented.
- Regarding improving economy, efficiency and effectiveness criteria no areas of significant weakness had been identified. A recommendation had been made regarding the partnership register which was on the Annual Governance Action Plan but had gone past its implementation date.
- Grant Thornton issued a qualified opinion on the Council's finances on 31<sup>st</sup> September 2021. The final version of the report with qualified audit opinion would be published prior to Christmas.
- There were five areas which were considered as being particular risk regarding the key recommendation on the Commercial Investment. These were securing long term non-PWLB financing, managing the impact on the general fund if commercial investment income was below target, ensuring prudent debt repayment was provided for in the budget, local government reorganisation and the need for the shadow council to understand the risk of the commercial investment portfolio and the need to comply with the new CIPFA prudential code when implemented.
- Local Government Reorganisation in Somerset means that the shadow organisation will also need to be aware of the risks of the Commercial

Investment Strategy and the implications of the prudential code once that is implemented.

During the debate the following points were raised:

- Concerns were raised about the opinion in the report regarding the Council's risk management reporting not giving sufficient information to members about mitigation and over what period actions were to be implemented.
- Concerns were raised about how the new unitary council may view the Council's investments and whether the Council was in danger from its commercial investments. It was responded by the Grant Thornton Director that there was strong governance around decisions but participation in commercial investment activity created risk regardless of what governance was in place. Officers responded that there was regular reporting to members on the commercial investment strategy and that information was also available on the website. Officers had worked to manage risk whilst implementing this strategy including working closely with treasury advisors on how best to manage borrowing. Somerset West and Taunton Council were not the only district in Somerset to have undertaken this activity. The Council awaited the publication of the new prudential code and would then assess its impact upon the Council's financial planning for next year.
- It was questioned why the commercial investment was flagged as red rather than amber in the report. It was responded by the Grant Thornton Director that this was because of the significance of the potential risk and based on guidance set out by the national audit office.
- Concerns were raised about the Council having used £1.6m of reserves and £1.7m from underspends to finance the costs of Covid. Officers responded that the £1.6m was the shortfall in Covid funding in 2021 financial year. Reserves still remained above the minimum.
- Concerned about the minimum revenue position (MRP) for the commercial investment and being able to fund the budget and provide services going forward. It was responded by the Grant Thornton Director that the MRP charge grew fairly significantly this financial year and was projected to grow again in the following financial year. This was because MRP became chargeable the year after investment. For the 2021 MRP charge Grant Thornton were satisfied that it was appropriate and gave it a green rating. Officers responded that the medium financial plan assumed a reasonable amount of income from the commercial investment portfolio and the intent was that the income covered the debt associated with the investments including minimum revenue provision. There was risk however, the portfolio had outperformed expectations at present so one of the options which may be considered was to use the surplus income from the portfolio to reduce the debt further.
- Reassurance was sought that borrowing money other than PWLB would still be possible for the Council long-term at a reasonable rate. Officers responded that the majority of the borrowing the Council was undertaking as at a low interest rate. The Council was focusing on short-term borrowing for the commercial investment whereas for the HRA the focus was on long-term borrowing. There were options to borrow from other local authorities or banks.

- It was raised that it would be useful for the mitigations in place for the commercial investments to be outlined alongside the risks. It was questioned whether every council that had commercial investments would now have a similar red flag in their audits and whether it should still be in red given the mitigation in place. It was raised that there was awareness of the risks of having a commercial investment portfolio when the decision was made to implement the strategy. The Grant Thornton Director responded that whether a council may have a red flag would depend on the scale of investment, level of borrowing and when funds were invested. The Council's reporting on the purpose of the portfolio had been clear.
- It was suggested that the income from the commercial investment portfolio would be useful to the new authority.
- It was raised that undertaking benchmarking this year rather than next year may be beneficial for the council to undertake. It was responded by officers that some benchmarking was already undertaken internally.
- It was asked about the recommendation to publish the budget books and what the time and cost to the Council of doing so would be. Officers responded that the main cost would be through officer time.
- It was asked that the HRA income slippage be outlined in greater detail. Officers responded that they would provide a written answer after the meeting.
- A discrepancy in figures was raised. It was responded by officers that this was due to an error in the working papers.
- It was raised that it was positive that the Governance arrangements were found to be sound. The rates for non-PWLB borrowing were also reassuring.
- The report states that the commercial investment strategy represents a deviance from prudent practice and that this would be reflected in CIPFA's guidance. It was asked if the commercial investment was a material risk, if the Council should be looking to suspend or not continue with the strategy. The Director for Grant Thornton responded that it was for the committee to consider the assurances and recommendations made by external audit and by managers within the wider context. Borrowing purely for yield, in the strictest reading of the prudential code, had never been prudent, but the revised code would be a tightening of those rules.

The Committee resolved to note the recommendations in the report:

- 2.1 The Committee is recommended to note the Auditor's Annual Report in respect of 2020/21 and the recommendations recorded therein.
- 2.2 The Committee is recommended to note and endorse management's proposed responses and actions in adopting the recommendations made by the Auditor.
- 2.3 The Committee is recommended to note the Auditor's confirmation of his Unqualified Opinion on the Statement of Accounts for the year ended 31 March 2021.

Chris Hall left the meeting at this point.

47. **SWAP Internal Audit – Progress Report 2021-22**

Alastair Woodland, Assistant Director – SWAP provided an introduction to the report:

- The report provided an update on the Audit Plan progress and updated on any significant findings from work completed so far as well as any changes to the Audit Plan.
- One limited assurance audit on data centres. A couple framework reviews were carried out around risk management and performance. These are crucial governance areas; a good level of assurance was given for both. The fraud risk assessment would be shared with the Committee in due course.
- Regarding the data centres audit, the data centres had recently been refurbished and some aspects to support their safe operation were still being embedded. These recommendations and actions would be added to the tracker. There would be a follow up on this audit to ensure the recommendations were implemented.
- For the procurement audit, which previously had limited assurance, a number of the recommendations were materially complete, but some final aspects needed to be implemented before they were complete.
- The Committee were updated that one of the actions recorded as Priority 2 in the report was actually a Priority 3 action.
- There had been follow up work on the grounds and maintenance audit. All actions and recommendations had now been completed.
- There had been some changes to the audit forward plan which was a rolling plan. The data centre audit was brought forward. The ICT infrastructure review had been replaced by a management review may not be undertaken ahead of unitary.
- Overall, the governance risk control was working relatively effectively, though, there were some areas for improvement.

During the debate the following points were raised:

- It was questioned about the location of the data centres. The SWAP Assistant Director responded that the major data centre was at Deane House, with a more minor one at West Somerset House.
- It was asked about financial training not having been given to DLO staff when this was recommended previously. It was responded by the SWAP Assistant Director that the way of working and processes had changed meaning that there was less of a need for the training.
- Concerns were raised about the delay to the GDPR audit and about health and safety only having limited compliance. The SWAP Assistant Director responded that the GDPR audit had been delayed but it was hoped the review would be completed in the next four weeks. The health and safety audit would be followed up in the new year. Senior management were looking to implement improvements as soon as possible.



- Concerns were raised about GDPR and ensuring that measures are in place. It was responded by officers that specialist advice was being taken to ensure that GDPR was addressed well.
- It was asked how internal audit would rate the Council's ability to defend against cyber-attacks given the data centre having limited assurance. It was responded by the SWAP Assistant Director that a separate review on cyber security had been undertaken. The data centre was more about physical security.
- It was questioned how realistic some of the target dates for achieving completion of actions were. It was responded by the SWAP Assistant Director that completion of actions in a timely manner was encouraged but changing priorities sometimes meant target dates had to be revised.

The Committee resolved to note the recommendation in the report:

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

#### 48. **Summary of Level 1 and 2 Audit Actions Progress**

The Business Intelligence and Performance Manager introduced the report;

- Purpose of the report was to update on the level 1 and 2 audit actions at the end of October.
- There was one audit report where all the priority 1 and 2 actions had been completed since the last update to the Committee.
- Three audit actions had been completed since the last update in September. There were four audit actions overdue as at the end of October.
- Actions had a RAG status of Red, Amber or Green to show progress on each of them.

During the debate the following points were raised:

- It was asked what progress had been made with the health and safety action on members being involved in a new Health and Safety Committee. Officers responded that the Health and Safety Committee was made up of a combination of staff and UNISON members and that councillors were not expected to sit on the Health and Safety Committee.

The Committee resolved to note the recommendation in the report:

- 2.1 The Committee reviews the overdue actions contained in the report and notes progress to date.

#### 49. **Treasury Management 2021/22 Mid-Year Report**

The Corporate Finance Manager provided an introduction to the report:

- The CIPFA Code and Treasury Management Code were important for local authorities to follow. They required the Council to have a regular reporting structure on Treasury Management. There were forthcoming changes to these codes which were being initiated by the Department for Levelling Up, Housing and Communities. The government was becoming increasingly concerned about local authorities borrowing and investing in properties to generate yield.
- The report set out details on the Council's borrowing, investments and current performance against treasury and prudential indicators. Figures were all in line with indicators.
- The Council's bank account had exceeded the limit placed on it several times within the financial year. The limit was currently £600,000 and was put in place during the financial crisis. One of the recommendations of the report was that the Committee recommend to Full Council to increase this limit to £1.2m to prevent the limit being exceeded. This recommendation was supported by the Council's financial advisors.

During the debate the following points were raised:

- It was asked if the bank had agreed to increase the threshold to £1.2m and whether this would cost more to do. Officers responded that was an internal set limit and control mechanism so was not to do with the bank and so would not cost any more.
- It was asked if the new £1.2m limit was only to stop the limit being exceeded when money was paid in late rather than it being an aim to hold more money in the bank account. Officers confirmed this was correct.
- It was asked about paying off loans early. Officers responded that paying off loans early would result in penalty charges.
- It was asked if borrowing for less than 12 months was defined as short-term and borrowing for longer than 12 months was defined as long-term borrowing. Officers confirmed that was correct.

The Committee resolved to note the recommendations in the report:

- 2.1 To note the Treasury Management position as at 30th September 2021 and compliance with the Prudential Indicators.
- 2.2 To recommend to Full Council that an amendment (effective forthwith) be made to paragraph 5.16 of the Treasury Management Strategy, which was approved on 30 March 2021 as part of the report covering the Council's Capital, Investment and Treasury Strategies 2021/22 to 2025/26 (details of the amendment are set out in paragraph 6.56 of this report).

## 50. **External Auditor Appointment Procurement Process**

The Section 151 Officer introduced the report:

- The decision to opt in for external auditor appointment had to be made within a certain time period which was ahead of the new unitary authority being formed. Opting in must be done by resolution of Full Council by March 2022. It had been discussed with each of the other district councils and Somerset County Council's Section 151 officers and had been agreed that all existing authorities should submit to the PSSA and opt in for external auditor appointment. Officers had agreed that this was the most effective way to provide for the opportunity for the appointment of the external auditors for the new authority.

The Committee resolved to note the recommendations in the report:

- 2.1 The Council accepts Public Sector Audit Appointments' invitation to opt into the sector led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.
- 2.2 Delegate authority to the S151 Officer to sign the Notice of Acceptance of the invitation to opt in.
- 2.3 The Council notes that newly established local government bodies have the right to opt into PSAA's scheme under Regulation 10 of the Appointing Person Regulations 2015, which will enable the new unitary council (or its Shadow Council) to consider opting in to PSAA scheme or making alternative arrangements when legally constituted.

## 51. **Health and Safety Management System – Performance Framework and Improvement Programme**

The Assistant Director for Corporate introduced the report:

- It was raised that a number of improvements needed to health and safety had been identified by internal and external audits. Limited assurance was given by the recent internal audit report. Health and safety posed a significant corporate risk. Officers had worked to implement a clear governance strategy for health and safety.
- The first tier of governance was the Council's senior management team and councillors through the reports brought to the Audit and Governance Committee. The second tier was the corporate tier internally which was a tactical tier designed to capture and deliver actions. The third tier was an operational tier at the directorate level where each directorate sought to implement actions.
- There was a new health and safety scorecard with indicators to illustrate progress. Risk management and risk assessments were also being improved.
- It was raised that activity on Health and Safety had been separated into seven workstreams. Governance and Control was one of the workstreams. There were also workstreams on people, policy, contractor management, design management, business as usual health and safety and health and safety support systems.

- The new programme on health and safety had been running for a month and around eighty actions had been identified.
- The programme brief outlined the aims for strategic delivery and benefits. These included minimising and avoiding further accidents and incidents.

During the debate the following points were raised:

- Information was going to be extracted from systems and it was asked if as part of this the organisation would be divided into different risk categories and whether areas of work would be graded in terms of health and safety. Officers responded that areas would be given a RAG (Red, Amber, Green) status to prioritise the key areas of highest potential risk which would be addressed first.
- Continued reporting on Health and Safety was encouraged.

The committee resolved to note the recommendations:

- 2.1 The committee is asked to note and endorse:
- A) the H & S Performance Framework
  - B) the HSMS Improvement Programme - as the approach to improving the Health & Safety Management System and culture

## 52. **Changes to the Constitution**

The Governance Specialist introduced the report:

- It was raised that the purpose of this report was to update some of the wording and job titles in the Constitution to ensure the Council can work effectively and carry out its functions. The report had been drafted with the two deputy monitoring officers and with the involvement of officers from other areas within the Council such as planning.
- The changes included the threshold for key decisions being reduced to £500,000.
- The updates to the terms of reference of the Planning Committee included the insertion of the planning phosphates sub-committee into the constitution.
- The Council Procedure Rules had been updated with changes around procedures for substitutions and motions.
- Regulations and procedures for petitions, including e-petitions, had also been added. The report sought to amend the threshold for the number of signatures on a petition to be 1600 signatures, an increase from the current 200 signatures required, to align more closely with the surrounding districts.
- The reason for decreasing the key decision threshold was likewise to align with surrounding local authorities.
- It was proposed that there be some changes to the Contract and Financial Procedure Rules which reflected the legislation changes as a result of leaving the European Union.
- The Chairs of Scrutiny were briefed on the report this morning.
- The report would proceed to Full Council in February.

During the debate the following points were raised:

- Regarding the planning committee terms of reference and the criteria for a planning application being controversial, it was suggested that changing the need to have four individuals and also a member of one of the subsequent local authorities support the objection be changed so that the member was needed but more individuals, perhaps twelve, be needed to support the objection.
- It was suggested that for planning applications having a ward member or parish councillor and four individuals where it was contrary to the officer's recommendation worked well and that increasing the number needed to support above four would likely result in very few objections being brought to the Planning Committee by that method. Officers noted that in the next four months there would be a need to look at adding a section on planning to the new authority's constitution. The existing authorities would need to create this. Any further changes could therefore be looked at as part of that drafting process.
- A query was raised in relation to motions to Council and a motion previously made at Full Council. It was responded by officers that there would be a further discussion in the new year regarding how the proposed amendments to motions would have impacted previous events. This would be through a meeting with the group leaders and alternative amendment options would also be discussed.
- It was raised that inevitably as local government reorganisation moved towards the new unitary authority being formed, a county wide local plan would be needed and there would need to be a common set of standards created.
- It was questioned whether it was worthwhile changing the constitution now given the ongoing local government reorganisation.
- It was raised that these amendments to the Council's constitution were pragmatic amendments to get the Council safely to 2023.
- It was raised that the petition threshold being raised to be 1% of the population would not enable so many local issues to be raised and brought to the Council for consideration.

A motion was proposed by councillor Steve Pugsley and seconded by councillor Simon Coles that the committee accept all the proposed changes to the constitution contained within the report except for the proposed change to increase the number of signatures for a petition to be brought before the Council, with the number of required signatures to instead remain at 200. The report was to be edited at points 16.2 and 16.6 to reflect the signatures required remaining at 200.

The Committee resolved to carry the motion.

The Committee resolved to note the recommendation in the report with the amendment that the number of signatures required for a petition to be brought before the Council remained at 200:

- 2.1 Full Council resolves to accept the proposals from the Deputy Monitoring Officers (DMOs) and delegates to the DMOs the amendments to give effect to the proposals.

(The Meeting ended at 8.42 pm)

	<b>AUDIT AND GOVERNANCE COMMITTEE</b>	
<b>Meeting Date</b>	<b>Draft Agenda Items</b>	<b>Lead Officer</b>
<b>22 March 2022</b>	Update on the Annual Governance Statement Action Plan	Amy Tregellas
Report Deadline	H&S Update	Sean Papworth/Kate Lusty/Dan Webb
10 March 2022	Counter-Fraud Update Report	Amy Tregellas
<b>SPECIAL MEETING</b>	Local Code of Corporate Governance	Amy Tregellas
	Risk and Opportunity Management Strategy	Amy Tregellas
<b>13 June 2022</b>	External Audit - Progress Report	Grant Thornton LLP (Jackson Murray)
Report Deadline	External Audit Plan for 2021/22 Accounts	Grant Thornton LLP (Jackson Murray)
01 June 2022	External Audit Fees 2022/23	Paul Fitzgerald
	Internal Audit - Audit Plan 2021/22 Outturn	SWAP (Alastair Woodland)
	Internal Audit - Annual Audit Opinion 2021/22	SWAP (Alastair Woodland)
	Annual Governance Statement 2021/22 (Draft)	Amy Tregellas
	Summary of Level 1 and 2 Audit Actions Progress	Malcolm Riches
<b>U</b>	Landlord Compliance update	Ian Candlish
<b>12 September 2022</b>	External Audit - Progress Report	Grant Thornton LLP (Jackson Murray)
Report Deadline	Internal Audit - Progress Report 2022-23	SWAP (Alastair Woodland)
31 August 2022	Summary of Level 1 and 2 Audit Actions Progress	Malcolm Riches
	Treasury Management 2021/22 Annual Report and Q1 2022/23	John Dyson
	Local Government Ombudsman Summary of Complaints	Amy Tregellas
	Landlord Compliance Update	Ian Candlish
<b>TBC - September 2022</b>	External Audit Findings Report 2021/22	Grant Thornton LLP (Jackson Murray)
<b>SOA Special Meeting</b>	External Audit Auditor's Annual Report 2021/22	Grant Thornton LLP (Jackson Murray)
Report Deadline	Annual Governance Statement 2021/22 (Final)	Amy Tregellas
	Assessment of Going Concern Status	John Dyson
	Approval of Statement of Accounts 2021/22	John Dyson
<b>12 December 2022</b>	External Audit Progress Report and Sector Update	Grant Thornton LLP (Jackson Murray)
Report Deadline	Internal Audit - Progress Report 2022/23	SWAP (Alastair Woodland)
30 November 2022	Treasury Management 2022/23 Mid Year Review	John Dyson
	Counter-Fraud Update Report	Amy Tregellas
	Summary of Level 1 and 2 Audit Actions Progress	Malcolm Riches

	H&S Update	James Barrah
	Capital Investment and Treasury Strategy 2023/24	John Dyson
<b>13 March 2023</b>	External Audit Progress Report and Sector Update	Grant Thornton LLP (Jackson Murray)
Report Deadline	External Audit Plan 2022/23 Accounts	Grant Thornton LLP (Jackson Murray)
	External Audit Informing the Risk Assessment 2022/23	Grant Thornton LLP (Jackson Murray)
01 March 2023	Internal Audit - Progress Report 2022/23	SWAP (Alastair Woodland)
	Internal Audit - Audit Plan and Charter 2023/24	SWAP (Alastair Woodland)
	Summary of Level 1 and 2 Audit Actions Progress	Malcolm Riches
	H&S Update	James Barrah
	Landlord Compliance Report	Ian Candlish
	Audit and Governance Chair's Annual Report 2022/23	Chair of Committee



# **Somerset West and Taunton Council**

## **Audit and Governance Committee – 14 March 2022**

### **External Audit – Progress Report and Sector Update**

**This matter is the responsibility of Executive Councillor Henley, Corporate Resources**

**Report Author: John Dyson, Corporate Finance Manager**

#### **1 Executive Summary**

- 1.1 The attached report provides the Audit and Governance Committee with a progress update regarding the work of the external auditors, Grant Thornton, together with information relating to emerging issues relevant to the Council.

#### **2 Recommendations**

- 2.1 Members are requested to consider and note the Progress Report and Sector Update received from Grant Thornton.

#### **3 Background and Full details of the Report**

- 3.1 The Council's external audit function is undertaken by Grant Thornton. The external auditors, as part of their work, provide regular progress updates to Members via the Audit and Governance Committee together with updates in relation to emerging national issues which may be of relevance to the Council on the approach to preparing the annual Statement of Accounts.
- 3.2 The update report is set out in the Appendix.

#### **4 Links to Corporate Aims / Priorities**

- 4.1 This report links to the Council's aim of achieving financial stability.

#### **5 Finance / Resource Implications**

- 5.1 There are no direct material implications related to this report. The final Housing Benefits subsidy claim has been audited, although the Department for Work and Pensions has extended its enquires such that the claim could remain open until end March 2022.
- 5.2 The Auditor's report refers to the renewal of external audit contract progressing through the Public Sector Audit Appointments route (as reported to this Committee in December 2021). It is clear that the scope of audit has increased, requiring more audit work. Therefore, as reported in December, there is a risk that current external audit fee levels could increase when the current contract (covering the accounts for 2018/19 to 2022/23) ends. Updates will be provided by officers as they become available.

## 6 Legal Implications

- 6.1 The Local Audit and Accountability Act 2014 sets out the framework for audit of local authorities.

### Democratic Path:

- Audit and Governance Committee – 14 March 2022

**Reporting Frequency:** Twice yearly

### List of Appendices:

Appendix A	Somerset West and Taunton Audit Progress Report and Sector Update, March 2022
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# Somerset West and Taunton Council Audit Progress Report and Sector Update

Year ending 31 March 2022

March 2022  
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FRC report on Local Audit November 2021	07
Sector Update	09

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 as part of our audit planning process. 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.

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# Introduction

## Your key Grant Thornton team members are:

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This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a Council.

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk).

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at March 2022

## Financial Statements Audit

We issued our audit opinion on the 2020/21 financial statements on 30 September 2021 and we issued our 2020/21 Auditors Annual Report on 15 December 2021, both in accordance with the statutory timetable for the 2020/21 audit year. We can confirm that our final proposed fee for the 2020/21 audit, subject to PSAA approval, is £68,500.

We will undertake our initial planning and interim audit for the 2021/22 audit in March 2022. We intend to begin our work on your draft financial statements in July and are discussing with management an agreed date that the draft financial statements will be available.

The Accounts and Audit (Amendment) Regulations 2021 push back the date by which principal authorities need to publish their draft financial statements to 31 July at the latest. The target date by which authorities are required to publish audited financial statements for the 2021/22 financial year has been confirmed as 30 November 2022.

At the end of March or early April we anticipate issuing our detailed audit plan, setting out our proposed approach to the audit of the Council's 2021/22 financial statements. We have not been able to issue our plan at this Committee meeting due to on-going fee discussions with PSAA and a CIPFA Code consultation which potentially impacts the scope of our work.

## Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is no more than three months after the date of the opinion on the financial statements.

# Progress at March 2022 (cont.)

## Other areas

### Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2020/21 claim began in November. DWP extended the deadline for reporting the findings of this work to 28 February 2022. We completed our work ahead of this deadline and submitted our report to the DWP on 18 February 2022. The Department have since contacted the Council regarding cases tested which lacked evidence due it being deleted in line with the Council's GDPR policy. This evidence has been requested and is expected to be delivered before the end of March.

We also certify the Council's annual Pooling of Housing Capital receipts return in accordance with procedures agreed with the Ministry of Housing, Communities & Local Government. (MHCLG). The certification work for the 2020/21 return was completed on 4 February 2022, in advance of the required deadline.

### Meetings

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

## Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended one of our Financial Reporting Workshops in January and February 2022, which helps to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

# Audit Deliverables

2021/22 Deliverables	Planned Date	Status
<p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2021/22 financial statements and the Auditor's Annual Report on the Council's Value for Money arrangements.</p>	March/April 2022	As per page 4
<p><b>Interim Audit Findings</b></p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	June 2022	Not yet due
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the September Audit and Governance Committee.</p>	September 2022	Not yet due
<p><b>Auditors Report</b></p> <p>This includes the opinion on your financial statements.</p>	September 2022	Not yet due
<p><b>Auditor's Annual Report</b></p> <p>This Report communicates the key issues arising from our Value for Money work.</p>	TBC	TBC
2020/21 Audit-related Deliverables	Planned Date	Status
<p><b>Housing Benefit Subsidy – certification</b></p> <p>This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.</p>	28 February 2022 Extended to 31 March 2022	Completed initial report. Further work resulting from findings due at month end.
<p><b>Pooling of housing capital receipts - certification</b></p> <p>This is the report we submit to the Department for Levelling Up, Housing and Communities based upon the mandated agreed upon procedures we are required to perform.</p>	28 February 2022	Completed



# Financial Reporting Council annual report

On 29 October, the Financial Reporting Council (FRC) published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here:

[FRC AQR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Page 29  
Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our "Opinion" results over the past three years are shown in the table below:

Grade	Number 2020/21	Number 2019/20	Number 2018/19
Good with limited improvements (Grade 1 or 2)	6	1	1
Improvements required (Grade 3)	3	5	2
Significant improvements required (Grade 4)	0	0	1
Total	9	6	4

Our "VFM" results over the past two years are shown in the table below. The FRC did not review VFM in 2018/19:

Grade	Number 2020/21	Number 2019/20
Good with limited improvements (Grade 1 or 2)	6	6
Improvements required (Grade 3)	0	0
Significant improvements required (Grade 4)	0	0
Total	6	6

# FRC report (cont.)

## Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID-19, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

## Conclusion

Local audit plays a critical role in the way public sector audits and society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

# Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Audit and Governance Committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font.

Public Sector

A purple rectangular button with the text "Local government" in white, sans-serif font.

Local  
government

# Government response to MHCLG Select Committee report on Local Authority financial sustainability & the section 114 regime – MHCLG

Government has published a response to the Housing, Communities & Local Government (HCLG) Committee report on local authority financial sustainability and the section 114 regime, published in July 2021.

The HCLG report states “In recent years, the financial sustainability of local government has faced successive challenges, including increased demand for services, especially social care, changes to the level of funding equalisation between councils and, most recently, the COVID-19 pandemic. In some instances, councils have been in such acute financial trouble that they have approached the Ministry of Housing, Communities and Local Government for financial assistance; three of these—Northamptonshire in 2018, Croydon in late 2020 and Slough in July 2021—issued section 114 notices, essentially declaring they had run out of money. Our inquiry has sought to identify the most serious threats facing local councils’ finances. In light of the various factors we consider in the report, including the somewhat delayed Fairer Funding Review, renewed discussion about property taxes and the need to reform funding for social care, the time is right to consider a more radical review of local government finances—and our report makes various recommendations about how this should be done. We also consider what happened at Croydon—which prompted us to look at the section 114 regime—in the annex to our report.”

The report includes sections on:

- Social Care
- Funding
- COVID-19
- Local authority commercial investment
- Audit and control

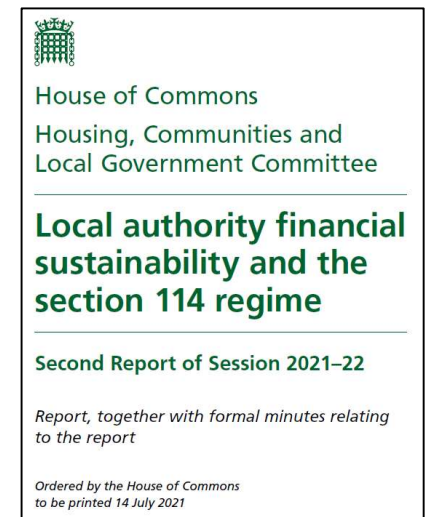
The report made 13 recommendations, and the Government response to these was published in October. The response notes “Moving forward, we will work to provide the sector with a sustainable financial footing, enabling it to deliver vital frontline service and support other government priorities. We will also take stock, including of the impact of the pandemic on local authority resources and service pressures, to determine any future reforms.”

The initial report can be found here:

<https://committees.parliament.uk/publications/6777/documents/72117/default/>

Government response can be found here:

<https://www.gov.uk/government/publications/local-authority-financial-sustainability-and-the-section-114-regime>



# Public Accounts Committee (PAC) – Local auditor reporting on local government in England & government response

The PAC inquiry examined the timeliness of auditor reporting on English local public bodies' financial statements covering 2019-20. The National Audit Office (NAO) report, on which this inquiry is based, found that “delays in the delivery of audit opinions beyond the deadlines for publishing local authority accounts, alongside concerns about audit quality and doubts over audit firms' willingness to continue to audit local public bodies, highlight that the situation needs urgent attention.”

The PAC report found “Without urgent action from government, the audit system for local authorities in England may soon reach breaking point. With approximately £100 billion of local government spending requiring audit each year, the Ministry of Housing, Communities & Local Government (the Department) has become increasingly complacent in its oversight of a local audit market now entirely reliant upon only eight firms, two of which are responsible for up to 70% of local authority audits. This has not been helped by the growing complexity of local authority accounts, with audit firms now asked to carry out more work in each audit, comply with new regulatory demands and adapt to the new multifaceted landscape in which local authorities operate, while also struggling to hire and retain experienced auditors.”

Key conclusions were:

- The marked decline in the timeliness of external audit undermines accountability and hampers effective decision-making.
- There is a pressing risk of market collapse due to an over reliance on a small number of audit firms and significant barriers to entry.
- The commercial attractiveness to audit firms of auditing local authorities has declined.

- The rapidly diminishing pool of suitably qualified and experienced staff increases the risks to the timely completion of quality audits.
- We are not convinced that the recently announced new local audit arrangements will meet the pressing need for effective system leadership now.
- Unless local authority accounts are useful, relevant and understandable they will not aid accountability.

The report made recommendations in each of these areas. The government response was published on 28 October.

The PAC report and response can be found here:

[Timeliness of local auditor reporting on local government in England - Committees - UK Parliament](#)



House of Commons  
Committee of Public Accounts

**Local auditor reporting on local government in England**

Eleventh Report of Session 2021–22

# 2020/21 audited accounts – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has reported that only 9% of local government audits for 2020/21 were completed by the end of September. This is a sharp contraction on the 45% filed on time for 2019-20, and is the third successive year where the number of accounts produced on schedule has reduced.

PSAA state “The challenges posed by COVID-19 have contributed to the current position. However, a range of further pressures documented in the Redmond Report are also continuing to impact performance. In particular there is a shortage of auditors with the knowledge and experience to deliver the required higher quality audits of statements of accounts, which increasingly reflect complex structures and transactions, within the timeframe expected. The growing backlog of audits is also a concern, with 70 of the 2019/20 audits still incomplete.”

Grant Thornton commented “Audit quality remains a priority for our firm and we continue to work hard with local audit stakeholders to ensure the delivery of high quality audits in as timely a fashion as is practicable. Unfortunately, much of this work will be delivered past the 30 September target date, owing to ongoing constraints posed by the COVID-19 pandemic and the backlog this has caused. We remain committed to public sector audit and are now focused on delivering the majority of our local audits by December 2021.”



The news article can be found here:

<https://www.psa.co.uk/2021/10/news-release-2020-21-audited-accounts-psaa/>

# 2023-24 audit appointments – Public Sector Audit Appointments

Following a consultation exercise Public Sector Audit Appointments (PSAA) has invited all principal local government including police and fire bodies to become opted-in authorities. At the same time it published its procurement strategy and prospectus for the national scheme from April 2023. Both documents have evolved in response to the feedback provided by the market engagement exercise and consultation on the draft prospectus undertaken during June 2021.

PSAA state “Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and

- establishing arrangements that are able to evolve in response to changes to the local audit framework.

PSAA set out the proposed timeline, which anticipates contracts being awarded in August 2022.



The news article can be found here:

<https://www.psa.co.uk/2021/09/psaa-publishes-its-prospectus-and-procurement-strategy-and-invites-eligible-bodies-to-opt-in-from-april-2023/>

The procurement strategy can be found here:

<https://www.psa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/procurement-strategy/>



# Guide to support Value for Money (VfM) analysis for public managers – CIPFA

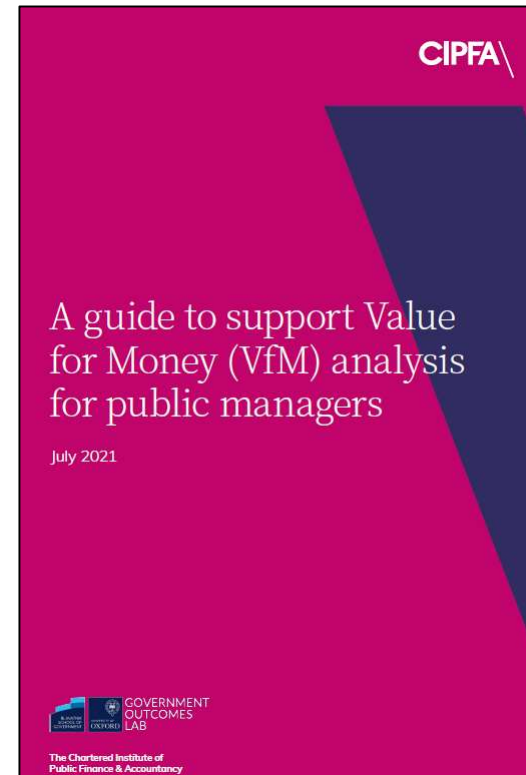
The Chartered Institute of Public Finance and Accountancy (CIPFA) has published this guide which complements a VfM toolkit which has been published separately. Both were developed under a collaborative project between Government Outcomes Lab (GO Lab) and CIPFA.

CIPFA state “The guide is aimed at public managers planning to assess Value for Money (VfM) of outcomes-based contract (OBC) programmes, or any other type of programme with an outcome-focus, using prospective information. This involves assessing economic validity of the programme with respect to ‘doing nothing’ as well as the closest comparator.”

CIPFA explain that the guide:

- Describes what VfM represents in public provision of social services with a special focus on outcome-based contracts (OBCs). In particular the guide emphasises the link between economy and effectiveness criteria.
- Promotes thinking about longer-term effects of interventions, such as outcomes and impact, at the design/ planning stage of programmes. This means that having a good appreciation for efficiency is helpful but not necessary, especially when outcomes are both identifiable and measurable.
- Explain how it could be used to appraise public programmes with respect to anticipated costs and value of them using prospective information.

The guide is available to CIPFA members through the website.





# Climate change risk: A good practice guide for Audit and Risk Assurance Committees – NAO

The National Audit Office (NAO) has published this guide to help Audit and Governance Committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.

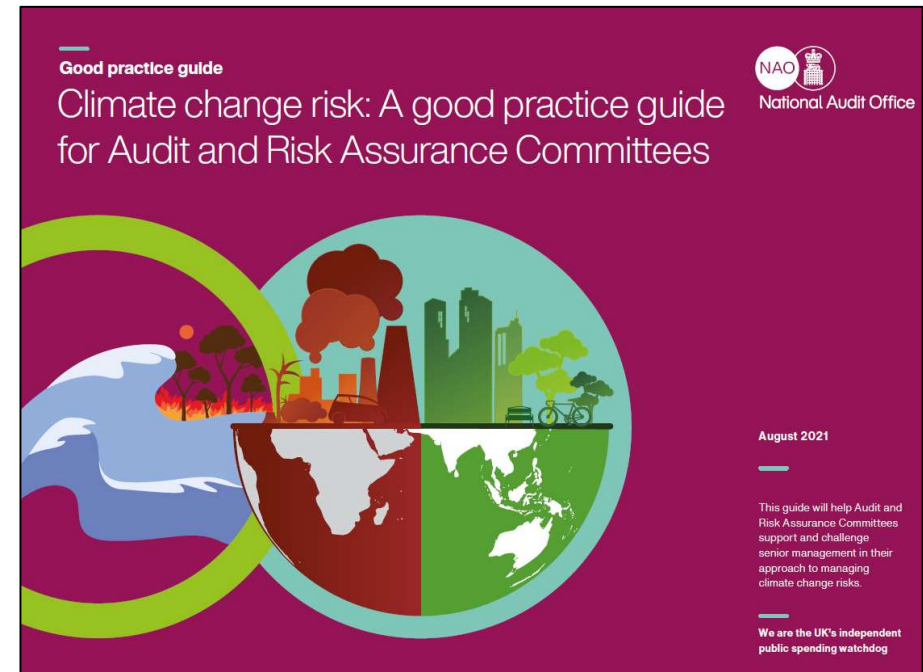
The NAO comment “Audit and Risk Assurance Committees (ARACs) play a key role in supporting and advising the board and Accounting Officer in their responsibilities over risk management.

This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks. We have outlined specific reporting requirements that currently apply.

Our primary audience is ARAC chairs of bodies that we audit, but the principles of the guide will be relevant for bodies across the wider public sector. It promotes good practice and should not be viewed as mandatory guidance.

Climate change and the nature of its impacts on organisations globally is changing rapidly. This guide acknowledges the evolving nature of climate change and its associated risks and opportunities and will be refreshed in the future to reflect those changes.”

The guide includes sections on “How to support and challenge management”. This includes sections on governance and leadership; collaboration; risk identification and assessment; risk treatment, monitoring and reporting and continual improvement. There is also a “Complete list of questions that Audit and Risk Assurance Committees can ask” for each of these areas. The guide also includes “Key guidance and good practice materials” with links.



The report can be found here:

[Climate change risk: A good practice guide for Audit and Risk Assurance Committees - National Audit Office \(NAO\) Report](#)

# Local government and net zero in England – NAO

The National Audit Office (NAO) report responds to a request from the Environmental Audit and Governance Committee to examine local government and net zero. It considers how effectively central government and local authorities in England are collaborating on net zero, in particular to:

- clarify the role of local authorities in contributing to the UK's statutory net zero target; and
- ensure local authorities have the right resources and skills for net zero.

The NAO comment “While the exact scale and nature of local authorities’ roles and responsibilities in reaching the UK’s national net zero target are to be decided, it is already clear that they have an important part to play, as a result of the sector’s powers and responsibilities for waste, local transport and social housing, and through their influence in local communities. Government departments have supported local authority work related to net zero through targeted support and funding. However, there are serious weaknesses in central government’s approach to working with local authorities on decarbonisation, stemming from a lack of clarity over local authorities’ overall roles, piecemeal funding, and diffuse accountabilities. This hampers local authorities’ ability to plan effectively for the long-term, build skills and capacity, and prioritise effort. It creates significant risks to value for money as spending is likely to increase quickly.

MHCLG, BEIS and other departments recognise these challenges and are taking steps to improve their approach. Their progress has understandably been slowed by the COVID-19 pandemic, but there is now great urgency to the development of a more coherent approach.”

Key findings include:

- Central government has not yet developed with local authorities any overall expectations about their roles in achieving the national net zero target.
- There is little consistency in local authorities’ reporting on net zero, which makes it difficult to get an overall picture of what local authorities have achieved.
- Neither MHCLG nor HM Treasury has assessed the totality of funding that central government provides to local government that is linked with net zero.

The report can be found here:

<https://www.nao.org.uk/report/local-government-and-net-zero-in-england/>



# Cyber and information security: Good practice guide – NAO

The National Audit Office (NAO) has published this guide to help Audit and Governance Committees scrutinise cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for Audit and Governance Committees to consider.

The NAO state “Audit and Governance Committees should gain the appropriate assurance for the critical management and control of cyber security and information risk.

Cyber security is the activity required to protect an organisation’s data, devices, networks and software from unintended or unauthorised access, change or destruction via the internet or other communications systems or technologies. Effective cyber security relies on people and management of processes as well as technical controls.

Our guide supports Audit and Governance Committees to work through this complexity, being able to understand and question the management of cyber security and information risk.

It takes into account several changes which affect the way in which we interact with and manage our information and can drive increased risk. These include changes to the way we work and live due to the COVID-19 pandemic and the ongoing demand to digitise and move to cloud-based services.

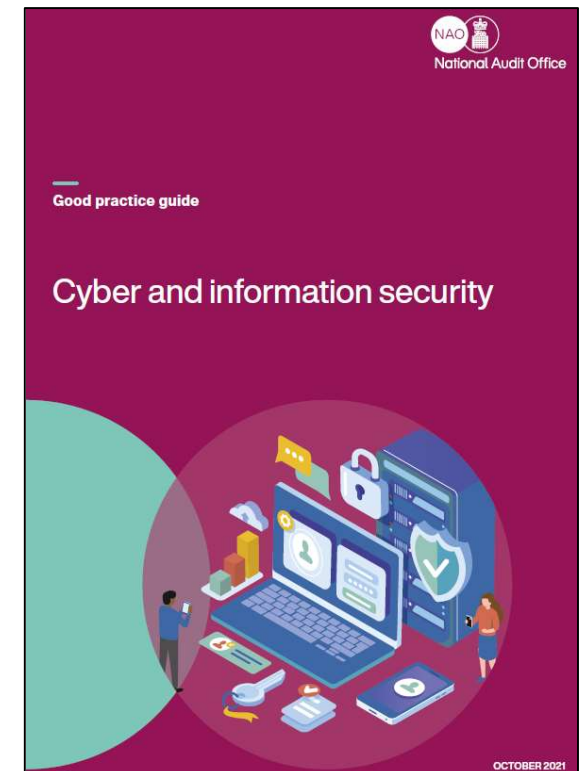
The strategic advice, guidance and support provided by government has also been updated to keep pace with these changes, detailing the impact and risks on the management of cyber security and information risk.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management
- Capability needed to manage cyber security
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management.”

The report can be found here:

<https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/>





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*Report Number: SWT 31/22*

## **Somerset West and Taunton Council**

### **Audit and Governance Committee – 14 March 2022**

#### **External Auditor Risk Assessment 2021/22 – ISA240 Inquiries of Management**

**This matter is the responsibility of Executive Councillor Ross Henley, Corporate Resources**

**Report Author: John Dyson, Corporate Finance Manager**

#### **1 Executive Summary / Purpose of the Report**

1.1 Grant Thornton LLP is the Council's appointed auditor responsible for the audit of the accounts for the periods 2019/20 through to 2022/23. As part of the preparation for the 2021/22 audit, Grant Thornton has followed its risk assessment procedures to obtain an understanding of management processes in several areas. This report shares the information provided by the Council's management to help inform this risk assessment.

#### **2 Recommendations**

2.1 The Committee notes the information provided to Grant Thornton LLP to inform their risk assessment in advance of the 2021/22 audit, and considers whether the responses are consistent with its understanding and whether there are any further comments it wishes to make.

#### **3 Risk Assessment**

3.1 This report informs the risk assessment undertaken by Grant Thornton LLP in preparation for the audit of the Council's 2021/22 annual accounts.

#### **4 Background and Full details of the Report**

4.1 Grant Thornton LLP is the Council's appointed auditor responsible for the audit of the accounts for the periods 2019/20 through to 2022/23.

4.2 As part of their preparation for the 2021/22 audit, Grant Thornton LLP has followed its risk assessment procedures to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud

- Laws and Regulations
- Related Parties
- Going Concern
- Accounting Estimates

4.3 This report shares the information provided by the Council’s management to help inform this risk assessment.

4.4 The Committee is requested to review the information provided and consider whether this is consistent with its understanding. The Committee may also consider whether there are any other comments it wishes to make to inform the risk assessment undertaken by Grant Thornton LLP.

## 5 Links to Corporate Strategy

5.1 This relates to the Council’s financial reporting and audit statutory duties and is not directly related to the Corporate Strategy.

## 6 Finance / Resource Implications

6.1 None.

## 7 Legal Implications

7.1 The audit is conducted in line with the requirements of the Local Audit and Accountability Act 2014.

### Democratic Path:

- **Audit and Governance Committee – 14 March 2022**

**Reporting Frequency: Annual**

### List of Appendices:

Appendix A	Grant Thornton – Informing the audit risk assessment for Somerset West and Taunton Council 2021/22
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# Informing the audit risk assessment for Somerset West and Taunton Council 2021/22

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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 as part of our audit process. 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 your business or any 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.



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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Somerset West and Taunton Council's external auditors and Somerset West and Taunton Council's Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee under auditing standards.

## Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Governance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports the Audit and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management;
- Fraud;
- Laws and Regulations;
- Related Parties;
- Going Concern; and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from Somerset West and Taunton Council's management. The Audit and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>The Council's investment in Commercial Properties concluded in December 2021. Total investment since April 2020 £99million. New borrowing to support this, as well as borrowing to finance the mainstream capital programme, will result in an increase in both long-term and short-term borrowing at the Balance Sheet date.</p> <p>Deficit on Collection Fund abnormally high due to COVID BR reliefs, and S31 accounting timing differences.</p> <p>The Local Government Review of Somerset councils will result in combining all the councils' activities into one unitary Somerset Council. Although this has no direct impact on the Statement of Accounts and transactions contained therein, it is a factor that may indirectly impact and will be referenced in the Narrative Statement.</p> <p>Covid continues to represent a challenge in many areas of the Council's activities, working methods and programmes of work.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Somerset West and Taunton Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Accounting policies are under review. No significant changes anticipated to be made.</p> <p>IFRS 16 will be incorporated into 2022/23 policies for the financial statements, subject to the outcome of CIPFA emergency consultation.</p> <p>Some minor changes made in the accounting policies for 2020/21 continue to be adopted, notably in relation to inventory assets because of the material increase in values stemming from a new local residential and commercial property development.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>The Council has used a range of financial instruments including treasury investments and borrowing. No derivatives have been used.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>Yes. Significant transactions and balances continue to be managed in respect the Government's COVID grants and reliefs.</p> <p>In 2021/22 the Council continued with its commercial property investment strategy, which commenced in 2020/21 as a significant growth item. The total cumulative sum invested is £99million. Management of the properties is now embedded within the normal course of business. Whilst the resulting income generation forms a part of the Council's budget financing, sums are put aside as contingency reserves and to protect the Council's financial stability. Financing the investment programme has required a substantial increase in borrowing (both internal and external borrowing). The results will impact on the closing Balance sheet.</p>

# General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	The non-current asset valuations have commenced and are currently being undertaken by Wilkes, Head and Eve based on Instructions by SWT. Final assessment on impairment will be made at the Balance Sheet date. There are no changes of circumstances that would lead to a substantial impairment of non-current assets.
6. Are you aware of any guarantee contracts? If so, please provide further details	The Council provides a guarantee to SWAP (South West Audit Partnership) in respect of local government pension fund deficit related to former SWT (its predecessors') employees. The Council also provides a guarantee in respect of local government pension fund deficit related to former staff employed within SWP (Somerset Waste Partnership) and its contracts. Neither separately nor jointly do these guarantees reach materiality.
7. Are you aware of the existence of loss contingencies and /or un-asserted claims that may affect the financial statements? If so, please provide further details.	There are no quantifiable instances regarded as material at the time of writing. Any further update on material issues will be included within the Council's draft Statement of Accounts as a Contingent Liability.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Somerset West and Taunton Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Somerset West and Taunton has no in-house solicitors. There is an inter-authority agreement for the provision of a shared legal service ("SHAPE") hosted by Mendip DC.  In the normal course of its business, the Council has engaged other solicitors. A full schedule of these will be provided to Grant Thornton in April covering the whole of the reporting period as part of the audit working papers.

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# General Enquiries of Management

Question	Management response
<p>9. Have any of the Somerset West and Taunton Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p>	<p>No.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>In the normal course of its business, the Council has engaged the services of advisors during 2020/21. A full schedule of these will be available at the conclusion of this financial year and provided to Grant Thornton in April covering the whole of the reporting period as part of the audit working papers.</p>
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>Expected credit losses on investments held by SWTC, on aggregate, are not regarded to be material. The portfolio of investments held by SWTC are not held for trading. Whilst we hold pooled fund investments, we are electing to hold as fair value through profit and loss.</p>

# Fraud

## Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management. Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Somerset West and Taunton Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- Assessment that the financial statements could be materially misstated due to fraud;
- process for identifying and responding to risks of fraud, including any identified specific risks;
- communication with the Audit and Governance Committee regarding its processes for identifying and responding to risks of fraud; and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Somerset West and Taunton Council's management.

# Fraud risk assessment

Question	Management response
<p>1. Has Somerset West and Taunton Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>The Council places reliance on its Financial Procedure Rules, technical training of officers preparing the financial statements and on internal controls and audit functions to minimise the risk of fraud and error. The risk of material misstatement is considered to be low.</p> <p>Key decision reports and financial reports incorporate risk assessments including financial risks. In the event that any fraud and error losses occurred, these would be reflected in the reported income and expenditure for the authority, and material losses reflected in budget monitoring reports as well as being reported to Audit and Governance Committee.</p> <p>The annual Risk and Opportunity Management Strategy is considered by the Council's Audit and Governance Committee in March. This Committee also receives the Council's financial accounts for approval.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>A fraud prevention and detection service is operated in partnership with Powys Council, which includes transactional areas assessed as higher risk.</p> <p>Examples of risk areas include Right to Buy house sales, benefit payments, Council Tax discounts.</p> <p>The issuing of COVID grants is an area of temporary fraud risk impacting on government monies passed through the Council, with government controls and levels of assurance built into the grants' processes.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Somerset West and Taunton Council as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>No material fraud or errors identified.</p>



## Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Whilst having continually reported on fraud risks as part of its function, the Internal Audit (SWAP) has engendered a new Fraud Risk Assessment into its reporting process in 2021/22. In June and September 2021, SWAP conducted and reported on a Baseline Assessment of Maturity in relation to Fraud.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Somerset West and Taunton Council where fraud is more likely to occur?</p>	<p>As reported by SWAT at the Audit and Governance Committee meeting of 13 September 2021, we are unable to provide specific details of the Council's fraud risks in a public document because of the risk of any of the Council's vulnerabilities being exploited.</p> <p>There are known areas of risk, and these are managed through the operation of appropriate controls as well as targeted reviews through internal audit and counter-fraud processes. A number of areas are reviewed each year. Specific higher risk locations have not been identified.</p> <p>In common with risks faced by all local councils, the impact of COVID introduced new, potentially significant, risks relating to the grants received and administered as principal or agent. These risks related to those potentially receiving the grant and those administering / determining them. Pre- and post-payment assurance measures have been implemented to minimise the risk of fraud and error whilst recognising the urgency required for the issue of financial support those in the local community facing disadvantage.</p>
<p>6. What processes do Somerset West and Taunton Council have in place to identify and respond to risks of fraud?</p>	<p>The Council's Anti-Fraud Framework was presented to the AGS (Audit, Governance and Standards) Committee and the Executive in April 2021. This included updates to the Anti-Fraud and Anti-Corruption Strategy, Anti-Bribery Policy, Anti-Money Laundering Policy and the Whistleblowing Policy.</p> <p>The Council maintains a corporate risk register, allocating responsibilities for each recorded risk.</p>

# Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Somerset West and Taunton Council, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>A proportionate approach has been adopted to the internal control environment. Some risk is justifiably accepted (e.g. where the cost of a control far-outweighs potential risk of aggregate minor losses). Whilst the Council adapted to organisational changes under the previous council merger in 2019, these instances are being reduced as new controls and competencies develop. Wrap around controls are in operation such as exception reports to provide management assurance that controls are not being bypassed or manipulated.</p> <p>The Internal Audit Annual Opinion was reported in June 2021 covering the previous year's audits. It reported that "There is generally a 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."</p> <p>There is an action plan within the Annual Governance Statement (AGS) identifying areas where controls need to be strengthened and the Audit and Governance Committee keeps this under review. The next AGS is due for consideration by the Audit and Governance Committee in June 2022.</p> <p>Key controls are being reviewed as part of the 2021/22 Internal Audit Plan (presented in March 2021), with completed actions and improvements leading to improved assurance opinions from the Internal Auditor to date. The completion of actions in response to audit recommendations is overseen by Directors with quarterly reports presented to the SMT Performance Board for review. Progress in addressing higher priority (1 and 2) actions is also reported to the Audit and Governance Committee on a quarterly basis.</p> <p>Staff and customers may report suspected fraud via the Council's website.</p> <p>There are no known or expected areas where there is potential for override of controls or influence over financial reporting.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>Controls in place should mitigate any risk of misreporting.</p>

# Fraud risk assessment

Question	Management response
<p>9. How does Somerset West and Taunton Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>The Council operates within a governance framework that includes a range of policies and Codes of Conduct, including Whistleblowing Policy and Anti-Fraud and Corruption Policy. Staff work within a behaviours framework, and conduct and performance matters are covered in team/line management arrangements.</p> <p>Fraud reporting is available on the website, and staff can raise concerns with their managers or report directly to the fraud team.</p> <p>Whilst it is an inherent part of an officer's role to remain alert to and report instances of potential losses, fraud and harm that may impact the Council, a whistle blowing mechanism is in place to compliment this. Officers working in areas of potential fraud risk may report concerns through chains of command.</p> <p>No significant issues have been reported, to date, in 2021/22.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Officers forming part of the Council's Treasury Management team are considered to fall into this category. However, there are strong protective components in place to protect against fraud and corruption. These controls involve multi-layered approval and authorisation of transactions, prompt daily recording of transactions, separation of duties and very regular (weekly) rotation of duties. Only professionally qualified finance staff perform these duties.</p> <p>Other posts across the Council could conceivably present fraud and corruption risks, although the hierarchy of authorisation and separation of duties required for monetary transactions, as well as control mechanisms included within the Financial Procedures, protect against risk.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>There are no areas of particular potential interest at present.</p> <p>Related party transactions are disclosed in the accounts in accordance with accounting standard FRS8. Elected Members and officers with a position of significant influence (e.g. CEO / Directors / S151 Officer) are required to complete the register of interests and also complete a related parties return annually for the annual accounts reporting process. Whilst there were instances of these returns not having been submitted in relation to 2020/21, the methodology for 2021/22 is to be substantially tightened.</p> <p>Relevant Codes are in place and communicated. Staff have employment contracts and are supported with access to relevant policies and training.</p>

## Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?</p> <p>How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Governance Manager / Monitoring Officer has a standing agenda item to update the Audit and Governance Committee on governance matters.</p> <p>The Internal Auditor reports on a quarterly basis on delivery of the audit plan and will highlight significant fraud issues or risks identified. The External Auditor reports their findings and opinion in respect of the annual accounts and arrangements for securing value for money.</p> <p>Fraud risk has received a higher profile during 2020/21 and 2021/22, leading to reports to Audit and Governance Committee, Members of which have given close attention to reported outcomes.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Yes, a small number of whistle blowing cases have been made and followed up in line with policy.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>None identified.</p>

# Law and regulations

## Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Governance Committee, is responsible for ensuring that Somerset West and Taunton Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Somerset West and Taunton Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>The Constitution sets out our legal and procedural framework and includes the Financial Procedure Rules and Contract Procedure Rules. There is an Officer Scheme of Delegation which means that the appropriate level of professional officer ensures that all relevant laws and regulations are complied with.</p> <p>Statutory post of the Monitoring Officer – who is able to report to Members any areas where she feels laws and regulations aren't complied with if appropriate. Both MO and S151 Officer had access to SMT during 2020/21, and are now formal members of SMT from August 2020, to give professional advice as required. The Council uses SHAPE Legal, a shared service based at Mendip DC. All Committee reports contain a section on Legal implications and reports now have to be discussed and signed off by SMT before going forward through the democratic process. Professionally qualified officers ensure that all relevant laws and regulations are followed. Job Descriptions and Person Specifications specify requirements to ensure recruitment and selection of appropriately qualified professional officers.</p> <p>We are not aware of any changes to the regulatory environment that may have a significant impact on the financial statements.</p>
<p>2. How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The AGS Committee receives reports on matters such as compliance and health &amp; safety, with higher risk areas included on the Internal Audit Plan. The Monitoring Officer regularly provides the Committee with an update on governance/legal matters.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>Not aware of any.</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>No.</p>

## Impact of laws and regulations

Question	Management response
5. What arrangements does Somerset West and Taunton Council have in place to identify, evaluate and account for litigation or claims?	Any litigation claims that are received should be passed on to SHAPE Legal for evaluation and for appropriate action to be instigated.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	None have been brought to our attention.

# Related Parties

## Matters in relation to Related Parties

Somerset West and Taunton Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Somerset West and Taunton Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.



## Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Somerset West and Taunton Council's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>• the nature of the relationship between these related parties and Somerset West and Taunton Council</li> <li>• whether Somerset West and Taunton Council has entered into or plans to enter into any transactions with these related parties</li> </ul> <p>the type and purpose of these transactions</p>	No.
<p>2. What controls does Somerset West and Taunton Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The identification of related party situations has been a regular part of the final accounts processes, requiring formal documentation to be completed. In preparation for the 2021/22 accounts, guidance notes will accompany the formal documentation and transactions reported reconciled with the financial systems. In order to ensure better engagement and submission of returns, a higher profile is to be given to the process. Meanwhile, Members are also required to disclose interests in line with the Member Code of Conduct, with such interests publicly disclosed.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Somerset Waste Partnership – SWT has members on the Board and officers on the Senior Management Group, with Business Plan approved by partner authorities. Separation of duties is embedded in financial processes, and also the requirement to disclose interests as described above.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Controls contained within the Financial Procedures apply to all transactions. In relation to the acquisition of Commercial Properties during 2021/22, financing of the portfolio is controlled in accordance with the Council's wider Treasury Management Strategy, whilst activities are overseen by the Commercial Investment Board. This area of operation does not form an instance of related party transactions.</p>

# Going Concern

## Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis of accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

# Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Somerset West and Taunton Council will no longer continue?</p>	<p>As a principal local authority, any English local council has to operate within a highly legislated and controlled environment. An example of this is the requirement for councils to set a balanced budget each year combined with the legal requirement for Council to have regard to such matters as the robustness of budget estimates and the adequacy of reserves. In addition to the legal framework and extensive controls imposed by Central Government, there are other regulatory factors. For example, the independent role undertaken by the External Auditor in assessing a council's financial controls, providing an opinion on a council's annual accounts, as well as reviewing governance arrangements and arrangements to ensure effective use of resources</p>
<p>2. Are management aware of any factors which may mean for Somerset West and Taunton Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>On 31 March 2023, Somerset West and Taunton Council will transfer its services and functions to the new Somerset Unitary Council. Whilst substantial planning work is required before that time to formulate how the new council will function, there is no intention that service provision will change; this particularly applies to statutory services. Elections due in May 2022 will, however, identify the political profile of the new authority. That will, in due course, determine the direction of travel for the new Unitary Council and its priorities. Meanwhile, at the time of writing, funding mechanisms will remain unaffected by the formation of the new authority, subject to formulation by the central government and its respective departments.</p>
<p>3. With regard to the statutory services currently provided by Somerset West and Taunton Council, does Somerset West and Taunton Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Somerset West and Taunton Council to cease to exist?</p>	<p>This is covered by item 2, above.</p>
<p>4. Are management satisfied that the financial reporting framework permits Somerset West and Taunton Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes. The amalgamating authorities are developing plans for the continuation of financial reporting. However, in all aspects of determining Somerset West and Taunton Council strategies, these are prepared with a perspective that the Council's services, operations and structure would continue in its current form.</p>

# Accounting estimates

## Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit and Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	None. Finance officers are working with the auditor to set out suitable description of material judgements and estimates through the new ISA540 Overview Analysis requirements.
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	There is no separate process relating solely to accounting estimates. The risk management process considers and manages both strategic and operational risks. The key element to this is the performance management framework. We also have separate approval for journal transactions in excess of £50k. We have qualified accountants preparing accounts and giving advice to management/ budget holders, and we have internal and external auditors to provide assurance on controls, reporting and performance. The Finance team attend workshops and training events that inform them of new processes and financial accounting requirements.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	<p>Through the performance management framework. This is a comprehensive process that underpins, facilitates and enables the strategic and operational delivery of the Council's Plan. Any changes to key accounting estimates are a consequence of actions in relation to this.</p> <p>We ensure any accounting estimates lead to accounts that provide a true and fair view. We therefore subscribe to CIPFA publications to access up to date Codes, Guidance and other relevant regulatory guidance; we subscribe to CIPFA's Financial Advisory Network and CIPFA's Technical Information Service (TIS Online); we monitor other updates such as CIPFA LAAP Bulletins and CIPFA e-bulletins; the Council's treasury management advisory firm, Arlingclose, issues local authority technical guidance and training; and we use relevant expertise such as LG Futures. The finance team uses these and other measures to ensure knowledge and awareness is up to date.</p>
4. How do management review the outcomes of previous accounting estimates?	This occurs during the compilation and circulation of budget monitoring across all departments and to senior management team; review also occurs as part of the Outturn Report and the Statement of Accounts.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No.

## Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>The relevant expertise is identified and applied as required in all cases. Where there is a viable need to buy in specialised skills or knowledge then this is implemented. Examples are: the Council contracts to use suitably qualified RICS Valuers to undertake PPE Valuations (currently Wilkes, Head and Eve); Internal Audit is bought in using the SWAP (South West Audit Partnership); and Treasury Management expertise comes from Arlingclose. On the advice of Somerset County Council, Actuaries (Barnett Waddingham) provide expertise to value pension fund assets and liabilities, following relevant regulations and Codes, for disclosure in SWTC accounts.</p>
<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The Council applies the control activities relevant to the particular accounting estimate, and in line with the Council's performance management framework.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Most elements of the performance management framework are linked in to either monthly or quarterly monitoring.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<p>The answer to this question depends on the accounting estimate involved. Finance officers work with the external auditor to set out suitable description of material judgements and estimates through the new ISA540 Overview Analysis requirements. Responsibility for approving the Statement of Accounts as presenting a true and fair view sits with the S151 Officer, who must be a professionally qualified accountant.</p>

# Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No.
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Many of the items presented are technical and entail assessment by suitably qualified professionals (examples include the assessment of assets, their valuations, useful life and impairments, as well as determining pensions valuations and assessing pension fund assets and liabilities). The Council appoints suitably-qualified professionals to undertake this assessment and estimation work as part of its programme of preparing its financial accounts. Any aspects of estimation that are carried out in-house (for example estimating year-end accruals) are reviewed by suitably qualified staff (such as valuers and professional accountants) who take into account the materiality of any potential error, and by management.
12. How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Through the reports which go to that Committee. The Forward Plan identifies a comprehensive schedule including items from areas such as Finance, Governance, Internal Audit, and External Audit. The S151 Officer is professionally qualified and certifies the accounts as giving a true and fair view, and the external auditor provides his professional opinion on the same through reports to those charged with governance.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant and equipment valuations	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	Review within WHE and by SWT – qualified Valuer, and Finance Consistent asset lives applied to each asset category.	Yes. Valuations made by independent (external), RICS qualified professionals in Wilkes, Head and Eve (WHE).	As stated in the Accounting Policies e.g. Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	Not usually, and will be stated if has happened
Estimated remaining useful lives of PPE	Depends on the asset – per Accounting Policy	See above	See above	See above	See above
Depreciation and amortisation	Depends on the asset – per Accounting Policy	See above	See above	See above	See above
Impairments	Depends on the asset – per Accounting Policy	See above	See above	See above	See above



## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	Financial instruments are valued at fair value based on the advice of external treasury consultants and investment fund managers.	All financial instruments are reviewed at year end and advice taken from professional advisors.	Yes	Instruments are valued on an individual basis with advice from treasury management professionals and investment fund managers.	No
Provisions for liabilities	Provisions are made whenever an event takes place that give the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefit or service potential, and a reliable estimate can be made of the amount.	Each provision is separately reviewed by financial accountants and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No
Bad Debt Provision / expected credit losses	Debts are reviewed monthly and any debts that are deemed to be irrecoverable are written off to the Comprehensive Income and Expenditure Account.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts, with accounting valuations agreed by a qualified accountant.	N/A	N/A	No
Accruals	We use standard accruals accounting.	Monthly management accounts provide rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A.	Accruals for income and expenditure have been principally based on known values. Where accruals have been estimated, the latest available information has been used.	No

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non Adjusting events – events after the balance sheet date	These are identified as the Statement of Accounts is compiled by: Conversation with SMT during Outturn report derivation; and Networking with other S151 officers (Somerset, nationally)	Performance Management Framework	Probably not, given these are non adjusting events.	Does the event have the scope to create a significant, if not necessarily material (by definition), change in the Council's financial position.	No
Defined benefit pension amounts and disclosures	Staff are members of the LGPS, administered by Somerset County. Report from the Actuary satisfies IAS19.	Rely on the calculations made by the actuary.  Challenge any unusual movements or assumptions with the actuary.	The actuary of the Pension scheme.	Reliance on the expertise of the actuaries of the pension scheme. In 2020/21 the Council has opted to use the assumptions suggested by the actuary. This is a change from 2019/20 when a different salary assumption was used. Valuations have been requested later, at and on 31 March 2021, to avoid estimation uncertainty.	Yes
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Barnett Waddingham. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Council responds to queries raised by the administering body.	The Council are provided with an actuarial report by Barnett Waddingham (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No





Report Number: SWT 32/22

## **Somerset West and Taunton Council**

### **Audit and Governance Committee – 14 March 2022**

#### **External Audit – Audit Plan 2021/22**

**This matter is the responsibility of Executive Councillor Henley, Corporate Resources**

**Report Author: John Dyson, Corporate Finance Manager**

#### **1 Executive Summary**

- 1.1 This report introduces the External Audit Plan for 2021/22. The Plan is prepared by the Council's external auditors, Grant Thornton, ahead of the financial year-end (31 March).
- 1.2 The purpose of the Plan is to summarise the approach to the 2021/22 audit programme together with the audit view on risk and materiality.
- 1.3 A verbal report on the Plan will be provided by the Audit Director, covering all known aspects of the Plan ahead of it being issued.

#### **2 Recommendations**

- 2.1 Members are requested to:
  - consider and note the External Auditor's verbal presentation,
  - delegate receipt and consideration of the final Audit Plan for 2021/22 to the Assistant Director – Finance (S151 Officer) and to the Chair and Vice Chair of this Committee, prior to it being presented to the June meeting of this Committee.

#### **3 Background and key detail of the Report**

- 3.1 Each year our external auditors, Grant Thornton, provide a plan which details their approach to the audit work required in respect of the preceding financial year (2021/22). Specifically, this audit work focuses on the provision of an audit opinion in relation to the accounts, value for money (VFM) and associated key risks.
- 3.2 Due to issues beyond the control of the local GT audit team, this year's Plan will not be available for this meeting of the Audit and Governance Committee. Instead, a verbal report will be provided to this meeting by the Audit Director, covering all aspects of the Plan that are available for consideration.

#### **4 Links to Corporate Aims / Priorities**

- 4.1 This report links to the Council's aim of achieving financial stability.

## 5 Finance / Resource Implications

- 5.1 Upon its receipt, we can expect the Audit Plan to set out the external auditors' view on key risk areas for the Council and their approach to auditing them.
- 5.2 Included within the Plan would normally be an indication of the audit fees proposed to be charged by Grant Thornton for the main audit. This would then be compared with the scale fee set through the 5-year contract procured via Public Sector Auditor Appointments (PSAA), covering accounts for the years 2018/19 to 2022/23. Allowance may also need to be made for variations to the delivery of the audit or scope of work this year, creating a risk of a further increase in fees proposed by Grant Thornton. For example, failure to provide a full set of working papers or evidence to a standard acceptable to the Auditor, and/ or any delay in response to audit queries could further result in additional fees being requested.
- 5.3 Officers have already determined a detailed Closedown Plan for the Council's own work required to prepare for the Statement of Accounts, the audit process and audit enquires that will follow. Across the entire Council, both Officers and, to some extent Members, will need to prioritise activities related to the Closedown Plan and the audit, completing stages on a timely basis. This will ensure the audit can be completed on time and will minimise the risk of additional fees and/ or collision with other Council work plans. Meanwhile, there has been a growing trend of increasing the scope of audit testing that adhere to regulations and audit standards. This will inevitably cost the Council more in officer time and focus both in the Finance Service and across other departments of the Council. The dynamic nature of the annual audit process means that it is not possible to quantify the impact at this stage. This may, however, detract resources from other discretionary priorities as officers prepare for and support the delivery of the audit this year.

## 6 Legal Implications

- 6.1 The Local Audit and Accountability Act 2014 sets out the framework for audit of local authorities.

### Democratic Path:

- Audit and Governance Committee – 14 March 2022
- Follow-up report (recommended) to Audit and Governance Committee – 13 June 2022

**Reporting Frequency:** Annually

### Contact Officers

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Report Number: SWT 33/22

## **Somerset West and Taunton**

### **Audit and Governance Committee – 14 March 2022**

#### **SWAP Internal Audit – Progress Report 2021-22 Internal Audit Plan**

**This matter is the responsibility of Executive Councillor Ross Henley**

**Report Author: Alastair Woodland, Assistant Director, SWAP**

#### **1 Executive Summary / Purpose of the Report**

- 1.1 The Internal Audit function plays a central role in corporate governance by providing assurance to the Audit, Governance and Standards Committee, looking over financial controls and checking on the probity of the organisation.
- 1.2 The 2021-22 Annual Internal Audit Plan is to provide independent and objective assurance on SWT Internal Control Environment. This work will support the Annual Governance Statement.

#### **2 Recommendations**

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

#### **3 Risk Assessment (if appropriate)**

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

#### **4 Background and Full details of the Report**

- 4.1 This report summarises the work of the Council's Internal Audit Service and provides:
  - Details of any new significant weaknesses identified during internal audit work completed since the last report to the committee in December 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.
- 4.2 The Internal Audit Progress Report for 2021-22 is contained within the attached SWAP

Report.

**5 Links to Corporate Strategy**

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

**6 Finance / Resource Implications**

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

**7 Legal Implications (if any)**

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

**8 Climate and Sustainability Implications (if any)**

8.1 There are no direct implications from this report.

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

9.1 There are no direct implications from this report.

**10 Equality and Diversity Implications (if any)**

10.1 There are no direct implications from this report.

**11 Social Value Implications (if any)**

11.1 There are no direct implications from this report.

**12 Partnership Implications (if any)**

12.1 There are no direct implications from this report.

**13 Health and Wellbeing Implications (if any)**

13.1 There are no direct implications from this report.

**14 Asset Management Implications (if any)**

14.1 There are no direct implications from this report.

**15 Data Protection Implications (if any)**

15.1 There are no direct implications from this report.

**16 Consultation Implications (if any)**

16.1 There are no direct implications from this report.

**17 Scrutiny Comments / Recommendation(s) (if any)**



N/A

**Democratic Path:**

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

**Reporting Frequency: Quarterly**

**List of Appendices (delete if not applicable)**

Appendix A	SWAP Internal Audit - Progress Report 2021-22
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# Somerset West and Taunton

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# Internal Audit Plan Progress 2021-22

## 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 Somerset West and Taunton Council is provided by SWAP Internal Audit Services 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, Governance and Standards 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 Leadership Team. The 2021-22 Audit Plan was reported to the Audit, Governance and Standards Committee and approved 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

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 in **Appendix A**.

The following table summarised Audits finalised since the previous update in December 2021.

Audit Area	Opinion
Council Tax & Business Rates	Reasonable
GDPR	Reasonable
Housing Benefit	Reasonable
<b>New:</b> Civica System Parameter Testing	Advisory

## 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'.

There are no significant (High) corporate risks identified through our work since your previous update in December.



## Summary of Work Completed – Limited or No Assurance Opinions

No audits have received a Limited or No Assurance Opinion since our last update.

# 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 performance results for Somerset West and Taunton 2021-22 are currently:

Performance Target	Target Year End	Average Performance
<p><b><u>Audit Plan – Percentage Progress</u></b>                      Final, Draft and Discussion                      In progress                      Yet to complete</p>	>90%	68% 21% 11%
<p><b><u>Quality of Audit Work</u></b>                      Customer Satisfaction Questionnaire</p>	>95%	100%
<p><b><u>Outcomes from Audit Work</u></b>                      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%	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. Audit Plans are undertaken on a rolling quarterly basis.



## Approved Changes to the Plan

The audit plan for 2021/22 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to Somerset West and Taunton Council. Our rolling plans are agreed with the Senior Leadership Team quarterly from the list of unscheduled audit areas (brought to this Committee in March 2021) that constitutes the rolling Audit Plan. Members of the Audit Committee are welcome to identify area where they need assurance for priority work.

Revised Audit Plan	Agreed Change
<b>NEW:</b> Regeneration Projects - Governance	Added as a Q4 priority from rolling plan
<b>NEW:</b> Stores	Added as a Q4 priority from rolling plan
<b>NEW:</b> Staff Retention	Added as a Q4 priority from rolling plan
<b>NEW:</b> Civica Parameter Testing	Added as a Q4 priority from rolling plan
<b>NEW:</b> Unitary Preparedness – lessons learnt	Added to support work in relation to LGR
<b>NEW:</b> Procurement Cards	Added as a Q4 priority from rolling plan

Assurance Definitions	
<b>No</b>	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.
<b>Limited</b>	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.
<b>Reasonable</b>	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.
<b>Substantial</b>	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.
<b>Non-Opinion/Advisory</b>	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
<b>High</b>	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
<b>Medium</b>	Issues which should be addressed by management in their areas of responsibility.
<b>Low</b>	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:	
<b>Priority 1</b>	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
<b>Priority 2</b>	Important findings that need to be resolved by management.
<b>Priority 3</b>	Finding that requires attention.

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
<b>FINAL</b>									
Assurance	Commercial Investment	1	Final	Substantial	2	0	0	2	
Assurance	Health and Safety	1	Final	Limited	11	0	3	8	Reported September 2021
Assurance	North Taunton Woolaway Regeneration	1	Final	Substantial	0	0	0	0	
Advisory	Fraud Risk Assessment	2	Final	Advisory	0	0	0	0	
Follow Up	DLO External Work – Income Follow Up	2	Final	Advisory (follow up)	0	0	0	0	Reported December 2021
Assurance	Open Contractor – Revised Grounds Maintenance Arrangements	2	Final	Reasonable	3	0	0	3	
Assurance	Performance Management	2	Final	Substantial	3	0	0	3	
Assurance	Risk Management	2	Final	Reasonable	6	0	2	4	
Assurance - ICT	Data Centre Review	2	Final	Limited	7	0	5	2	Reported December 2021
Advisory	Exploratory Work – Tenancy	3	Final	Advisory	0	0	0	0	
Follow Up	Procurement Follow-Up	2	Final	Advisory (follow up)	5	0	4	1	Reported December 2021

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Assurance	Data Protection Compliance (GDPR)	1	Final	Reasonable	5	-	2	3	
Assurance	Housing Benefit	3	Final	Reasonable	2	-	-	2	
Assurance	Council Tax & Business Rates	3	Final	Reasonable	3	-	-	3	
Advisory	<b>NEW:</b> Civica Parameter Testing	4	Final	Advisory	0	0	0	0	
<b>DRAFT</b>									
Assurance	Post payment assurance on COVID-19 grants (ARG & Restart)	3	Draft	Advisory					
Assurance	Business Improvement – Tracking benefits	2	Draft	Advisory					
Advisory	Carbon Net Zero	3	Draft	Advisory					
Follow Up	Ethical Governance and Culture	3	Drafting	Follow Up					
<b>IN PROGRESS</b>									
Assurance	<b>NEW:</b> Procurement Cards	4	In Progress						
Assurance - ICT	ICT Security Policy & Awareness Audit	2	In Progress						

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Assurance	Housing Rents	3	In Progress						
Assurance - ICT	Incident Management	4	In Progress						
Advisory	<b>NEW:</b> Unitary Preparedness – lessons learnt	4	In Progress						
Advisory	Open Contractor – Revised Housing Arrangements	4	In Progress						
<b>NOT STARTED</b>									
Assurance	<b>NEW:</b> Regeneration Projects - Governance	4							
Assurance	<b>NEW:</b> Stores	4	Scoping						
Assurance	<b>NEW:</b> Staff Retention	4	Scoping						

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*Report Number: SWT 34/22*

## **Somerset West and Taunton Council**

### **Audit and Governance Committee – 14 March 2022**

#### **SWAP Internal Audit – 2022-23 Internal Audit Plan and Internal Audit Charter**

**This matter is the responsibility of Executive Councillor Ross Henley**

**Report Author: Alastair Woodland, Assistant Director, SWAP**

#### **1 Executive Summary / Purpose of the Report**

- 1.1 This report introduces the Internal Audit Plan for 2022/23 and also incorporates an 'Internal Audit Charter' which sets out the operational relationship between Somerset West and Taunton (SWT) and the South West Audit Partnership (SWAP).
- 1.2 This is a flexible plan that may be amended during the year to deal with shifts in priorities or new and emerging risks. The following plan has the support of the Section 151 Officer and has been approved by the Senior Management Team.

#### **2 Recommendations**

- 2.1 Members are requested to approve the Internal Audit Plan for 2022/23.
- 2.2 Members are requested to approve the Internal Audit Charter.

#### **3 Risk Assessment (if appropriate)**

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

## Risk Matrix

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

## Risk Scoring Matrix

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

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

## 4 Background and Full details of the Report

- 4.1 The Internal Audit service for Somerset West and Taunton is delivered by SWAP.
- 4.2 The internal audit plan for 2022/23 is set out in the attached report from SWAP. I am satisfied that this plan is focussed on key risks areas and will help me provide Somerset West and Taunton Council with assurance on governance, risk and internal controls.



- 4.3 This has been discussed and supported by the Council's Senior Management Team and is now shared with Members for approval.

### **Internal Audit Charter**

- 4.4 The internal audit service provided by the SWAP, works to a Charter that defines its roles and responsibilities and the roles and responsibilities of the Council's managers as they relate to internal audit. Best practice in corporate governance requires that the Charter be reviewed and approved annually by the relevant Committee.

## **5 Links to Corporate Strategy**

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

## **6 Finance / Resource Implications**

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

## **7 Legal Implications (if any)**

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

## **8 Climate and Sustainability Implications (if any)**

- 8.1 There are no direct implications from this report.

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

- 9.1 There are no direct implications from this report.

## **10 Equality and Diversity Implications (if any)**

- 10.1 There are no direct implications from this report.

## **11 Social Value Implications (if any)**

- 11.1 There are no direct implications from this report.

## **12 Partnership Implications (if any)**

- 12.1 There are no direct implications from this report.

## **13 Health and Wellbeing Implications (if any)**

- 13.1 There are no direct implications from this report.

## **14 Asset Management Implications (if any)**

14.1 There are no direct implications from this report.

**15 Data Protection Implications** (if any)

15.1 There are no direct implications from this report.

**16 Consultation Implications** (if any)

16.1 There are no direct implications from this report.

**17 Scrutiny Comments / Recommendation(s)** (if any)

N/A

**Democratic Path:**

- **Corporate Governance and Standards Committees – Yes**
- **Cabinet/Executive – No**
- **Full Council – No**

**Reporting Frequency: Quarterly**

**List of Appendices (delete if not applicable)**

Appendix A	SWAP Internal Audit – 2022-23 Internal Audit Plan & Charter
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**Contact Officers**

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# Somerset West and Taunton Council

## Proposed 2022-23 Internal Audit Plan and Internal Audit Charter

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# The Internal Audit Plan: Summary

The internal audit plan represents a summary of the proposed audit coverage that the internal audit team will deliver throughout the 2022/23 financial year.

Delivery of an internal audit programme of work that provides sufficient and appropriate coverage, will enable us to provide a well-informed and comprehensive year-end annual internal audit opinion.

## Introduction and Objective of the Internal Audit Plan

Internal audit provides an independent and objective opinion on the Authority's risk management, governance, and control environment by evaluating its effectiveness.

Prior to the start of each financial year, SWAP, in conjunction with senior management, put together a proposed plan of audit work. The objective of our planning process and subsequent plan is to put us in a position to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.

The outcomes of each of the audits in our planned programme of work, will provide senior management and Members with assurance that the current risks faced by the Authority in these areas are adequately controlled and managed.

It should be noted that internal audit is only one source of assurance, and the outcomes of internal audit reviews should be considered alongside other sources, as part of the 'three lines of defence' assurance model. Key findings from our internal audit work should also be considered in conjunction with completion of the Authority's Annual Governance Statement (AGS).

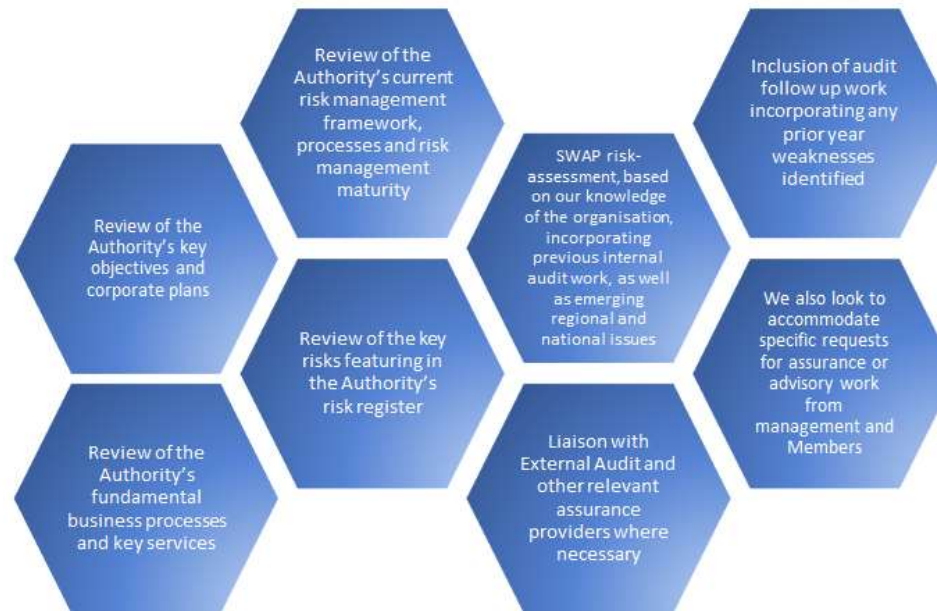
It is the responsibility of the Authority's Senior Management Team and the Audit and Governance Committee, to confirm that the audit coverage contained within the proposed audit plan is sufficient and appropriate in providing independent assurance against the key risks faced by the organisation.

# The Internal Audit Plan: Approach

To develop an appropriate risk-based audit plan, SWAP have consulted with senior management, as well as reviewing key documentation, in order to obtain an understanding of the organisation's strategies, key business objectives, associated risks, and risk management processes. This year, we have also engaged discussions with lead officers on the Unitary Transition Process to ensure suitable assurances are included within the Audit Plan.

## Approach to Internal Audit Planning 2022/23

The factors considered in putting together the 2022/23 internal audit plan have been set out below:



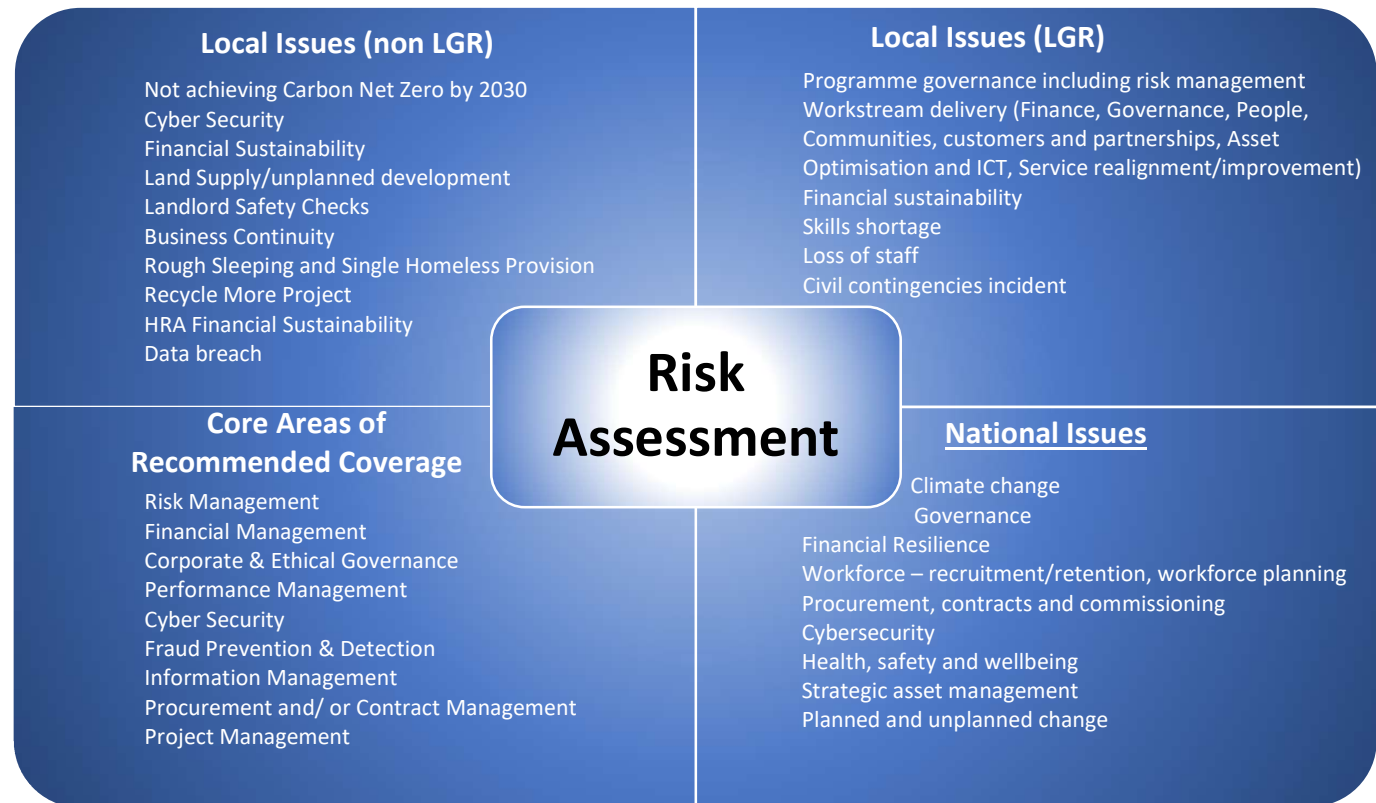
Due to the change within Local Authorities, and additional on-going challenges to deliver the Local Government Reorganisation (LGR), it is becoming increasingly difficult to accurately predict longer-term key organisational risks. Our approach to delivering your internal audit plan will remain flexible to meet that change and respond to new and emerging risks. We will adopt an 'agile rolling plan' approach and each quarter priorities will be assessed continuously in conjunction with Senior Management. Members of the Governance and Audit Committee are welcome to share thoughts of priorities areas for Assurance work.

# The Internal Audit Plan: Risk Assessment

A documented risk assessment prior to developing an internal audit plan, ensures that sufficient and appropriate areas are identified for consideration.

## Internal Audit Annual Risk Assessment

Our 2022/23 internal audit programme of work is based on a documented risk assessment, which SWAP will re-visit regularly. The risk assessment includes coverage against SWT Corporate Risks and Priorities and the wider SWAP top 10 risk themes and Healthy Organisation areas. Below we have set out a summary of the outcomes of the risk assessment for Somerset West and Taunton Council:



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# The Internal Audit Plan: Risk Assessment

Following our SWAP Risk Assessment above, we have set out how the proposed 2022/23 quarter 1 plan presented in Appendix A provides coverage of the Authority's key corporate objectives and risks, as well as our core areas of recommended audit coverage.

Internal audit is only one source of assurance and should be considered in this context.

## Internal Audit Coverage in 2022/23

Our aim is to produce an agile, risk-assessed work plan, containing key areas of coverage. For 2022/23 it therefore follows that LGR will need to be a key driver of audit work. Given the rapid pace of change to vesting day and beyond we recognise that the IA plan needs to be more flexible than ever before. This means that instead of agreeing an annual plan we are going to move to a quarterly one.

We already maintain a rolling plan that is continually updated as new areas of work are agreed. New audits are risk assessed and added to the rolling plan meaning lower risk audits roll back to be delivered at a point in the future. The rolling plan will be the basis of each quarterly plan, with audits agreed with Senior Management according to risk.

A huge amount of LGR development work is needed ahead of vesting day across the six workstreams that are now operating. Initial meetings have already been held with workstream leads to explore potential areas of audit involvement. The IA plan includes the allocation of resource across these workstreams to provide support across the year as required. It is expected that this will be achieved through a combination of assurance and advisory work.

The quarterly planning approach means that the 2022/23 audit plan is flexible to respond to new and emerging risks as and when they are identified. We have set out the proposed quarter 1 plan in **Appendix A** and the current rolling plan in **Appendix B**. As well as the inclusion of LGR related work there is coverage of the Authority's revised corporate objectives and strategic risks, as well as our core areas of recommended audit activity.

Internal audit coverage can never be absolute and responsibility for risk management, governance and internal control arrangements will always remain fully with management. As such, internal audit cannot provide complete assurance over any area, and equally cannot provide any guarantee against material errors, loss or fraud.



# The Internal Audit Plan: SWAP

SWAP Internal Audit Services is a public sector, not-for-profit partnership, owned by the public sector partners that it serves. The SWAP Partnership now includes 25 public sector partners, providing services throughout the UK.

As a company, SWAP has adopted the following values, which we ask our clients to assess us against following every piece of work that we do:

- Candid
- Relevant
- Inclusive
- Innovative
- Dedicated

## Your Internal Audit Service

### **Conformance with Public Sector Internal Audit Standards**

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Every three years, SWAP is subject to an External Quality Assessment of Internal Audit Activity. The last of these was carried out in February 2020 which confirmed conformance with the Public Sector Internal Audit Standards. An annual self-assessment process confirms ongoing compliance.

### **Conflicts of Interest**

We are not aware of any conflicts of interest within Somerset West and Taunton Council that would present an impairment to our independence or objectivity. Furthermore, we are satisfied that we will conform with our IIA Code of Ethics in relation to Integrity, Objectivity, Confidentiality, & Competency.

### **Consultancy Engagements**

As part of our internal audit service, we may accept proposed consultancy engagements, based on the engagement's potential to improve management of risk, add value and improve the organisation's operations. Consultancy work that is accepted, will contribute to our annual opinion and will be included in our plan of work.

### **Approach to Fraud**

Internal audit may assess the adequacy of the arrangements to prevent and detect irregularities, fraud and corruption. We have dedicated counter fraud resource available to undertake specific investigations if required. However, the primary responsibility for preventing and detecting corruption, fraud and irregularities rests with management who should institute adequate systems of internal control, including clear objectives, segregation of duties and proper authorisation procedures.

### **Internal Audit Charter**

The nature, role, responsibility, status and authority of internal auditing within Somerset West and Taunton and an outline of the scope of internal audit work is provided in the Charter at **Appendix C**.



# The Internal Audit Plan: Approach

Over and above our internal audit service delivery, SWAP will look to add value throughout the year wherever possible. This will include:

- Benchmarking and sharing of best-practice between our public-sector Partners
- Regular newsletters and bulletins containing emerging issues and significant risks identified across the SWAP partnership
- Communication of fraud alerts received both regionally and nationally
- Member training sessions

## Our Reporting

A summary of internal audit activity will be reported quarterly to senior management and the Audit Committee. This reporting will include any significant risk and control issues (including fraud risks), governance issues and other matters that require the attention of senior management and/or the Audit Committee. We will also report any response from management to a risk we have highlighted that, in our view, may be unacceptable to the organisation.

## Internal Audit Performance:

As part of our regular reporting to senior management and the Audit Committee, we will report on internal audit performance. The following performance targets will be used to measure the performance of our audit activity:

Performance Measure	Performance Target
<p style="text-align: center;"><b><u>Delivery of Annual Internal Audit Plan</u></b> Completed at year end</p>	>90%
<p style="text-align: center;"><b><u>Quality of Audit Work</u></b> Overall Client Satisfaction <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i></p>	>95%
<p style="text-align: center;"><b><u>Outcomes from Audit Work</u></b> 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%

*It should be noted that the audit titles and high-level scopes included below are only indicative at this stage for planning our resources. At the start of each audit, an initial discussion will be held to agree the specific terms of reference for the piece of work, which includes the objective and scope for the review.*

## Quarter 1

Audit Name	Areas of Coverage and Brief scope	Agreed Quarter	Link to Corporate Outcome	Healthy Organisation Theme	Link to Corporate Risk Register/Directorate Risk Register (If applicable)
Income Collection	<i>Review of controls around main income areas to ensure completeness and accuracy of income collection and fraud risks minimised. Areas include, but not limited, fees and charges, car parking, business rates, council tax, commercial income.</i>	1	<i>A transparent and customer focused council</i>	<i>Financial Management</i>	<i>Financial Sustainability - Income Vulnerability</i>
S106 Exacom	<i>Review of S106 Income and reconciliation between Exacom and E5 to provide assurance records and figures are accurate.</i>	1	<i>A transparent and customer focused council</i>	<i>Financial Management</i>	<i>N/A</i>
Homelessness	<i>Review to look at compliance to the Homelessness Prevention Act.</i>	1	<i>Homes and Communities</i>	<i>N/A</i>	<i>Rough Sleeping and Single Homeless Provision</i>
Cyber Security	<i>Increased risk area given world events.</i>	1	<i>A transparent and customer focused council</i>	<i>Information Management</i>	<i>Cyber Security</i>
Baseline of Maturity for Fraud Risk	<i>Follow Up on the previous assessment to see progress being made on agreed actions. Will also include summarising all 5 Somerset Authorities processes together to take forward for the unitary service design.</i>	1	<i>A transparent and customer focused council</i>	<i>Corporate Governance</i>	<i>N/A</i>

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Audit Name	Areas of Coverage and Brief scope	Agreed Quarter	Link to Corporate Outcome	Healthy Organisation Theme	Link to Corporate Risk Register/Directorate Risk Register (If applicable)
Local Government Reorganisation (LGR)	LGR Workstreams: <ul style="list-style-type: none"> <li>• Finance</li> <li>• Governance</li> <li>• People</li> <li>• Communities, Customers and Partners</li> <li>• Asset and ICT Optimisation</li> <li>• Service Realignment/Improvement</li> </ul> Audit Support to be provided across all workstreams. Advisory and Assurance work will be agreed throughout the year. This includes risk management, business continuity planning.	1-4	<i>A transparent and customer focused council</i>	<i>Programme &amp; Project Management</i>	<i>Unitary Council</i>
Advice and Support	<ul style="list-style-type: none"> <li>• Audit Advice and Planning including Head of Internal Audit role.</li> <li>• Committee Reporting and attendance at other corporate meetings.</li> </ul>	1-4			

These reviews form part of our rolling plan for 2022/23. The plan will continue to be added to as the year progresses to reflect current organisational risks, particularly those associated with LGR. Ahead of each quarter a risk assessment will be undertaken to determine the priority areas to include in the plan.

Audit Name	Areas of Coverage and Brief scope	Link to Corporate Outcome	Link to Corporate Risk Register	Healthy Organisation Theme
Creditors Controls and Quarterly Analytics	Reasonable 2020-21 - No review 2021-22	<i>A transparent and customer focused council</i>	-	Financial Management
Debtor Controls and Quarterly Analytics	Reasonable 2020-21 - No review 2021-22	<i>A transparent and customer focused council</i>	Financial Sustainability - Income Vulnerability	Financial Management
Debt Management/Holding Accounts/Suspense clearance	<i>Review of holding accounts/suspense and old debts to see progress being made to clear old entries.</i>	<i>A transparent and customer focused council</i>	Financial Sustainability - Income Vulnerability	Financial Management
Payroll	Reasonable 2020-21 - No review 2021-22	<i>A transparent and customer focused council</i>	-	Financial Management
Main Accounting & bank reconciliation	Reasonable 2020-21 - No review 2021-22	<i>A transparent and customer focused council</i>	-	Financial Management
Treasury Management	Partial 2019-20 -follow up in 2020-21	<i>A transparent and customer focused council</i>	Financial Sustainability - Income Vulnerability	Financial Management
Housing Rents	2021-22 WIP - Annual review on rent set.	<i>Homes and Communities</i>	HRA Financial Sustainability	Financial Management
Council Tax & NDR	Reasonable 2021-22 - key income collection controls covered under Income Collection Audit.	<i>A transparent and customer focused council</i>	-	Financial Management

Audit Name	Areas of Coverage and Brief scope	Link to Corporate Outcome	Link to Corporate Risk Register	Healthy Organisation Theme
Housing Benefits	Reasonable 2021-22	<i>A transparent and customer focused council</i>	-	Financial Management
Health & Safety Follow Up	Follow up of 2021-22 Audit	<i>A transparent and customer focused council</i>	-	People & Asset Management
SWT Close Down	Support arrangements for closing down the Authority ready for 31 March 2023.	N/A	-	Programme & Project Management
Data Centre Follow Up	Covered under Cyber Security	<i>A transparent and customer focused council</i>	Cyber Security	Information Management
Open Housing System	Review of data quality within the Open Housing System.	<i>Homes and Community</i>	HRA Financial Sustainability	Programme & Project Management
Asset Management	Would need to tie in with wider discussion around Unitary Requirements	<i>An Enterprising Council</i>	-	People & Asset Management
Commercial Property Management	Review of Commercial Properties to ensure income on track and landlord requirements being fulfilled.	<i>An Enterprising Council</i>	Financial Sustainability - Income Vulnerability	People & Asset Management
Climate Change Strategy	Progress and performance against the Climate Emergency Plan.	<i>Our Environment and Economy</i>	Not Achieving Carbon Net Zero by 2030	Programme & Project Management
Landlord Safety Checks	Rolling programme of assurance; Gas, Fire, Asbestos, legionella, electrical compliance.	<i>Homes and Community</i>	Landlord safety checks	People & Asset Management

Audit Name	Areas of Coverage and Brief scope	Link to Corporate Outcome	Link to Corporate Risk Register	Healthy Organisation Theme
Information Management	Potential areas: data storage (electronic and paper) information governance, roles responsibilities, data classification and management, compliance with DPA, FOI.	<i>A transparent and customer focused council</i>	Data breach with paper records	Information Management
Firepool Regeneration	Review of governance arrangements and delivery of this key strategic project.	<i>Our Environment and Economy; Homes and Communities</i>	Our Environment and Economy	Programme & Project Management
Voluntary Sector Engagement	<i>To examine how well the local authority is engaging with the voluntary and community sector to increase civic participation.</i>	<i>Homes and Communities</i>	-	Corporate Governance
Remote Working	Review to look at staff welling aspects as well as security (GDPR, homes devices, open networks, etc.) aspects.	<i>A transparent and customer focused council</i>	-	People & Asset Management
Partnerships	Review of partnership arrangements overall (governance) or selected strategic on-going partnerships.	<i>A transparent and customer focused council</i>	-	Corporate Governance
Supply Chains and Third-Party Risk	Modern Slavery Act compliance and review of key supplier Resilience within the current climate.	<i>A transparent and customer focused council</i>	-	Procurement and Contract Management
Related Party Disclosures	To ensure all related part disclosures are made in accordance with the requirements for the financial statements.	<i>A transparent and customer focused council</i>	-	Corporate Governance
Council's Response to energy crisis	Council's response for supporting residents, improving energy efficiency and energy sourcing. Audits around Homeless prevention, discretionary benefits, decent homes standards would support this area.	<i>Our Environment and Economy</i>	-	-

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2

### **Purpose**

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within Somerset West and Taunton Council, and to outline the scope of internal audit work.

### **Approval**

This Charter is based on the previously approved Charter that was last reviewed by Somerset West and Taunton Council's Audit and Governance Committee<sup>1</sup> in March 2021.

### **Provision of Internal Audit Services**

The internal audit service is provided by the SWAP Internal Audit Services (SWAP). This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment which is reviewed each year by the S151 Officer in consultation with the Chief Executive of SWAP.

### **Role of Internal Audit**

The Accounts and Audit (England) Regulations 2015, state that: *"A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance."*

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### **Responsibilities of Management, Audit Governance Committee and of Internal Audit**

#### **Management<sup>2</sup>**

Management is responsible for ensuring SWAP has:

- the support of management and the Council;
- direct access and freedom to report to senior management, including the Council's Chief Executive and the Audit and Governance Committee; and
- Notification of suspected or detected fraud, corruption or impropriety.

Management is responsible for establishing (including the tracking and implementation of Internal Audit recommendations) and maintaining internal controls, including proper accounting records and other management information and is also responsible for the appropriate and effective management of risk.

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<sup>2</sup> In this instance Management refers to the Senior Management Team and Statutory Officers.

### **Audit and Governance Committee<sup>3</sup>**

The Audit and Governance Committee is responsible for approving the scope of internal audit work, receiving communications from the SWAP Assistant Director (as Head of Internal Audit<sup>4</sup>) on the progress of work undertaken, reviewing the independence, objectivity, performance, professionalism and effectiveness of the Internal Audit function, and obtaining reassurance from the SWAP Assistant Director as to whether there are any limitations on scope or resources.

### **Internal Audit**

The SWAP Assistant Director is responsible for determining the scope, except where specified by statute, of internal audit work and for recommending the action to be taken on the outcome of, or findings from, their work designed to provide assurance and add value.

Internal audit is responsible for operating under the policies established by management in line with best practice. A range of SWAP policies exist to underpin staff and service development, including to seek out and implement new innovative audit techniques and increase technological solutions to ensure provision of an efficient and effective service and consolidate the role of Trusted Advisor.

Internal audit is responsible for conducting its work in accordance with the mandatory elements of the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. SWAP has been independently assessed and found to conform with the Standards.

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for the organisation will not be asked to review any aspects of their previous department's work until a minimum of one year has elapsed.

### **Relationship with the External Auditors/Other Regulatory Bodies**

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

### **Status of Internal Audit in the Organisation**

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

The Chief Executive for SWAP and Assistant Director also report to the Section 151 Officer, and report to the Audit and Governance Committee as set out below.

The Assistant Director will be the first and primary point of contact for Somerset West and Taunton for all matters relating to the Audit and Governance Committee, including the provision of periodic reports, as per company policy. The Assistant Director is also responsible for the design, development and delivery of audit plans, subject to the agreement of the Council.

### **Scope and authority of Internal Audit work**

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<sup>3</sup> In this instance Audit and Governance Committee relates to "The Board" referred to in the PSIAS

<sup>4</sup> PSIAS refers to the 'chief audit executive'.



There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of Somerset West and Taunton Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information used for operational and strategic decision making, and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management and communication of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the organisation and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the organisation is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned, with performance and accountabilities established.
- reviewing the operations of the organisation in support of their anti-fraud and corruption policy, ethical expectations and corporate values (and investigating where necessary) ethical expectations and corporate, social and environmental values and responsibilities; and.
- at the specific request of management, internal audit may provide consultancy services (including e.g. data analytics, benchmarking, strategic/project reviews/investigations etc) provided:
  - the internal auditor's independence is not compromised
  - the internal audit service has the necessary skills to conduct the assignment, or can obtain such skills without undue cost or delay
  - the scope of the consultancy assignment is clearly defined and management can resource the work.

Management understand that the work being undertaken is not internal audit work although the outcomes may contribute to the annual opinion.

### Planning and Reporting

SWAP will submit an internal audit plan to Management and the Audit Committee for approval, setting out the recommended scope of work and which will be developed with reference to current and emerging risks. The plan will be reviewed on a quarterly basis to ensure it remains relevant and adequately resourced.

SWAP will carry out the work as agreed, report the outcomes and findings both during and on completion of reviews, and make recommendations on action to be taken to the appropriate officers and copied to the S151 Officer. SWAP will present a regular summary of their work to Management and the Audit Committee, including assessing the organisation's implementation of previous recommendations along with any significant, persistent and outstanding issues.

Internal audit reporting will normally comprise a brief presentation to relevant officers and accompanied by an appropriately detailed written report, with the format tailored as necessary to the nature of the work. The detailed report will also be copied to the Section 151 Officer and to other relevant line management.

The Assistant Director will submit an annual report to the Audit and Governance Committee providing an overall opinion of the status of risk and internal control within the Council, based upon, and limited to, internal audit activity conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and SWAP Directors and Assistant Directors have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit and Governance Committee, the organisation's Chief Executive Officer or the External Audit Manager.

Revised March 2022

*Report Number: SWT 35/22*

## **Somerset West and Taunton Council**

### **Audit and Governance Committee – 14<sup>th</sup> March 2022**

#### **Summary of Level 1 and 2 Internal Audit Actions**

**This matter is the responsibility of the Portfolio Holder for Corporate Resources**

**Report Author: Malcolm Riches, Business Intelligence & Performance Manager**

#### **1.0 Executive Summary / Purpose of the Report**

1.1 The purpose of this report is to update the Committee on progress against level 1 and 2 Internal Audit Actions **as at the end of January 2022.**

#### **2.0 Recommendation**

2.1 The Committee reviews the overdue actions contained in the report and notes progress to date.

#### **3.0 Risk Assessment**

3.1 It is important to ensure that the Council has actioned the high priority actions that come out of Internal Audit reports in order to strengthen governance arrangements.

#### **4.0 Background and Full details of the Report**

4.1 The Council has engaged the South West Audit Partnership (SWAP) to carry out its Internal Audit functions; checking the adequacy of controls and procedures across the whole range of Council services.

4.2 At the start of each financial year an audit plan is agreed between SWAP and the Council which identifies the areas of highest potential organisational and operational risk within the Council.

4.3 When an audit takes place a report is provided to the service manager concerned which gives an audit conclusion and opinion.

4.4 Any control or procedural weaknesses are identified within an action plan appended to the audit report.

4.5 All findings will be allocated one of 3 priority ratings as follows:

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

- 4.6 Each finding within the action plan contains a target implementation date which has been agreed between SWAP and the service manager concerned.
- 4.7 All priority 1 and 2 recommendations are captured in a register to ensure progress against the recommendations can be tracked and progress reported to the Audit, Governance and Standards Committee.
- 4.8 This report gives the Committee a progress update on all priority 1 and 2 audit actions, including those where the agreed remedial action is overdue. A summary of the priority 1 and 2 actions is provided in Appendix 1.
- 4.9 As the council moves towards being part of the new Somerset Council it is increasingly likely that some audit actions will be resolved as part of the transition process and new working arrangements within the new authority. Where this is the case it will be mentioned in the narrative for the relevant actions.
- 4.10 The current position as at 31<sup>st</sup> January:
- 12 audit actions currently open. There are 9 actions whose due date is further ahead and detailed updates will be reported nearer the time.
  - 1 audit report with all Priority 1 and 2 actions completed since the last report (see Appendix 1)
  - 1 audit action completed since the last report in December (see Appendix 2)
  - There are currently 3 audit actions that are beyond their original target date as at 31/1/22. Details of the progress being made together with a RAG status are also in Appendix 2.

## **5.0 Links to Corporate Strategy**

- 5.1 There are no direct links to corporate aims/priorities although good governance and robust controls form part of the overarching Governance Framework within which the Council operates.

## **6.0 Finance / Resource Implications**

- 6.1 Unmitigated risks identified by SWAP could expose the Council to unanticipated claims, expenditure or exposure to fraud.

## **7.0 Legal Implications**

- 7.1 There are no direct legal implications within this report although unmitigated risks could expose the Council to unanticipated claims.

**Democratic Path:**

- **Audit and Governance Committee – Yes**
- **Executive – No**
- **Full Council – No**

**Reporting Frequency: Quarterly**

**List of Appendices**

Appendix 1	Summary/Status of Audit Reports
Appendix 2	Update on Priority 1 and 2 Audit Recommendations

**Contact Officers**

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## APPENDIX 1

### Summary/Status of Audit Reports

Report	Status	Date	Judgement	Priority 1 and 2's identified	Position as at 31 <sup>st</sup> January 2022	
					Priority 1/2 actions still open	Overdue (at 31/1/22)
Housing Compliance - Governance & Reporting	Final	04/03/2021	Reasonable	2	1	0
Health and Safety	Final	02/08/2021	Limited	3	3	3
Risk Management	Final	Oct 2021	Reasonable	2	2	0
Data Centre	Final	Oct 2021	Limited	5	4	0
GDPR	Final	Jan 2022	Reasonable	2	2	0
				<b>14</b>	<b>12</b>	<b>3</b>

### Audit Reports with 1 & 2 Actions Completed (Since Dec Report)

Report	Status	Date	Judgement	Priority 1 and 2's identified	Priority 1/2 actions still open	All 1/2 actions complete
Procurement	Final	26/10/2020	Limited	5	0	YES





**Appendix 2 – Update on Priority 1 and 2 Audit Recommendations at 31<sup>st</sup> January 2022**

Audit Report	Recommendation/Agreed Action	Priority Scoring	Responsible Officer	Target Date	Progress	Progress RAG Status
Procurement (26/10/20)	We recommend that the Strategic Procurement Specialist finalises the draft Procurement Strategy as per the Finance and Procurement team's Operational Plan, to ensure the council can be held accountable for the Strategy's adoption and progression. The progress of implementing the Procurement Strategy, together with the adaptation of the CPRs, should continue to be closely monitored by the Assistant Director Finance, to ensure its timely progression in accordance with agreed implementation timeframes.	2	Strategic Procurement Specialist  AD for Finance/S151 Officer	Revised target 31/7/21 (previous 31/1/21)	Procurement Strategy: COMPLETE  A new Procurement Strategy approved by Executive Committee in March 2021.  Contract Procedure Rules: COMPLETE PENDING FORMAL GOVERNANCE APPROVAL – Approval in progress.  Updated CPRs agreed by S151 Officer in July 2021. Formal approval by Council now being incorporated into proposed wider constitution updates report to AG Committee (Dec 2021) and Full Council (Feb 2022). Revised CPRs went to Executive for approval w/c 07/02/2022 - COMPLETE	Completed
Page 117 Health & Safety (2/8/21)	In the short term we will request that an existing Portfolio Holder accepts the responsibility of championing health and safety. In the medium to long term we will look into health and safety being a specific responsibility of Portfolio Holder. We will endeavour to provide an overview of the Health and Safety Management System to Members to enable them to understand the health and safety risks within the organisation and help them to act in their capacity as critical friends. This may be done by video that can be reviewed remotely. We will also provide a quarterly update to Members on the Health and Safety work carried out to keep everyone safe, including performance against key targets set.	2	Health and Safety Specialist	31/8/21	Cllr Ross Henley now identified as H & S sponsor, H & S Report and Improvement Plan communicated to Audit & Governance Committee on 13/12/2021. New H & S Committee structure now in place and functioning. New comms campaign currently being prepared by Cllr Ross/Andrew Pritchard/Kate Lusty to continue to raise the visibility of H & S and to attract new employee representative to the Tier 2 group (Consultative & Reporting). Directorate scorecards have been created and are currently being pulled into a Power BI solution. Work continues (90% complete) on developing a bespoke H & S Induction/refresher for members and will be delivered by 31/03.	In Progress
Health & Safety (2/8/21)	Risk Management Scoping Sessions have been delayed by a Health and Safety Partner leaving. They should now be completed by the end of July 2021. We are continuing with recruitment to fill the vacant post.	2	Health and Safety Specialist	31/8/21	New Tier 3 (Directorate Groups) meet monthly and risk management (progress on action plan) is a standing agenda item. AD's are now aware of their Directorates risk management position and are actively involved in delivering the actions.	In Progress
Health & Safety (2/8/21)	We will investigate the potential of iTrent to record the Training Needs Analysis, Learning and Development Records, develop training plans and produce detailed analysis on the training delivered.	2	Health and Safety Specialist	31/8/21	HR/PEOPLE Team are currently undergoing a review of all 'Must Have' Compliancy training and notifying Task Managers when refreshers are due. As part of this exercise, if any training has been identified as lapsed, the H & S Team will issue a RED/YELLOW Safety Notice to either the team or individual until the training has been delivered.	In Progress

There are a further 9 actions listed below where the due date is further ahead and detailed updates will be reported nearer the time.

<b>Audit Report</b>	<b>Recommendation/Agreed Action</b>	<b>Priority Scoring</b>	<b>Responsible Officer</b>	<b>Target Date</b>	<b>Progress RAG Status</b>
Housing Compliance Governance & Reporting (2020/21)	The Compliance Manager has appointed specialist Contractors to expedite the programme of property inspections for water safety. They expect to have completed this by March 2022.	2	Compliance Manager	31/03/2022	In Progress
Data Centre (2021/22)	To support ICT management oversight of resilience testing, it was agreed that a formal program would be introduced to detail the periodic tests undertaken and results recorded. The frequency of these tests would be determined by management according to the risk arising. These tests would be designed to ensure that all resilient equipment was able to function as expected in the event of a recovery or continuity event arising.	2	Head of ICT	31/03/2022	In Progress
Data Centre (2021/22)	It was agreed to formally document emergency procedures relating to the data centres and that training would be provided to the appropriate staff according to their roles and responsibilities. This would support the Council's compliance with Health and Safety legislation	2	Head of ICT	28/02/2022	In Progress
Data Centre (2021/22)	It was agreed that an examination of the PDC's UPS would be undertaken to confirm that load balancing was in place, and additionally to replace the SDC UPS. The Head of ICT will liaise with Facilities Management to ensure these actions are completed	2	Head of ICT	31/03/2022	In Progress
Data Centre (2021/22)	To improve physical security at the Council's data centre facilities it was agreed to: a) Document the process required to gain entry to the data centres along with details of those that would be required to authorise access. This process could be documented as a distinct policy or absorbed by existing Information Security Policies used by the Council. b) Review and reduce where practicable the number of cards that allow access to the data centres.	2	Head of ICT	28/02/2022	In Progress
Risk Management (2021/22)	We will ensure that services will identify and document key risks. We will look to align this with the Unitary project.	2	Business Intelligence & Performance Manager	31/03/2022	In Progress
Risk Management (2021/22)	We will feed the finding (the need for Service level Risk Registers, better analysis of Risk data and strengthened independent risk management) to the Unitary Project Management Team for consideration as part of the Unitary process.	2	Assistant Director - Customer	31/03/2022	In Progress
GDPR (2021/22)	A final sweep of the paper data held will be completed by the end of January, after which a discussion with Somerset CC to understand their storage system will be held. This is to establish whether paper data that needs to be retained can be incorporated into their storage facility. The overall review of paper data held, and the storage requirements will be completed thereafter.	2	Records Officer	31/12/2022	In Progress
GDPR (2021/22)	The existing Complaints and FOI reporting system will be updated to include an overview of requests received under GDPR, such as SARs, breaches and amendment requests for onward distribution to senior managers.	2	Customer Service Manager	31/03/2022	In Progress

# **Somerset West and Taunton Council**

## **Audit and Governance Committee – 14 March 2021**

### **Capital, Investment and Treasury Strategies 2022/23 to 2024/25**

**This matter is the responsibility of Executive Councillor Ross Henley**

**Report Author: John Dyson, Corporate Finance Manager (Interim)**

#### **1 Executive Summary / Purpose of the Report**

- 1.1 The purpose of this report is to bring to Members three recommended strategies covering Capital, Investment and Treasury Management (CIT Strategies) for their consideration and adoption.
- 1.2 Appendix A to this report combines three Strategies together with the Council's Minimum Revenue Provision (MRP) Statement. Its format has been developed to meet the requirements of statutory guidance issued under Part 1 of the Local Government Act 2003, with particular reference to CIPFA's Prudential Code of Practice and Treasury Management Code of Practice.

#### **2 Recommendations**

- 2.1 Full Council is recommended to approve the CIT Strategies and MRP Statement for adoption with effect from 1 April 2022.

#### **3 Background and Full Details of the Report**

- 3.1 In line with regulatory guidance, the Council is required to produce a Capital Strategy, and Investment Strategy and a Treasury Management Strategy annually. These have again been combined into a draft consolidated document as Appendix A to this report. Appendix A also contains the Minimum Revenue Provision (MRP) Statement, which is also an annual requirement to be set by the Council.
- 3.2 It is recognised this is a large document that contains complex information and draws from a multitude of information sources. Most notably, the Strategies combine with and sit alongside the annual Revenue Budgets and Capital Programme for the General Fund and the Housing Revenue Account.
- 3.3 The report is also expanded to include a range of graphs and charts that may make some of this information more accessible to a wider audience. Whilst the Assistant Director – Finance (S151 Officer) has explored potential to make this report and future iterations into a condensed strategy document, new and lengthy Code updates (published in late December 2021, with parts released as late as February 2022) have signalled greater emphasis on the need to prepare robust and detailed Capital, Investment and Treasury Strategies by local authorities.

- 3.4 The capital programme for the Housing Revenue Account (HRA) was approved by Council on 8 February. The Executive agreed the recommended capital programme for the General Fund, with amendment, on 9 February with the General Fund full Budget Report presented to Council for approval at its meeting on 24 February 2022. A minority of aspects of this Draft strategy document will be finalised after this report is published for Scrutiny.
- 3.5 Aligned with the Council's approved programme of investment in Commercial Properties with a view to generating yield, HM Treasury and CIPFA have been instrumental in their expectations for local authorities ceasing making these types of investment after publication of the new CIPFA Prudential Code in December 2021. Central government had already announced changes with effect from 26 November 2020 that prevents use of PWLB (Public Works Loans Board) borrowing for financing commercial property acquisitions.
- 3.6 The impact of these substantial developments is covered in detail within the Strategies in Appendix A.
- 3.7 Meanwhile, the Council has still been able to deliver its CIT Strategies without breaching any of the parameters of the revised Codes of Practice, and ongoing financing of capital investment remains fully achievable.

#### **4 Links to Corporate Aims / Priorities**

- 4.1 The Capital, Investment and Treasury Management strategies support the delivery of all Corporate Aims.

#### **5 Finance / Resource Implications**

- 5.1 Any financial / resource implications are contained within the Appendix to this covering report.

#### **6 Legal Implications**

- 6.1 None in respect of this report.

#### **Democratic Path:**

- Corporate Scrutiny Committee – 2 March 2021
- Audit and Governance Committee – 14 March 2021
- Executive – 16 March 2021
- Full Council – 29 March 2021

**Reporting Frequency: Annually**

#### **List of Appendices**

Appendix A	Capital, Investment and Treasury Strategies 2022/23 to 2024/25
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# **Somerset West and Taunton Council**

## **Capital, Investment and Treasury Strategies 2022/23 to 2024/25**

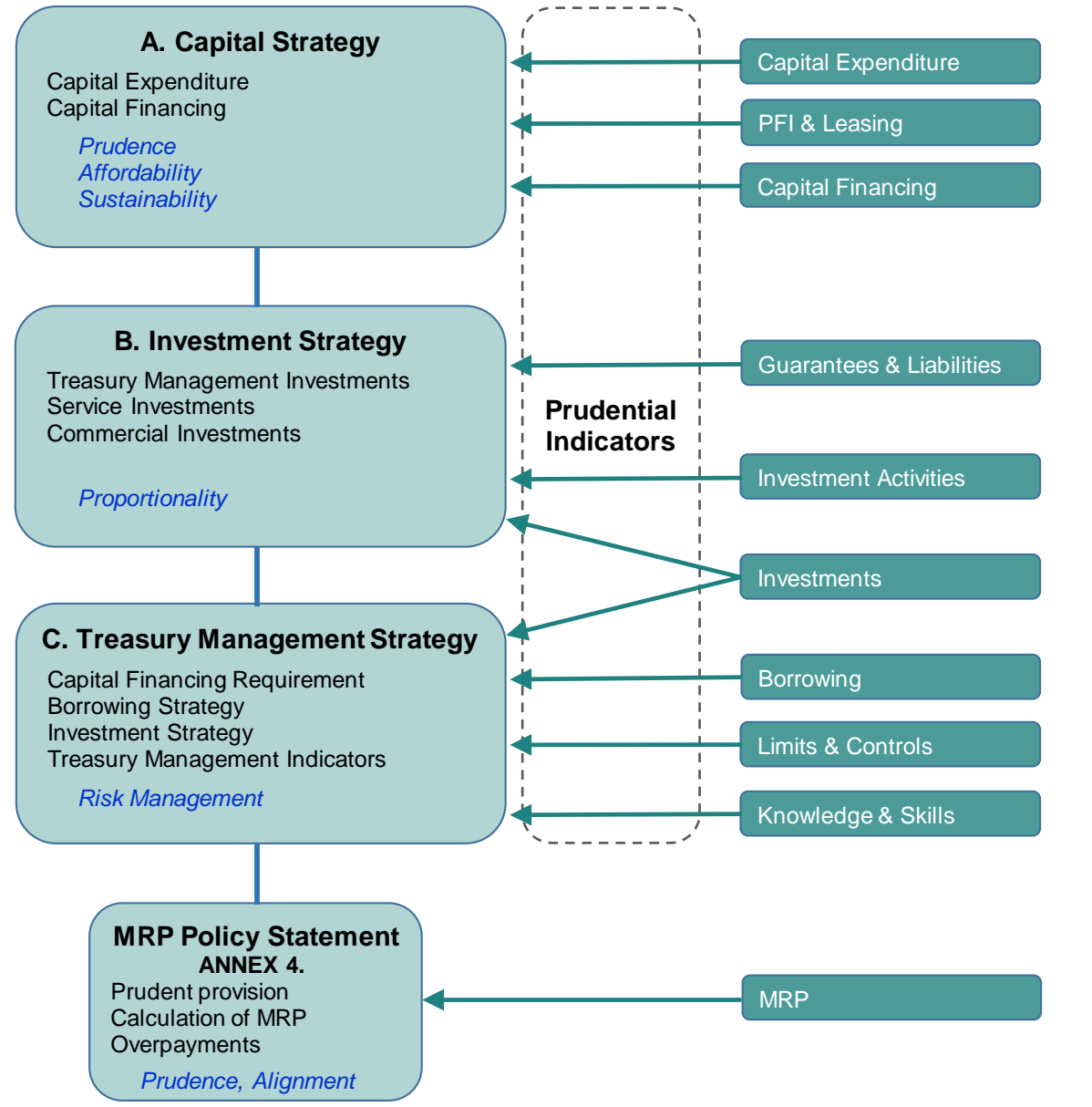
## 1 Introduction and Background – The CIPFA Prudential Code

- 1.1 In a significant move by the Government in 2004, local authorities were given substantial freedoms to borrow for the purposes of “Capital Investment.” This followed many years of restrictions on borrowing for capital expenditure. Regardless of those freedoms, statute requires local authorities to follow professional codes of practice.
- 1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA), acting on behalf of the Government, introduced the Prudential Code of Practice to accompany these new freedoms. Authorities in England and Wales are required by regulation to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out their duties under Part 1 of the Local Government Act 2003. Throughout this document we shall refer to this code as the Prudential Code.
- 1.3 The Prudential Code underpins the system of capital finance. It has continuously placed responsibilities on councils and their Members to ensure that a range of mechanisms are in place for defining, monitoring and controlling capital, investment and borrowing activities. One key aspect of the mechanism was the setting of prudential indicators. Set locally, prudential indicators measure and control the impact of capital expenditure, borrowing costs and investment risks on local authorities.
- 1.4 The CIPFA Prudential Code sits alongside a second code, the CIPFA Treasury Management Code of Practice. Acting in tandem, the two Codes broadly oblige authorities to exercise transparency and accountability and to allocate responsibility for capital investment and treasury management decisions. Authorities must follow both codes of practice.
- 1.5 Some nationally significant events have occurred since the Prudential Code was first published. Widely publicised in the media, each of these events have led to tightening of the Code over the years. In recent years one such aspect has caught the attention of the Government, that being the substantial increase in local authority borrowing that correlates with an increase in commercial investment. A recent report by the National Audit Office (‘Local Authority Investment in Commercial Property’) established that, since 2016, there had been a rapid expansion in authorities acquiring commercial property outside their geographical areas for the purposes of generating yield. These ‘investments’ usually relied on borrowing to finance their cost, with substantial sums made up of borrowing from the government through the Public Works Loan Board (PWLB).
- 1.6 In response, the Treasury withdrew availability of new borrowing from PWLB by local authorities that invested in commercial property after 26 November 2020.



- 1.7 Subsequently, the Government's concerns led to revisions to the Prudential Code and a new edition was published on 20 December 2021.
- 1.8 The Code's revised reporting requirements include changes to the capital strategy, prudential indicators and investment reporting. The requirements of the revised Prudential Code applied with immediate effect following publication; in particular this includes the stipulation that an authority must no longer borrow to invest primarily for a financial return. The only aspect that authorities may choose to defer are the revised reporting requirements set out by the Code. This deferral recognises the timing of the revised Code's publication and the limited time available for authorities to respond in developing reporting mechanisms. The reporting changes may be deferred until the 2023/24 financial year although, in updating the three Strategies contained in this document, we have introduced some of the new elements where data is available.
- 1.9 Shaped by the Prudential Code, this collection of Capital, Investment and Treasury Strategies for 2022/23 to 2024/25 complement with each other. This collection of Strategies also supports, and is supported by, the Revenue and Capital Budgets for the General Fund and Housing Revenue Account, both for next financial year (2022/23) and in the Medium-Term Financial Plan. Contained within them are the tools demonstrating that affordability, sustainability and prudence have been exercised in the setting of those budgets.
- 1.10 **It is important to take into account that, whilst the tables, charts, Prudential Indicators and data referred to in the following strategies relate to and support the Council's budget and Medium-Term Financial Plan (to be presented to Full Council in February 2022), continually changing circumstances will result in revisions to the forecasts and estimates contained throughout this document.** The document, as a general rule, draws upon and aligns with the estimates contained in the budgets reported.
- 1.11 To accommodate the merger of the County and District Councils in Somerset into one Unitary Council on 1 April 2023, the Prudential Indicators, and most of the data sets in this collection of Strategies, cover actual results for 2020/21, forecasts for 2021/22 and estimates for the three-year period 2022/23 to 2024/25. This contrasts with earlier years' reports, which extended as far forward as five years. Estimates for financial years beyond 2022/23 (after which the Unitary Council commences) are included because the Prudential Code requires indicators for prudence to be set over a minimum three-year rolling period. The indicators are set out as though Somerset West and Taunton Council were to continue with its present objectives.
- 1.12 The diagram overleaf illustrates how the three Strategies are laid out in this document, along with the Council's Minimum Revenue Provision (MRP) Statement.

# CAPITAL, INVESTMENT AND TREASURY STRATEGIES



# A. Capital Strategy

## 1 Introduction

- 1.1 This capital strategy report gives a high-level overview of how capital expenditure and capital financing that contribute to the provision of local public services.
- 1.2 Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework summarised throughout the three Strategies contained within this document.
- 1.3 Somerset West and Taunton was created on 1 April 2019, with its assets, its liabilities and functions transferred from the predecessor councils – Taunton Deane Borough Council and West Somerset District Council. Both Councils transferred a legacy borrowing requirement in respect of General Fund services which represented a small proportion of the value of capital assets transferred. In respect of its Housing services, Taunton Deane Borough Council transferred its Housing stock assets and associated borrowing requirement to the new Council. Plans to meet the costs of the legacy borrowing requirement are embedded in both General Fund and Housing Revenue Account budgets and respective ongoing medium- and long-term financial plans.

## 2 Capital Expenditure

### **Governance arrangements for developing the Capital Programme**

- 2.1 New capital schemes and projects are added to the capital programme as part of the annual budget setting process. However, the Council's governance arrangements allow for new schemes and projects to be added to, or removed from, the programme during the year, subject to appropriate officer and Member approvals and review by the Members' Scrutiny process.
- 2.2 The annual programme is developed where managers bid in September/ October for projects to be considered, with an outline scheme appraisal and specific funding proposals where required (namely for capital projects that are not on-going programmes of work). Bids are collated within the Finance department to summarise the potential expenditure requirement (including one-off capital costs and ongoing revenue costs). Bids should also identify the capital financing options, including

setting aside monies from the revenue account in future years to recognise the cost of any borrowing needed for capital investment. The process of setting aside monies is referred to as Minimum Revenue Provision, or MRP. The Council's Asset Management Strategy and Plan also inform the programme, as well as strategic development and improvement programmes.

- 2.3 The draft programme is presented initially to the Senior Management Team and priority proposals are then taken forward to Scrutiny Committee for review and comment. The Executive will then consider and recommend the final draft Capital Programme to Full Council. Here the Programme is considered for approval alongside the annual revenue budgets in February. The complete process ensures that affordable projects support delivery of future service objectives. Capital investment should be proportionate to the capacity of the Council's short-term and long-term resources.

### **Capital Programme**

- 2.4 The Capital Programme is a primary record of all approved capital projects in which the Council plans to invest. Covering each of the Council's directorates, it sets out the Council's commitment to continue to invest in its operational asset portfolio and wider investment to support housing, economy and place-shaping priorities. It undergoes a major review annually so that the resources required to deliver the capital programme may be recognised in the revenue budgets, taking into account the availability of capital resources and the financing cost implications.
- 2.5 Progress against the Capital programme is also monitored regularly throughout each financial year. Cumulative expenditure is updated monthly, and spending departments informed. Formal reporting to senior management and the Council's Audit and Scrutiny Committee occurs every quarter, alongside revenue budget monitoring. Therefore, the Council's governance arrangements provide scope for new schemes and projects to be added to or removed from the programme during the course of a financial year in response to changing needs and resources.

### **Capital Expenditure Estimates**

- 2.6 Capital expenditure is incurred where the Council spends money on constructing or acquiring assets such as land and buildings, including housing, vehicles, plant and equipment, all of which will be used for more than one year, as well as larger-scale maintenance works that extend the life of, or enhance, the Council's existing assets. In local government capital expenditure can also include supporting the acquisition of assets by other bodies; in such cases, the Council may provide service loans and grants to local organisations enabling them to buy assets that contribute to achievement of the Council's corporate objectives or service provision. The Council is largely constrained in what it may deem as capital expenditure, with allowable items needing to meet the definitions set within capital regulations. Items that fail to meet these definitions must be charged as revenue expenditure in the year. The Council's policies also determine that assets costing below

£10,000 will not be capitalised and are similarly charged as revenue expenditure. This is reflected in the Council's Statement of Accounts each year.

- 2.7 The information included in the table below shows totals for the Council's actual capital spend in 2020/21, together with budgets and estimates for the financial years 2021/22 onwards:

TABLE 1  CAPITAL PROGRAMME	ACTUAL AND ESTIMATES OF CAPITAL EXPENDITURE					
	2020/21 Actual £000	2021/22 Forecast £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2021-25 Totals £000
General Fund Services	19,260	23,593	39,554	38,844	8,997	110,988
Capital Property Investments	44,074	54,875	0	0	0	54,875
Housing services (HRA)	9,146	17,822	30,406	32,144	29,953	110,325
Lease Liabilities (accounting change)	0	0	279	361	379	1,019
<b>Totals</b>	<b>72,480</b>	<b>96,290</b>	<b>70,239</b>	<b>71,349</b>	<b>39,329</b>	<b>277,207</b>

#### Capital Investment relating to the General Fund

- 2.8 The main General Fund capital projects relating to mainstream services focus on investment in new and existing operational assets and on issuing capital grants to support the delivery of the Council's services and strategic priorities. This includes schemes such as technology, regeneration and infrastructure projects, contributions to major transport and flood alleviation projects, and grants for accessibility adaptations and equipment to support independent living. The most-substantial projects contained within the capital programme, including both mainstream and commercial properties, with expenditure between 2021/22 and 2024/25 include the following:

Major General Fund Schemes - Estimated total Capital Expenditure from 2021/22 to 2024/25	£million
Investment Properties	55.930
Other Regeneration Schemes/ Projects	33.484
Firepool Block 1 Construction	13.427
Firepool Phase 1 Carparks	10.352
Projects supported by Community Infrastructure Levy	7.404
Flooding Alleviation	6.000
Firepool Phase 1 infrastructure	5.156
Blue Anchor Coast Protection	3.528
Coal Orchard Construction	2.723
Active Travel	2.258

### Commercial Property Investments

- 2.9 The Commercial Property Investment Strategy was developed to invest £100million between 2020/21 and 2021/22 to create a diversified, cross-sector, institutional grade property portfolio which will bring in gross additional income to the General Fund. The Strategy follows a reduction in Council income streams and increasing volatility around other funding sources, requiring Somerset West and Taunton Council to generate new sources of additional revenue to support front line services. Acquisition of the Council's capital investment portfolio of commercial properties was successfully completed on 17 December 2021. The Council has no plans to extend its investment in this field any further. The Council's Commercial Property Investments are covered in detail within the Investment Strategy, Section B of this document.

### Capital Investment relating to the Housing Revenue Account

- 2.10 The Housing Revenue Account (HRA) is a ring-fenced, self-financing, account used to manage the Council's housing stock of some 5,700 properties. The Council acts as the Landlord to the tenants of those properties. The HRA has its own ring-fenced revenue account, capital programme and reserves. This ensures that council housing neither subsidises, nor is itself subsidised by, Council Tax payers.

- 2.11 The HRA Capital Programme's main purpose is to invest in the housing portfolio to replace major components periodically, to ensure that the decent homes standard and warmer homes standards are maintained and that fire safety regulations are adhered to.
- 2.12 The programme also includes major works to related assets such as garages, meeting/ community halls and shops, and home aids and adaptations in tenants' homes where there are mobility issues. The introduction of a new accounting standard (IFRS 16) requires the Council to recognise lease costs as capital expenditure so that assets are recognised on the Council's balance sheet. This is envisaged to occur from 1 April 2022.
- 2.13 The current capital programme also includes a significant investment in social housing development. There is the North Taunton Woolaway Project which is a regeneration scheme to replace properties that were coming to the end of their useful life. Part of this project will also increase the housing stock portfolio, along with other schemes such as Seaward Way, Oxford Inn and the Zero Carbon Pilot, to deliver vital additional affordable homes.
- 2.14 The HRA Capital Programme is funded from an appropriate combination of Major Repairs Reserves (accumulated from depreciation), revenue contributions, capital receipts, capital grants and borrowing.

### **Asset Management**

- 2.15 Asset Management falls within the responsibilities of both the External Operations and Climate Change Directorate and the Housing and Communities Directorate. The Council also manages the commercial property investment portfolio through the Commercial Property Investment Board and the Major and Special Projects team within the Development and Place Directorate, with access to the Council's internal specialists and appointed managing agents.
- 2.16 The Council has a core team of qualified property professionals who advise on acquisitions, disposals and day-to-day management and condition of all Council assets.
- 2.17 The property specialists continually assess maintenance and work programmes to preserve the Council's properties so that they may retain their functionality for providing services, meeting the Council's responsibilities and complying with health and safety requirements. Such responsive work feeds into the Capital Programme where investment in or upgrading of assets is required, or into revenue budgets where maintenance of assets is needed.
- 2.18 The assets already within the Council's ownership are actively managed on a day-to-day basis to minimise costs and risks and to maximise any receipts and income potential, adopting the principles of Value for Money. An important aspect will be

the identification of expenses and receipts to specific property assets to enable non-performing investments or properties with excessive costs to be identified and considered for disposal

- 2.19 In proactively managing the Council's diverse portfolio of properties, the asset management teams make recommendations to the Council's Senior Management Team, Executive, and Council both at a strategic level and as part of day-to-day operations.
- 2.20 The Investment Properties portfolio is managed under special governance arrangements contained within the Council's Commercial Investment Property Strategy, approved December 2019 and revised January 2022. Further details of the portfolio are set out in the Investment Strategy, Section B of this document.
- 2.21 In line with the revised requirements of HM Treasury and the CIPFA Prudential Code, disposals will be closely considered on an on-going basis.

### **3 Capital Financing**

- 3.1 All capital expenditure must be financed, and there are a range of potential funding sources the Council may use, including its own resources or financing available from external sources. The main headings for the options available to finance capital expenditure include the following:
- Capital receipts from asset disposals and repayments of loans to external organisations,
  - Capital grants, mainly originating from the Government or other local authorities,
  - Contributions from other bodies, such as Section 106 (s106) contributions and Community Infrastructure Levy (CIL),
  - Revenue Contributions to Capital, comprising sums applied from the Revenue Budget or Revenue Reserves,
- and any expenditure not financed by the above items is added to the Council's Capital Financing Requirement (CFR) and will be financed from:
- Debt financing, such as borrowing, capital market bonds, leasing, etc.

#### **Capital Financing Plan**

- 3.2 The planned financing of the capital expenditure (sumarised in Table 1, above) is illustrated in Table 2 (overleaf):



TABLE 2	CAPITAL FINANCING PLAN					
	2020/21 Actual £000	2021/22 Forecast £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2021/25 Totals £000
<b>External sources:</b>						
Grants and contributions	5,411	3,462	18,502	1,847	1,059	24,870
S106	2,369	1,535	1,011	0	0	2,546
CIL	926	815	1,951	10,400	0	13,166
<b>    subtotal - External</b>	<b>8,706</b>	<b>5,812</b>	<b>21,464</b>	<b>12,247</b>	<b>1,059</b>	<b>40,582</b>
<b>Internal sources:</b>						
Capital receipts	2,097	2,799	5,987	3,670	2,535	14,991
Major Repairs Reserve	4,361	12,150	9,952	7,896	8,133	38,131
Revenue contribns & reserves	3,116	304*	1,507	0	0	1,811
<b>    subtotal - Internal</b>	<b>9,574</b>	<b>15,253</b>	<b>17,446</b>	<b>11,566</b>	<b>10,668</b>	<b>54,933</b>
<b>Debt</b>						
Loans taken out HRA	3,470	4,142	17,135	20,578	19,285	61,140
Loans taken out GF	50,730	71,083*	13,915	26,597	7,938	119,533
Loans taken out subtotal	54,200	75,225	31,050	47,175	27,223	180,673
Leases	0	0	279	361	379	1,019
<b>    subtotal - Debt</b>	<b>54,200</b>	<b>75,225</b>	<b>31,329</b>	<b>47,536</b>	<b>27,602</b>	<b>181,692</b>
<b>TOTAL</b>	<b>72,480</b>	<b>96,290</b>	<b>70,239</b>	<b>71,349</b>	<b>39,329</b>	<b>277,207</b>

\* **NOTE to Table 2:** Table 2 does not reflect the recommendation to be made to Full Council for the transfer of £2million from General Reserves to fund a supplementary increase in the Revenue Contribution to Capital Outlay budget for the financing of capital expenditure in 2021/22. The impact of this recommendation would be to increase "Revenue contribution & reserves" line in 2021/22 from £304,000 to £2,304,000 and to reduce the "Loans taken out GF" line from £71,083,000 to £69,083,000.

- 3.3 The allocation of resources does vary over time. For example, additional income may be available through asset sales (which generate capital receipts) or by obtaining new external grant funding. The Capital Financing Plan set out in Table 2 is a snapshot that aligns with the Council's budget, tabled for consideration in February 2022. However, as stated above, the

financing of capital expenditure is a dynamic process. With regular changes in financing sources, it is overseen by the Council's s151 Officer to optimise financing arrangements on an ongoing basis. Therefore, the estimated Plan does not commit the Council to particular methods of financing. The s151 Officer will determine the actual financing of capital expenditure incurred at the end of the financial year based on the resources that became available during the year. The outcomes are reported to and considered by Members of the Scrutiny Committees and by the Audit and Governance Committee as well as by the external audit process.

- 3.4 The mechanics of financing capital expenditure from borrowing are determined by capital regulations and Codes of Practice, which ensure that such expenditure is spread across future years to reflect that their benefits stretch across future years; this is a protection against spikes in Council Tax and Housing Rent payments so that large capital investment sums are not charged immediately.
- 3.5 The Council may defer the timing of external borrowing on a short- to medium-term by using temporary cash resources held in reserves and balances. This practice is referred to as 'internal borrowing.' It neither reduces the magnitude of borrowing required nor the level of funds held in reserves and balances. The practice simply utilises cashflow balances in the short-term until they are required for their intended purposes, which often represents good value for money and reduces investment risks. This is because, when 'surplus' cashflow is available, adding externally borrowed sums to that 'surplus' cashflow would require higher investment balances to be held in institutions which, in turn, are subject to risk of market failure (however slight those risks may be). More attention to investment risk is set out in the Treasury Management Strategy, Section C of this document.
- 3.6 Naturally, debt in the form of loans and leases must be repaid. Although borrowing from external sources may, for example, require repayment of the borrowed sum at the end of a loan period, regulations require the Council to set aside amounts annually so that financial capacity is available to repay the borrowing when it is due. This method of setting amounts aside occurs over a period of years, mainly by financing from revenue using the mechanism of Minimum Revenue Provision (MRP) or from voluntary overpayments (voluntary revenue provision), which may release revenue budgets from ongoing financial strain. Alternatively, capital receipts may be used as an alternative to taking out new borrowing, and hence remains a locally determined alternative source of capital financing.

### **Capital Financing Requirement**

- 3.7 The Council's cumulative amount of debt finance is measured by the Capital Financing Requirement (CFR). This is an important measure that determines the maximum borrowing requirement of the Council over the course of years that Council assets may be employed for the delivery of services. The basic mechanism behind the CFR involves a cumulative value

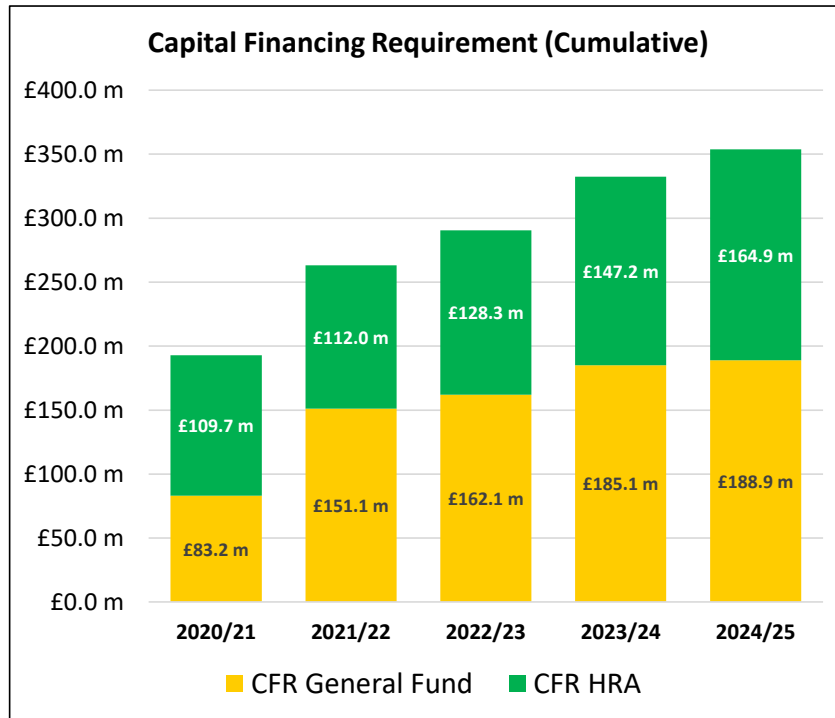
that increases over time with new unfinanced capital expenditure met from borrowing (i.e. cannot be financed from grants, capital receipts, etc); the CFR then reduces each year by MRP repayments and voluntary overpayments.

- 3.8 The CFR is expected to increase by £26.71million during 2022/23 (comprising £10.44million for the General Fund and £16.27million for the HRA). Based on the above annual forecasts for capital expenditure and the profile of capital financing (Tables 1 and 2) the Council's estimated cumulative CFR for 2021/22 to 2024/25 is shown below in Table 3, alongside the actual results from the final accounts for 2020/21:

TABLE 3	ACTUAL AND ESTIMATED CAPITAL FINANCING REQUIREMENT				
	2020/21 Actual £000	2021/22 Forecast £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
<b>General Fund</b>					
CFR balance b/fwd	33,955	83,203	151,089	161,530	184,435
Expenditure	63,335	78,468	39,554	38,844	8,997
Accounting adj - Leases	0	0	124	184	196
MRP/VRP	-1,395	-3,197	-2,983	-3,876	-4,309
Capital receipts used	-740	-1,797	-2,668	0	0
Grants and contributions	-11,952	-5,588	-23,586	-12,247	-1,059
<b>GF CFR balance c/fwd</b>	<b>83,203</b>	<b>151,089</b>	<b>161,530</b>	<b>184,435</b>	<b>188,260</b>
<b>HRA</b>					
CFR balance b/fwd	107,981	109,717	112,038	128,307	147,240
Expenditure	9,146	17,822	30,406	32,144	29,953
Accounting adj - Leases	0	0	155	176	183
MRP	-1,821	-1,821	-1,021	-1,821	-1,821
Capital receipts used	-1,357	-1,002	-3,319	-3,670	-2,535
Grants and contributions	-4,232	-12,678	-9,952	-7,896	-8,133
<b>HRA CFR balance c/fwd</b>	<b>109,717</b>	<b>112,038</b>	<b>128,307</b>	<b>147,240</b>	<b>164,887</b>
<b>Total CFR balance c/fwd</b>	<b>192,920</b>	<b>263,127</b>	<b>289,837</b>	<b>331,675</b>	<b>353,147</b>

**NOTE to Table 3:** Similarly as noted with Table 2, Table 3 does not reflect the recommendation to be made to Full Council to apply £2million General Reserves to fund capital expenditure in 2021/22. The impact of this recommendation would be to add a new line with £-2m RCCO which, in turn, would reduce the cumulative CFR totals by £2m.

3.9 Table 3 shows that the Council’s proposed capital strategy and capital investment plans are expected to increase the overall indebtedness position over the next 3 years (2022/23 to 2024/25) for both the General Fund and the Housing Revenue Account. The outcome for CFR is also illustrated in the graph, overleaf, which separates out the General Fund and HRA.



3.10 It is important to ensure capital plans are affordable and the Council can meet the costs of this debt over both the short- and long-term. The Council’s Medium Term Financial Plan is therefore an important monitor because it includes the impact of debt financing costs on revenue budgets in future years. This is supported by the appraisal process for capital schemes over the life of the assets being acquired. In relation to Housing Revenue Account assets, which are predominantly of high value and long life, the HRA Business Plan sets out the impact of capital expenditure over a 30-year period. Other measures of affordability are contained within the prudential indicators set out in the Treasury Management Strategy, Section C of this document.

3.11 From the graph, we see a significant increase in the General Fund CFR from 2020/21 to 21/22 as a result of the final year of investment in commercial properties. A less-pronounced spike occurs in 2023/24 as a result of investment in regeneration, flood alleviation and development of the Firepool scheme.

- 3.12 Taking on borrowing and other forms of debt should follow a planned approach, taking account of economic conditions that influence interest rates, ensuring the Council is protected from risks (e.g. by spreading maturity dates to protect against interest rate volatility), and requiring a range of skills, controls and procedures. The Treasury Management and Borrowing Strategy is set out in Section C of this document. Setting out the Council's Borrowing Strategy, it also takes forward the link between the CFR and borrowing.
- 3.13 Meanwhile, having access to alternative sources to finance capital expenditure reduces dependence on borrowing. Details of the alternative sources of capital financing are provided in Annex 1 to this document.

#### 4 Revenue Budget Implications

- 4.1 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 referred to 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 4	General Fund Proportion of financing costs to revenue stream				
	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Financing costs	£1.51m	£4.03m	£3.93m	£5.56m	£5.99m
Proportion of net revenue stream	6.76%	21.53%	23.10%	38.25%	38.76%

- 4.2 The percentage of financing costs to net revenue stream increases significantly over the medium term. This is through a combination of increased capital investment – predominantly for commercial and regeneration purposes – and the expected reduction in funding primarily related to business rates, new homes bonus and Government support for Covid. Although this indicator identifies increased risk, the majority of increased financing costs are planned to be offset by income from commercial and regeneration investment. Through prudent investment, it is anticipated that investment income will be less

volatile and more predictable than other financing income such as business rates and government grants. This is reflected in the financial strategy and medium term financial plan.

- 4.3 Similarly for the Housing Revenue Account, Table 5 shows how the financing costs may be set out as a proportion of the HRA revenue stream, primarily comprising rents and service charges.

TABLE 5	HRA Proportion of financing costs to revenue stream				
	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Financing costs	£4.26m	£4.49m	£3.90m	£5.13m	£5.39m
Proportion of net revenue stream	15.78%	16.23%	13.74%	17.25%	17.10%

- 4.4 All capital investment must be sustainable in the long-term through revenue support by the Council or its partners. All capital investment decisions consider the revenue implications both in terms of servicing the finance and running costs of the new assets. The impact of the revenue implications is a significant factor in determining approval of projects. The use of capital resources has been incorporated into the Council's MTFP.

## 5 Liabilities

- 5.1 In addition to capital debt as detailed above, the Council is committed to making future payments to cover its pension deficit, which was valued at £140.2m as at 31 March 2021. This balance is due to be paid over a 20-year period, and the deficit and annual contributions are revalued every three years. It has also set aside £0.945m to cover provisions for probable costs. As with all local councils, SWT Council will always remain at risk of having to set aside sums for contingent liabilities, but has not identified any need to set aside monies at the time of writing; however, payment remains contingent on, as yet, unknown events occurring which will be incorporated into the Council's annual Statement of Accounts, in accordance with proper accounting practice.

## 6 Sustainability

- 6.1 Due to the long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The S151 Officer is satisfied that the Capital Programme, proposed as part of the 2022 budget approval process, is prudent, affordable and sustainable because:
- the Council has adequate means of financing and repaying any required borrowing, which is profiled across varying time periods to reduce risks of cost spikes arising from acute economic events.
  - the Council maintains a balanced budget that can adequately fund the expenditure with sufficient contingency reserves and balances to accommodate emergencies and unexpected events.
  - Continued development of the Capital Programme links to the Annual Plan.
  - Regular capital monitoring and scrutiny processes ensure the performance of capital investment against the approved Capital Programme.
  - Whole Life Appraisal – a systematic assessment of all relevant expenses, income and performance associated with the acquisition, procurement, ownership, refurbishment and potential disposal of an asset over its life thus allowing the Council to plan our medium- and long-term financial commitments. Projects are assessed for how they meet specific service needs, generate savings or an income stream to the Council, and how they mitigate risks.

# B. Investment Strategy

## 1 Introduction

1.1 The Council invests funds that it holds for four broad purposes:

- i) **treasury management investments** - surplus cash resulting from its day-to-day receipts and payments activities, for example when income is received in advance of expenditure.
- ii) **service investments** - to support local public services by lending to or buying shares in other organisations.
- iii) **commercial investments** to earn investment income to meet the wider needs of the Council.
- iv) **regeneration investments** - to realise the Council's key objective to stimulating change in the local community and business environment that would be unlikely if left solely to market activity.

1.2 Treasury investment balances arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

1.3 The Council's policy on treasury investments is to **prioritise security and liquidity over yield**, therefore the Council's primary focus is on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high quality banks to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property. Whilst yield is not the primary objective, it is important to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which investments to buy; the Council may request its money back at relatively short notice in accordance with individual funds' requirements.

1.4 As part of the Council's financial strategy, the aim is to evolve the balance within the investment portfolio to improve the net income available through treasury management to fund services, whilst maintaining a prudent balance between **security, liquidity and yield, in that order of priority**. The yield curve has reduced in the last 12 months to such an extent that returns through long-term treasury investment are minimal. It is therefore anticipated that investment will remain in the near



term, maximising security and liquidity/ flexibility. The assessment of adequate general reserves also incorporates an element of risk to investment income assumptions.

TABLE 6	Treasury Management Investments				
	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £'000	Forecast £'000	Estimate £'000	Estimate £'000	Estimate £'000
Near term investments	44,761	30,500	30,000	20,000	20,000
Long term investments	3	3	3	3	3
<b>Total</b>	<b>44,764</b>	<b>30,503</b>	<b>30,003</b>	<b>20,003</b>	<b>20,003</b>

- 1.5 Further details of existing treasury investments can be found in the Treasury Management Strategy, Section C, below.
- 1.6 **Risk Management** - The effective management and control of risk is a prime objective of the Council's treasury management activity. The Treasury Management Strategy sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.
- 1.7 Decisions on treasury management and borrowing are made daily and are, therefore, delegated to the s151 Officer and his staff who must act in line with the Treasury Management Strategy approved by Full Council. Reports on treasury management activities are presented to the Audit and Governance Committee mid-year and at year-end. In line with the new Prudential Code, the reporting arrangements will increase this frequency to quarterly with effect from 2023/24.

## 2 Treasury Management Investments

- 2.1 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 £20m and £50m at the extreme, and depending upon major cashflow movements during the 2022/23 financial year.

- 2.2 The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.
- 2.3 Full details of the Council's policies and its plan for 2022/23 for treasury management investments are covered in the treasury management strategy later in this document.

### **3 Service Investments – Loans**

- 3.1 The Council lends money to local businesses, local charities, other local authority partnerships, and local residents to support local public services and priorities, and to stimulate local economic growth. Currently the Council has loans invested with:
- Somerset County Cricket Club – delivering the new Pavilion and bringing international cricket to Somerset.
  - Hestercombe House and Gardens – enabling loan for development feasibility work
  - Somerset Waste Partnership – for waste vehicles, with added benefit of keeping waste contract costs down
  - Residents – housing related mortgages
  - Centre for Outdoor Activity and Community Hub (COACH) – purpose-built community centre including a café, conference suite, changing rooms, boat store and home to five community sports clubs.
- 3.2 The Council has included provision in its Capital Programme to provide further loan finance to the Somerset Waste Partnership for new vehicles in 2021/22 and for waste containers in 2022/23 towards delivery against the Recycle More scheme under the new waste contract.
- 3.3 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 (see overleaf):

TABLE 7	Loans for Service Purposes			
	Actual as at 31 March 2021			2022/23
	Balance Owing £'000	Loss Allowance £'000	Net figure in accounts £'000	Approved Limit £'000
Category of borrower:			0	
Businesses	1,573	-71	1,502	1,600
Charity / Community	28	-1	27	28
Local Authorities	4,280	0	4,280	6,800
Residents	377	-15	362	1,200
<b>Total</b>	<b>6,258</b>	<b>-87</b>	<b>6,171</b>	<b>9,628</b>

- 3.4 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 Council's 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.
- 3.5 The Council assesses the risk of loss before entering into this type of service loans arrangement by working up a robust business case and applying due diligence to all requests for service loans, carrying out 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 whilst 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.
- 3.6 In view of the public service objective, the Council is willing to take more risk than with treasury investments; however, it still plans for such investments to generate a positive investment return after all costs are covered, and decisions upon granting such loans are made on the basis that repayment to the Council remains a firm and realistic commitment.
- 3.7 Decisions on service investments are made by the relevant service manager in consultation with the s151 officer and must meet the criteria and limits laid down in the investment strategy. Most loans are capital expenditure and purchases will, therefore, also be approved by Committee or through delegated powers as part of the capital programme.

## **Investment and Regeneration Activities**

- 3.8 Local authorities have a key role in facilitating the long-term regeneration and economic growth of their local areas and they may wish to hold investments to facilitate this. When determining whether to acquire, the Council needs to recognise the contribution the asset will make. The contribution could be classified as direct service delivery and/or place-making, for example economic growth, business rates growth, responding to market failure or sustainability of certain asset classifications. Further details of the Council's regeneration schemes are contained in Annex 2 of this document.

## **4 Service Investments – Shares**

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

## **5 Commercial Investments – Property**

- 5.1 The Council invests 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.
- 5.2 The Council holds some assets that were initially acquired for service purposes such as benefitting the local economy but these have since been reclassified as investment properties. They are now established and the main purpose for holding the assets is for rental income. The following table summarises the commercial property investment programme and, for completeness, shows local investment properties held as part of the Council's mainstream support to aid local regeneration and business within the SWT District:

<b>TABLE 8</b>	<b>Properties held for investment purposes</b>	<b>£'000</b>
<b>Commercial Properties held for yield</b> (acquired during 2020/21 and 2021/22)		
	Aztec West	9,573
	The Range	5,781
	B&Q	6,998
	Wickes	9,819
	JLR	6,130
	Quinton Business Park	5,766
	Audi, Cardiff	7,190
	Coast Road Retail Park	12,585
	Fenick House	4,783
	Reflex, Barwell	5,425
	Reflex, Ossett	2,624
	Steelite	22,270
	<b>Subtotal, Commercial Investments</b>	<b>98,944</b>
<b>Investment Properties held to support local business and regeneration</b>		
	Land at Brunel Way	265
	The Arcade (Formerly The Carousel or K's)	297
	Roughmoor Enterprise Centre (Employment Workspace)	1,404
	Blackdown Business Park, Wellington (4 Units)	1,344
	Gaumont Theatre (Mecca Bingo), Corporation Street, Taunton	1,530
	Other properties with values below £250k	1,141
	<b>Total all properties</b>	<b>104,925</b>

- 5.3 With central government financial support for local public services declining, the Council established a programme of investing in commercial property for the purpose of generating a financial gain that ensures the continuation of the Council's services to the local community and local businesses. Acquisition of the Council's capital investment portfolio of commercial properties was successfully completed on 17 December 2021. The Council has no plans to extend its investment in this field any further. Total commercial investments hold a purchase value of £98.9million. Table 9, below, shows the forecast net income contributions between 2021/22 and 2024/25. These levels of return have been prudently set, taking account of the

risk of higher interest rates for borrowing in the latter years, as well as setting aside sums for debt repayment and to add to reserves.

TABLE 9	Net income from commercial and service investments to net revenue stream			
	2021/22 Forecast	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Net income from commercial investments	£3.72m	£4.49m	£3.36m	£3.36m
Proportion of net revenue stream	19.84%	26.38%	23.11%	21.76%

5.4 With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures are summarised as follows:

- The commercial investment net income is underpinned by very strong governance and due diligence, which helps to minimise risks. The Council finalised its planned investment in December 2021, with the budget estimates reflecting the completed portfolio. The risks associated with this investment include market and economic risks as well as potential volatility in income, financing, and management costs. This is mitigated through prudent budgeting and earmarked investment risk reserves.
- The Government’s decision to restrict access to PWLB means alternative sources of long-term borrowing may be needed in future. There are competitive alternatives available, as evidenced by financing having already been secured from other local authorities, however this represents a risk in terms of estimating future borrowing costs.
- Property investment income: Whilst income volatility is expected to be low, no investment is risk-free. For financial planning sensitivity analysis purposes, 5% adverse volatility would impact income by c£360k. This risk is mitigated through the Investment Risk Reserve.
- Risk of rising interest rates and the wider economy may impact on investment income and borrowing costs.

5.5 As an overriding approach to mitigate the above, a uniformly prudent approach to budget estimates and debt repayment has been taken, with adequate funds held in an investment risk reserve. An assessment of the consolidated cash flows, investment and borrowing requirements will be completed through the LGR Finance Workstream. This will inform the development of longer treasury management strategies including borrowing and refinancing requirements.

- 5.6 Decisions on commercial investments are delegated by the Council to the Investment Board in line with the criteria and limits approved by Full Council in December 2019, and refreshed in December 2020. Property and most other commercial investments are also capital expenditure and purchases have been reported as part of the Council's capital programme. Performance of the investment portfolio are reported to the Executive and also incorporated within the overall financial monitoring reports throughout the year.
- 5.7 The Investment Properties portfolio is managed in line governance arrangements contained within the Council's Commercial Investment Property Strategy, approved December 2019 and revised January 2022. The original Strategy formed the basis upon which an intricate process of due diligence, review and accountability has been employed in building the investment property portfolio, all of which have been actively achieved throughout the acquisition process. The revised Strategy focuses on ongoing management, including how property will be managed during the transition phase to a new Unitary Council for Somerset. Management of the Investment Properties extends to monitoring deliverables, risks, performance, asset values and ongoing value for money.
- 5.8 Further to publication of the latest CIPFA Prudential Code in December 2021, Somerset West and Taunton Council fully recognises that the Prudential Code has brought about changes to how local authorities invest primarily for financial return and, forthwith, the Council is committed to adhering to the Prudential Code's determination that:
- 'In order to comply with the Prudential Code, an authority must not borrow to invest primarily for financial return.
  - It is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.'

#### Other Property Investment Matters

- 5.9 **Security:** 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 or decrease over the course of time due to conditions in the property market; as a pre-requisite for all investments aligned with property, it is necessary to take a long-term perspective on performance, valuation and security, enforcing the assumption that capital values are likely to hold or grow over the life of these assets.
- 5.10 As an integral part of the preparation of the Council's annual accounts for 2021/22, a fair value assessment of the Council's investment property portfolio is to be taken by the Council's valuers, in line with proper accounting practice. Should the

2021/22 year-end accounts value these properties below their purchase cost, then an update will be reported to Full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

- 5.11 **Risk assessment:** The Council has conducted detailed assessment of the risks of loss before entering into purchases of its property investment portfolio by undertaking considerable due diligence, including commissioning surveys and specialist property valuation advice and proactively challenging findings and assumptions along the way. This will have included considerations of the strength of local market conditions to give confidence on future re-letting, the financial strength of business tenants and also considers possible alternative uses, if appropriate. The Council, through its Investment Board, actively monitors the portfolio to ensure tenant obligations for maintaining assets are fulfilled.
- 5.12 **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice. It can take a considerable period to sell in certain adverse 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.

## 6 Regeneration Schemes

- 6.1 Some of the key schemes under development are briefly described in Annex 2 to this document, and their progress is regularly reported to the Senior Management Team and to Members of the Council.

## 7 Financial Guarantees

- 7.1 Although not strictly counted as investments, since no money has exchanged hands yet, financial guarantees carry similar risks to the Council and are included here for completeness.
- 7.2 The following guarantees were transferred to the Council from TDBC and WSC on 1 April 2019:
- South West Audit Partnership Limited Pension Liability £0.268m (as at 31 March 2019)
  - Somerset Waste Partnership Pension Liability (minimal)



## 8 Proportionality

8.1 The Council is dependent on income generating investment activity to achieve a balanced revenue budget. Table 10 below shows how the Council is dependent on achieving the expected net income from investments over the lifecycle of the Medium Term Financial Plan. Should it fail to achieve the expected net income, the Council's contingency plans for continuing to provide these services include 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 including an allowance for voids / non-collection.

TABLE 10	Proportionality of Investments				
	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual	Forecast	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Gross Service expenditure	90,862	100,286	103,295	106,393	109,585
Investment income	-860	-4,578	-5,205	-4,065	-4,065
Proportion of income to expenditure	0.9%	4.6%	5.0%	3.8%	3.7%

- NOTES to Table 10:**
- i) Investment income, in this table, includes both treasury investments and commercial investments.
  - ii) Gross service expenditure is indicative and based on a 3% inflationary increase from 2022/23 onwards, so is not linked to formal MTFP projections for the General Fund and HRA.

8.2 Investment income shown in the above table is the gross income included in the budget estimates, disregarding asset management and capital financing costs. The falling proportion % illustrates a decreasing level of investment balances which, in turn, places pressure on funding services as other funding sources diminish, in particular government grants and the risk of business rates volatility.

## 9 Investment Indicators

9.1 The Council has set the following quantitative indicators to allow elected Members and the public to assess the Council's total risk exposure from its investment decisions.

**Total investment exposure:**

9.2 This indicator shows the Council’s total exposure to potential investment losses. It includes amounts the Council is contractually committed to lend but has yet to draw down, as well as guarantees the Council has issued.

<b>TABLE 11</b>	<b>Total Investment Exposure</b>				
	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	<b>Actual</b>	<b>Forecast</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
<i>All values at year end</i>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Treasury Management Investments:					
Strategic Funds	17,000	17,000	17,000	17,000	17,000
Other	27,761	13,500	13,000	13,000	13,000
Service investments - loans	5,642	6,342	6,294	5,656	5,083
Commercial investments	44,063	99,123	97,141	95,198	93,294
<b>Total investments</b>	<b>94,466</b>	<b>135,965</b>	<b>133,435</b>	<b>130,854</b>	<b>128,377</b>
Commitments to lend	0	1,274	0	300	300
Guarantees on pension liabilities	268	268	268	268	268
<b>Total commitments and guarantees</b>	<b>268</b>	<b>1,542</b>	<b>268</b>	<b>568</b>	<b>568</b>
<b>Total Exposure</b>	<b>94,734</b>	<b>137,507</b>	<b>133,703</b>	<b>131,422</b>	<b>128,945</b>

**How investments are funded:**

9.3 Government guidance is that these indicators should include how investments are funded. Conversely, capital regulations specify that the Council should not normally associate individual assets with individual liabilities, therefore it is difficult to comply in complete terms with the funding indicator. However, the following investments could be regarded as having been funded by borrowing. The remainder of the Council’s investments are funded by usable reserves and income received just prior to need.

TABLE 12	Investments funded by borrowing				
	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Service investments - loans	5,642	6,342	6,294	5,656	5,083
Commercial investments - property	44,063	99,123	97,141	95,198	93,294
Commitments to lend	0	0	0	0	0
<b>Total funded by borrowing</b>	<b>49,705</b>	<b>105,465</b>	<b>103,435</b>	<b>100,854</b>	<b>98,377</b>

**NOTE to Table 12:** Similarly as noted with Tables 2 and 3 above, Table 12 does not reflect the recommendation to be made to Full Council to apply £2million General Reserves to fund capital expenditure in 2021/22 and a proposal to apply a Voluntary Overprovision (VRP) of £1m. The impact of this would be to reduce the “Commercial investments - property” line by £3m in each year from 2021/22 onwards. These adjustments will be incorporated at the point of Full Council meeting on 24 February 2022.

#### Rate of return received:

- 9.4 The Council seeks to achieve a commensurate rate of return in line with this investment objectives and risk appetite. For service loans, the rate of return will be set with the aim of covering financing costs (or opportunity costs) plus a premium for risk. The acquired portfolio of property investments for yield is budgeted to return 7% gross.

# C. Treasury Management Strategy

## 1 Introduction

- 1.1 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.
- 1.2 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 2021 Edition (the CIPFA Code) which requires the Council to approve a Capital Strategy, Investment Strategy and Treasury Management Strategy before the start of each financial year. This combined document fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 1.3 Investments held for service purposes and for commercial income generation are considered in the Investment Strategy, set out above within this document, Section B.

## 2 External Context

- 2.1 The treasury strategy appropriately considers the wider economic picture. The Council's treasury advisor, Arlingclose, has provided a summary commentary on this wider context and their own interest rate forecasts, and is provided in Annex 2. to this document.

### 3 Local Context

3.1 On 31 December 2021, the Council held £170.5million of borrowing, (£105.5million long-term and £65.0million short-term) and £39.2m of treasury investments. These balances are summarised in Table 13 below.

TABLE 13	Existing Investment & Debt Portfolio Position as at 31 December 2021	
	Actual Portfolio £m	Average Rate £m
<b>External Borrowing</b>		
Public Works Loan Board	102.5	2.62%
Banks	3.0	4.25%
Local Authorities	65.0	0.08%
<b>Total gross external debt</b>	<b>170.5</b>	1.68%
<b>Treasury Investments</b>		
Banks (unsecured)	-1.3	0.01%
Money Market Funds	-15.6	0.07%
Strategic Pooled Funds	-17.0	3.11%
Other investments	-5.3	3.29%
<b>Total treasury investments</b>	<b>-39.2</b>	1.82%
<b>Net Debt</b>	<b>131.3</b>	

3.2 Forecast changes in these sums are shown in the balance sheet analysis in Table 14 (see note below).

**NOTE: TABLE 14 – Balance Sheet Summary and Forecast** – this table is not currently included because emerging changes made to the proposed revenue budgets need to be incorporated into the forecasts and estimates for the Balance Sheet and CFR. Officers are currently constructing the effect of these changes, although their outcomes are not proportionally significant.

- 3.3 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.
- 3.4 The Council has an increasing CFR due to annual additions to the Capital Programme. The full impact of investment property acquisitions has also been built in during 2020/21 and 2021/22. The trend of increased capital expenditure and forecast repayments of external borrowing indicates new borrowing capacity of up to £188million over the forecast period.
- 3.5 Table 14 shows that the Council expects to comply with this recommendation over the medium term.

#### **Total Debt Position**

- 3.6 A local authority should not exceed its CFR, except in the short-term. 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. Projected levels of the Council's total outstanding external debt compared with the CFR are shown in the two graphs, below. As can be seen from both graphs and Table 15, below, the Council expects to comply with this in the medium term for both the General Fund and the Housing Revenue Account.
- 3.7 The two graphs look markedly different. For the General Fund, the graph illustrates the short-term nature of debt currently committed to, which drops away sharply, with an increasing CFR reflecting the addition of borrowing needed to finance future capital programmes. This will require maturing debt to be replaced. For the HRA, the gap remains much smaller because the portfolio of HRA borrowing has been committed to for much longer periods of time. Once again, the CFR increases with future years' borrowing needs.

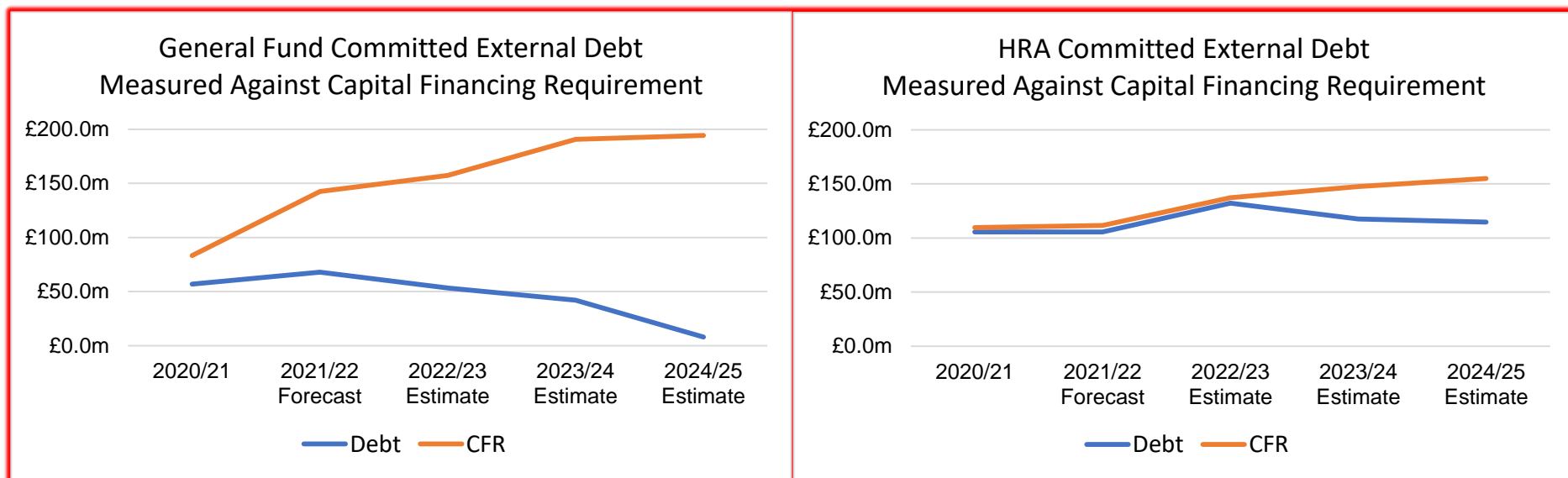


TABLE 15	Prudential indicator - Gross debt and the CFR				
	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £'000	Forecast £'000	Estimate £'000	Estimate £'000	Estimate £'000
General Fund Debt	57,000	68,000	82,039	108,820	116,954
HRA debt	105,500	105,500	122,790	143,544	163,012
<b>Total Debt</b>	<b>162,500</b>	<b>173,500</b>	<b>204,829</b>	<b>252,364</b>	<b>279,966</b>
General Fund CFR	83,203	151,089	162,145	185,050	188,875
HRA CFR	109,717	112,038	128,307	147,240	164,887
<b>Total CFR</b>	<b>192,920</b>	<b>263,127</b>	<b>290,452</b>	<b>332,290</b>	<b>353,762</b>

## 4 Borrowing Strategy

- 4.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing. The Council is typically cash rich in the short-term as revenue is earned before it is spent but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing need.
- 4.2 Due to previous spending and financing decisions prior to the amalgamation of authorities into Somerset West and Taunton Council, £79.5million of external PWLB borrowing was transferred to the Council on 1 April 2019. This stemmed from the Government's directive for local councils with an HRA to borrow funds in respect of the housing assets they owned at that time (a process called Self Financing). By 1 April 2021, the portfolio of external long-term borrowing was £162.5million at an average interest rate of 1.78%. Treasury and cash investments as at 1 April 2021 amounted to £54.1million.
- 4.3 The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in the future, particularly with the forthcoming transfer to a single Unitary Council on 1 April 2023. Interest on short-term borrowing has been extremely attractive in recent years and the opportunity to minimise the cost of new borrowing has been fully utilised during 2021/22. Meanwhile, long-term borrowing remains available at historically low rates of interest too. Therefore, being responsive to interest rate movements (particularly with increasing levels of inflation), the optimum balance between long-term and short-term debt will be sought for any new borrowing required to finance the Capital Programme. For example, as short-term rates are trending upwards at the time of writing, the benefit of longer-term fixed rates will begin to take precedence since they provide future certainty, diluting the risk associated with future upward interest rate movements in a complex economy.
- 4.4 Substantial flexibility will also be applied to borrowing on the approach to formation of the new Somerset Unitary Council. This is because the borrowing and investment balances and cashflow of the County and District councils, when consolidated, will require a new borrowing strategy that defines the longer-term approach. For this reason, except for HRA loan renewals and HRA debt aligned with long-term assets, such as new housing, longer-term borrowing will tend to be confined to a debt below 10-years' duration.
- 4.5 A combination of cashflow balances, cashflow movements into and out of the Council and the need for sufficient levels of liquidity, both to absorb payment commitments and to act as contingency funds to finance unforeseen emergencies, will require an ongoing level of cash and investment balances. For these reasons, it is intended that investment and cashflow balances will be retained at a level that is generally above £30million (that sum including sums on loan to external



organisations, being £5.2million, and pooled investments, being approximately £17million). More details on investments are set out in section 8 of this document, further below.

- 4.6 Putting this into context, the interest rates currently observed in the markets (early February 2022) for the Council's borrowing vary between cheaper short-term loans (currently available at around 0.5%) and long-term fixed rate loans where the future cost is more certain but higher (currently 1.5%-2.5%). By contrast, with cashflow investments envisaged to be earning between 0.0% and 0.28% (current year to February 2022), internal borrowing will be used as far as practically possible, with the added advantage that the risk of potential investment losses from bank defaults (albeit a minimal risk) is minimised with this approach.

### **Public Works Loans Board (PWLB)**

- 4.7 A common source of borrowing for local authorities is the Treasury, through the Debt Management Office, which took over the responsibilities of the previous Public Works Loans Board (although the term PWLB is still commonly used). There are several advantages to using the PWLB as a source of borrowing, such as:
- Funds can be accessed quickly – usually within five-days' notice.
  - It is relatively simple to arrange, although the application process has become more-lengthy because HM Treasury seeks to examine applying authorities' applications closely to confirm that the borrowing need is sound, affordable and is unrelated to past or future investment in property for the purposes of yield.
  - The Council does not require a credit rating, and
  - Borrowing is not linked to any specific asset, but it can provide the resources needed to meet the overall capital financing requirement.
- 4.8 To discourage borrowing for property assets primarily for yield, the government issued a revised procedure for accessing PWLB loans in November 2020. This reduced the cost of loans but also demanded a commitment from the borrowing Council's Chief Financial Officer that there would be no use of PWLB funds towards property assets primarily for yield after 26 November 2020.
- 4.9 Because SWT Council has undertaken investment in properties with the objective of generating a yield, the Council is currently unable to access new borrowing from PWLB. However, the Council's Treasury Team has observed considerable availability of funds to borrow from other Local Authorities, which is set to continue. In practical terms, this has provided a sound and affordable source of borrowing and provides a certain basis for new borrowing in the foreseeable future. The

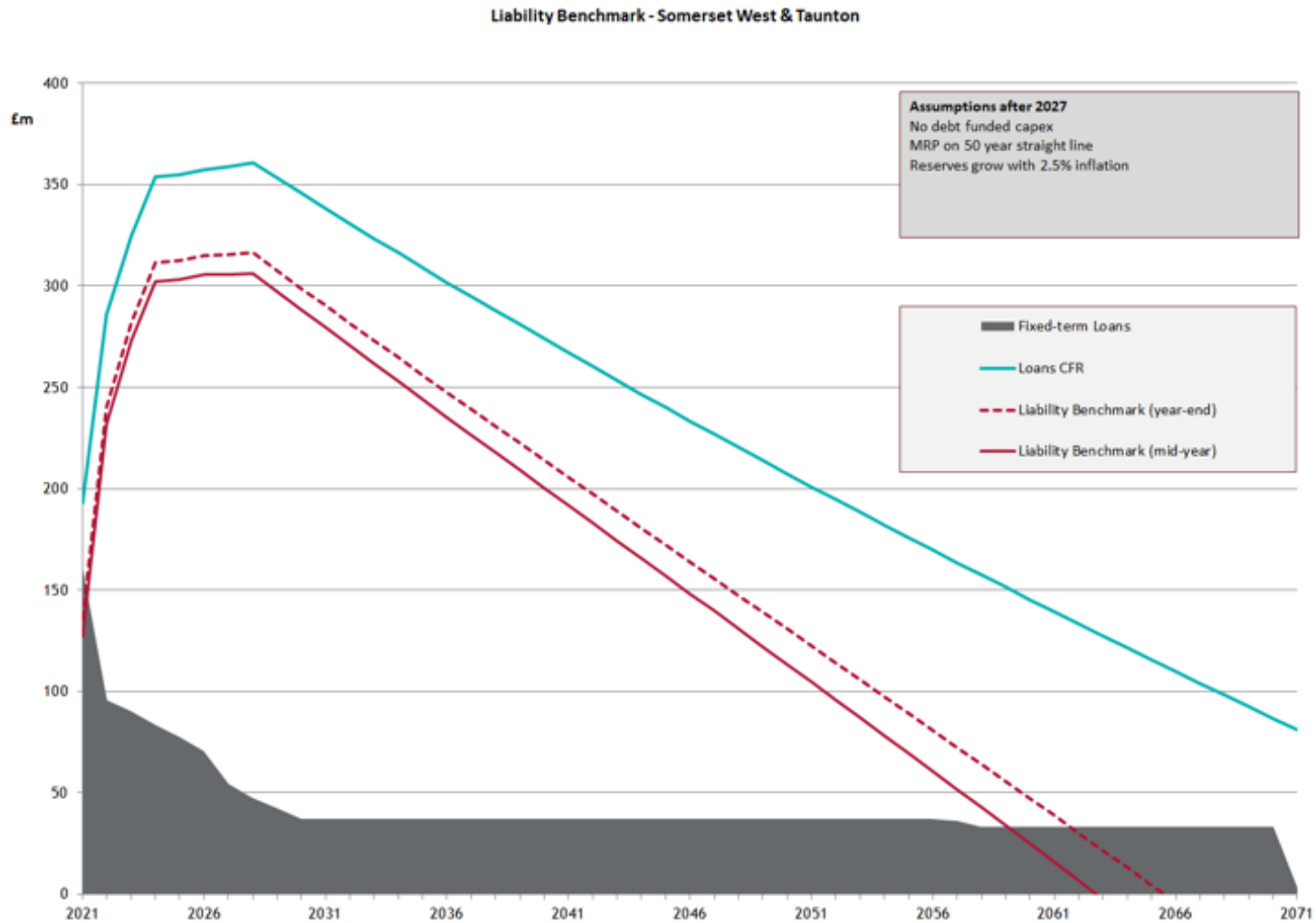
Council is also able to renew any borrowing with the PWLB that comes to maturity, and advantage will be taken of that source too. Other potential options do exist such as the Municipal Bond Agency, which provides a pool of short-term borrowing.

- 4.10 Guidance from HM Treasury indicates that PWLB may still be used to refinance historic borrowing even if the Council is actively investing in property assets primarily for yield. This is likely to be a preferable treasury option, for example regarding existing HRA loans that mature over the next 10 years that will need to be refinanced to meet the current HRA Business Plan.
- 4.11 A more-comprehensive measure is given by the Liability Benchmark. The Liability Benchmark is a measure of how well the existing loans portfolio matches the authority's planned borrowing needs. It stems from projections of the Council's balance sheet in future years. The Liability Benchmark is effectively the net borrowing requirement of a local authority plus an allowance for cashflow liquidity. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (usable reserves and cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments necessary to manage day-to-day cash flow requirements.
- 4.12 The table that follows (Table 16) assumes that cash and investment balances are kept to a minimum level of £17.0m initially, increasing to £20.0m towards the end of the four-year period of review . This benchmark is anticipated to be £217.5m in 2021/22 and is forecast to rise to a maximum of £312.5m by 2024/25.

**NOTE: TABLE 16 – Balance Sheet Summary and Forecast** – this table is not currently included because emerging changes made to the proposed revenue budgets need to be incorporated into the forecasts and estimates for the Balance Sheet and CFR. Officers are currently constructing the effect of these changes, although their outcomes are not proportionally significant.

- 4.13 Any years where actual loans are lower than the benchmark indicate a future borrowing requirement, which is seen to occur from 2021/22 onwards, and reflects new borrowing activity by the Council, primarily for Commercial Property Investments and Housing projects; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment, which was the case by the end of the in 2020/21 financial year as we took advantage of internal borrowing. Clearly, scope for internal borrowing will now drop out.

4.14 Depicting the borrowing path over a longer period of time, the Council's treasury management advisors, Arlingclose, have prepared a graphical illustration (using data as at 31 March 2021) of the borrowing position, as follows:



## 5 Borrowing In Advance of Need

- 5.1 Local authorities are not permitted to borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. However, the Prudential Code does specify that “Treasury investments may... include the investment of borrowing proceeds where it has been prudent for an organisation to borrow in advance of the need for cash, eg in order to reduce financing and interest rate risks.” The Council’s policy adopts and complies with these stipulations and it shall not borrow in advance of need, unless in the short-term in respect of near-term approved capital projects in order to ensure the adequacy of liquidity and to manage investment rate risks.

### Affordable Borrowing Limit

- 5.2 This is a particularly important indicator. 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 point 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 17	Authorised limit & Operational boundary for external debt				
	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Operational Boundary:					
Borrowing	212,000	280,000	300,000	350,000	370,000
Leases	0	0	10,000	10,000	10,000
<b>Total Operational Boundary</b>	<b>212,000</b>	<b>280,000</b>	<b>310,000</b>	<b>360,000</b>	<b>380,000</b>
Authorised limit:					
Borrowing	280,000	320,000	350,000	350,000	370,000
Leases	0	0	20,000	20,000	20,000
<b>Total Authorised limit</b>	<b>280,000</b>	<b>320,000</b>	<b>370,000</b>	<b>370,000</b>	<b>390,000</b>

- 5.3 The total borrowing limit applies to the combined borrowing requirement for the General Fund and the Housing Revenue Account. Although borrowing is managed on the basis that individual borrowing pools exist for the General Fund and Housing Revenue Account, for cash flow purposes the above limits relate to the whole-Council position.
- 5.4 Borrowing levels are expected to grow; this is regarded as affordable on the basis that the majority of the costs of debt are offset by income growth within the Council's financial strategy, either through return on investment in property, which provides a net surplus to fund services, or through investment in regeneration schemes, which may also generate income, or through service loans, which will all be anticipated to be repaid.
- 5.5 The Council currently holds £170.5million of loans (including short term) as at 31 December 2021, compared to £162.5million on 1 April 2021, as part of its strategy for funding previous years' capital programmes (Table 17). The balance sheet forecast in Table 16 shows that the Council expects to hold external borrowing of up to £204.8million in 2022/23. The Council may also borrow additional sums to pre-fund future years' requirements, providing
- i. this does not exceed the authorised limit for borrowing of £340.0million, and
  - ii. This remains within the allowable parameters of the CIPFA Prudential Code (namely up to two years prior to approved expenditure need).
- 5.6 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans, should the Council's long-term plans change, is a secondary objective; the preference is to avoid this possibility, especially in the event that an interest premium or penalty may be applied by the lender.
- 5.7 Given the significant cuts to public expenditure and in particular local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Whilst short-term interest rates have begun to follow an upward trend since mid-December 2021, they currently remain lower than long-term rates. In these conditions, it would be more cost effective in the short term to either use internal resources, or to borrow short term loans instead. However, with cashflow balances substantially reduced following the significant investments as part of the capital programme in 2020/21 and 2021/22, there is a growing need to source external borrowing. A balance will be made between long-term and short-term borrowing. In relation to short-term borrowing, the emphasis has now shifted on extending that towards the one-year period to protect against further interest rate rises forecast during 2022/23. This adds stability to the interest costs leading up to the Unitary Council formation in April 2023. Further external borrowing will take advantage of any medium-term borrowing opportunities so that the risk of interest rate volatility may be cushioned; this will apply to General Fund borrowing, and paves the way for the new Unitary Council to reshape its

borrowing strategy into future years. For HRA borrowing, advantage is envisaged to be taken of historically low long-term borrowing rates, with maturity dates more commensurate with life of the housing assets being developed.

- 5.8 Internal borrowing has been used to good effect during 2021/22, realising interest cost savings as a result. A further benefit has been to reduce overall treasury risk because levels of investments have been contained, thus eliminating exposure to investment losses that may have occurred in the event of the failure of financial institutions. The Treasury Management Strategy, in part, shapes the timing of external borrowing and the balance of external / internal borrowing, whilst money market conditions form another influencing factor alongside the Council's liquidity and cashflow position.
- 5.9 The Council (and its predecessor councils) has previously raised the majority of its long-term borrowing from the PWLB. Where it remains possible to renew existing debt through the PWLB (new loans no longer being available to SWT because of its property investments) and, if that option presents better value for money, loan renewals from PWLB will be employed.
- 5.10 The Council will also consider loans from other sources including banks, pension funds and other local authorities. Local authority to Local Authority lending has represented a particularly viable option for this Council in taking new borrowing and considerable use has been made of this market during 2021/22 with very reasonable rates of interest payable. Innovative methods of securing borrowing from other local authorities have ensured good value for money has been achieved in brokerage costs too.
- 5.11 Beyond these options, the Council will, if necessary, investigate the possibility of utilising the Municipal Bonds Agency, or issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding.
- 5.12 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).
- 5.13 Additionally, the Council may borrow further short-term loans to cover unplanned cash flow shortages.
- 5.14 The approved sources of long-term and short-term borrowing are:
- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board), but only for loan renewals
  - Any institution approved for investments (see below), including Local Authorities
  - 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

5.15 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
- Sale and leaseback

5.16 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues issue bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrowing and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Council's Audit and Governance Committee or Full Council (depending upon the timescale of meetings and needing to apply for borrowing).

5.17 **Short-term and variable rate loans:** These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

5.18 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

## 6 Treasury Investment Strategy

6.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the first six months of 2020/21 to 30th September 2021, the Council's investment balance ranged between £30.157m and £73.287m, although investment levels are anticipated to remain at the lower end of this range in the forthcoming year following extensive capital investment and application of plus repayment of government Covid grants.

- 6.2 **Objectives:** The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal to or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
- 6.3 **Negative interest rates:** The COVID-19 pandemic increased the risk of the Bank of England setting its Bank Rate at or below zero. Prior to the two recent increase increases in Base Rate (December 2021 and February 2022), this risk has passed in the short to medium term at least. In the event of negative rates, however, since investments cannot pay "negative income", negative rates will be instead be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.
- 6.4 **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to maintain current investment levels in secure and/or higher yielding asset classes during 2022/23. The majority of the Council's surplus cash is currently invested in short-term unsecured bank deposits, money market funds, whilst deposits have also previously been held with other local authorities. This diversification will represent a continuation of the strategy adopted in earlier years, with an enhanced opportunity to utilise strategic investment pooled funds as a means of adding a level of diversity and long-term value to the investment portfolio.
- 6.5 **Business Models:** Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's 'business model' for managing them. The Council aims to achieve value 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.

### Approved Counterparties

- 6.6 The Council may invest its surplus funds with any of the counterparty types in table 18, below. These deposits are subject to the cash limits indicated (per counterparty) and the time limits shown.



TABLE 18	Treasury investment counterparties and limits		
	Time limit	Counterparty limit	Sector Limit
The UK Government	50 years	Unlimited	N/A
Local authorities and other government entities	25 years	£7million	Unlimited
Secured investments	25 years	£7million	Unlimited
Banks (unsecured)	13 months	£7million	Unlimited
Building societies (unsecured)	13 months	£7million	£7million
Registered providers (unsecured)	5 years	£7million	£20million
Money market funds	N/A	£7million	Unlimited
Strategic pooled funds	N/A	£7million	Combined £18million initial investment
Real estate investment trusts	N/A	£7million	
Other investments	5 years	£5million	£7million

- 6.7 **Minimum Credit rating:** (\*) Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. 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.
- 6.8 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
- 6.9 **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral

credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

- 6.10 **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.
- 6.11 **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 tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.
- 6.12 **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 Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.
- 6.13 **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 Authority's investment objectives will be monitored regularly.
- 6.14 **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.
- 6.15 **Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

- 6.16 **Operational bank accounts:** In so far as the UK bank appointed to supply the Council with its main banking services maintains a credit rating not lower than BBB- and with assets in excess of £25billion, the aggregate level of balances held with the bank shall equate with the counterparty limit set for individual unsecured bank deposits (namely £7million). This includes both operational group balances and investment account balances, but excludes Head Office Collection accounts, merchant accounts and cash in transit.
- 6.17 In times of banking stress, and in the event that the appointed bank's credit rating falls below BBB-, the Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services supplied by its appointed bank. Whilst balances held at the appointed bank are not classed as investments, they remain subject to the risk of a bank bail-in. Nevertheless, in the event of such an eventuality, in order to provide a suitable platform for the Council to conduct its day-to-day banking transactions and receive remittances, a threshold of £1,200,000 will be applied to the daily bank balance, above which balances should not be held after concluding each day's treasury and dealing activities. This threshold will be the subject of review at least twice each year in such circumstances, to coincide with annual Treasury Management reporting to Members. At his/her discretion, the Assistant Director Finance (S151 Officer) may introduce a reduction to this threshold if circumstances in the banking sector indicate the need.
- 6.18 **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. 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
- 6.19 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.
- 6.20 **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.

6.21 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 a reduction in the level of investment income earned but will protect the principal sum invested.

**Investment Limits**

6.22 The Council’s usable revenue reserves available to cover investment losses are forecast to be £72.6million on 31 March 2022. In order that no more than 10% 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 £7million. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

6.23 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.

Investment Limits	Cash Limit
Any group of pooled funds under the same management	£21m per manager
Negotiable instruments held in a broker's nominee account	£21m per broker
Foreign Countries	£7m per country

6.24 **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.

6.25 The Council will spread its liquid cash over more than one provider (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties encountered with any one provider.

## 7 Treasury Management Indicators

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

### Security

7.2 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)	e.g. A-

### Liquidity

7.3 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	£20m

### Interest Rate Risk

7.4 The borrowing and investment strategies employed during the acquisition of commercial properties have protected the Council's position whereby internal borrowing has been adopted in preference to obtaining now borrowing from the money markets. The two primary benefits have been to minimise net interest costs for the Council in the short-term and reducing the risk of Council potential exposure to "bail-in", that being the loss of capital investment because of the recovery processes employed in the event of a financial institution's failure. With the completion of the commercial investment portfolio, cashflows has reduced and the dominating level of cashflow investments will switch to borrowing. As a result, risks aligned with movements in investment returns will substantially reduce with lower investment balances. To quantify this, we forecast

(at the time of writing) that the remaining investments held during 2022/23 would carry a combined risk of variation in capital value and interest yield of approximately +/- £132k for a 1% movement in interest rates. These investment sums, which total approximately £17million, will be held as a contingency measure for unexpected cashflow movements and emergencies. Further liquid sums will also be held to accommodate the cashflow movements throughout the year; these attract a very low yield, so present negligible levels of interest rate volatility. Meanwhile, the Council's investment strategy and treasury operations do focus on preserving security, liquidity and yield as a basis for risk limitation.

### **Maturity Structure of Borrowing**

- 7.5 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:

<b>Refinancing Rate Risk Indicator</b>	<b>Upper Limit</b>	<b>Lower Limit</b>
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

### **Principal Sums Invested For Periods Longer Than a Year**

- 7.6 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:

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

## 8 Related Matters

- 8.1 **Financial Derivatives:** Local councils 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).
- 8.2 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.
- 8.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
- 8.4 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.
- 8.5 **Housing Revenue Account:** On 1 April 2012, the Council's predecessor (TDBC) notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. The General Fund pool will be further divided between mainstream borrowing and borrowing for commercial investments. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.
- 8.6 **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 Assistant Director Finance (S151 Officer) believes this to be the most appropriate status.

## **9 Capacity, Knowledge and Skills**

- 9.1 Officers involved in making decisions on borrowing and investment processes are governed by internal procedures and processes and external statutory guidance in the form of the CIPFA Treasury Management Code, the CIPFA Prudential Code and HM Treasury Investment guidance. Internally limits are set in the annual Treasury Management Strategy Statement and the overriding Treasury Management Practices. The Council team dealing with investment assessments and management are professionally qualified and experienced in their field of property, finance and legal work, with access to training as required. Whilst internal skills are commensurate with the authority's risk appetite and activities, specialist advice will also be obtained for complex and non-traditional issues, as required.
- 9.2 Training for officers is encouraged and actively subscribed to. Elected Members also benefit from targeted training and updates on Treasury Management matters, economic and market news and on how to perform their functions in decision-making, scrutiny and challenge. The Council uses a combination of internal expertise and external specialists to provide training, advice and information.
- 9.3 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Assistant Director Finance (s151 Officer) is a qualified accountant with many years' relevant experience. There are several other professionally qualified Finance Business Partners and Specialists within the Council's Finance Team, and the Council pays towards staff to study towards relevant qualifications including AAT and CCAB/CIMA. All officers involved in the treasury and investment management function have access to relevant technical guidance and training events to enable them to acquire and maintain the appropriate level of expertise, knowledge and skills to undertake their duties and responsibilities.
- 9.4 The Council also employs qualified property specialists / surveyors to manage land and property assets, and to contribute to key asset decisions.
- 9.5 Legal specialist advice is provided to the Council through the SHAPE legal partnership.
- 9.6 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants who are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and



various property consultants as required. This cost-effective approach ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

- 9.7 Those charged with governance (Members of the Audit and Governance Committee and the Executive) recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively. The Section 151 Officer will ensure that elected Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs, responsibilities and understanding of sometimes complex issues.

## 10 Financial Implications

- 10.1 The budget for treasury investment income and debt interest in 2022/23 is summarised as follows:

TABLE 19	Interest income and costs		
	2022/23		
	Forecast Investment Income	Forecast Interest cost	Forecast Net income or cost
	£'000	£'000	£'000
General Fund	-714.5	948.2	233.7
HRA	-82.8	2,883.0	2,800.2
<b>Total</b>	<b>-797.3</b>	<b>3,831.2</b>	<b>3,033.9</b>

- 10.2 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 Management Team and the Executive.

## 11 Other Options Considered

11.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Assistant Director Finance (S151 Officer), having consulted the Portfolio Holder for Corporate Resources, 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

## Sources of Capital Finance other than Borrowing/ Debt

The Capital Strategy identifies the main sources of capital financing. Whilst borrowing is used once all other allocated sources have been applied, those other sources comprise the following options.

### 1. Grants and Contributions

- 1.1. The Council will seek to access external funding towards its capital investment plans where funds are available and our capital schemes are within scope of such grant funding conditions. Grants may include Government schemes, two examples of which have in previous years included the Housing Infrastructure Fund and the Future High Streets Fund. We also receive contributions from other bodies such as developers in the form of S106 contributions, and Community Infrastructure Levy paid by local developments to support local infrastructure (see below). It is often the case that the Council will need to put some of its own resources towards a scheme so that it may attract the external funding. This can be effective in leveraging in funds to enable larger infrastructure investments to progress and where the Council's own resources cannot adequately finance the costs.
- 1.2. The balance of capital grants unapplied held by SWT on 31 March 2021 was £14.659m. The General Fund 2022/23 Budget report includes financing from capital grants amounting to £24.870m (excluding Community Infrastructure Levy and s106 contributions) towards the current approved Capital Programme covering 2022/23 to 2024/25. Grant bids are usually a competitive process therefore expenditure is usually only built into the approved capital programme once the funding has been confirmed.

### 2. Section 106 Contributions (s106)

- 2.1. S106 contributions are paid across to the Council by other bodies, mainly including developers, and are made under planning agreements towards certain obligations. Contributions that related to district council services within SWT are paid to the Council. There are usually restrictions on the nature of costs that the funds can be used for, such as public art, play areas and equipment and affordable housing provision. S106 contributions can be used to fund both revenue and capital costs and are therefore allocated to capital and revenue budgets accordingly.
- 2.2. Under the planning agreement for the development of Hinkley Point C nuclear power station, significant mitigation funds have been paid by EDF to the Council as the planning authority. These s106 contributions are used to contribute to enhanced service costs and may also be used for capital projects.

2.3. Decisions regarding the allocation of funds may be taken under thresholds determined within the Council Financial Procedure Rules. The allocation of funds to specific projects funded by the Hinkley Point C s106 contribution are considered by the Hinkley Point Planning Obligations Board, who will make recommendations to the Executive for schemes up to £250k, and by Full Council for other larger sums.

### **3. Community Infrastructure Levy (CIL)**

3.1. The Council operates an approved CIL policy, with the levy payable on development in certain areas within the District. CIL is recognised as capital income and therefore provides resources to contribute to eligible infrastructure investment such as transport and roads, education, town centre regeneration and flood alleviation schemes. 15% (or 25% with an adopted Neighbourhood Plan) of CIL income is passed to town or parish councils, and 5% is allocated to fund administration costs.

3.2. The Policy is approved by Council and implemented by Officers. Council determines the allocation of CIL income to investment themes as part of the annual capital programme approval process.

### **4. Capital Receipts from Asset Disposals**

4.1. When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts income.

4.2. The Council estimates it will receive £4.96million of capital receipts in the coming financial year, 2022/23; for the period 2021/22 to 2024/25, anticipated capital receipts are set out in Table 5, overleaf:

TABLE 20	Capital receipts income estimates				
	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
General Fund: Asset Disposals	1,085	675	1,295	0	0
<b>General Fund Total</b>	<b>1,085</b>	<b>675</b>	<b>1,295</b>	<b>0</b>	<b>0</b>
HRA: Right to buy sales	2,824	1,002	3,319	3,670	2,535
Other	46	589	350	350	350
<b>HRA Total</b>	<b>2,870</b>	<b>1,591</b>	<b>3,669</b>	<b>4,020</b>	<b>2,885</b>
<b>Total Receipts</b>	<b>3,955</b>	<b>2,266</b>	<b>4,964</b>	<b>4,020</b>	<b>2,885</b>

4.3. The generation of capital receipts will be driven in part by the Asset Management Strategy, where the Council proposes a programme of proactive disposal of assets that are not performing to an acceptable level or are identified as surplus to requirements. Further decisions for the disposal of assets will either occur as a result of ongoing assessment of how properties are performing in support of services and as a result of demand for the purchase of Right To Buy council houses.

## 5. Revenue Contributions to Capital

5.1. The Council proposes to support the financing of part of the Capital Programme through direct contributions of revenue funding. Annual contributions are determined through the setting of Capital Programme priorities and affordability within the Revenue Budget. Revenue contributions are predominantly directed towards recurring annual investments, with the advantage of reducing debt financing costs. Revenue Contributions are included in the Revenue MTFP and the Capital Programme financing plan, as summarised in Table 2 above.

5.2. Within the budget considerations for 2022/23, bids adding to £1.592million have been added to the General Fund Capital Programme for the financial year. £1.364million of the additional expenditure is expected to be financed directly by an in-year revenue contribution, the balance being met from s106 contributions. The intention of this strategy is to contain the Council's borrowing requirement, which will benefit future years' budgets by reducing the cost of financing borrowing (debt repayments and interest).

5.3. The Housing Revenue Account does not currently have capacity to utilise revenue resources to finance capital expenditure although, given the low interest rates currently applied to long-term borrowing, cost benefits are anticipated into the longer-term by taking advantage of this interest rate opportunity.

## Regeneration Schemes

The Council has a vision for a Garden Town. The Garden Town is symbolic of Taunton’s ambitions to be flourishing, distinctive, and healthy. In developing its plans for the town, involving the communities is at the heart of the Council’s approach. This will help shape the approach to creating a healthy, vibrant and attractive place to live and work. This vision is realised through a range of forward-thinking regeneration schemes.

Some of the key schemes under development by the Council are briefly described below. Their progress is regularly reported to the Senior Management Team and to Members of the Council.

- **Coal Orchard Re-Development**

The Coal Orchard is a mixed use commercial and residential scheme based on a brown field site with river frontage in the heart of Taunton town centre, immediately adjacent to the Brewhouse Theatre and former Coal Orchard car park. All the land for this development is owned by the Council. The overall project is largely complete, with remaining works programmed for completion during 2022/23. Development of this important regeneration site has been progressed by the Council because planning restrictions may have prevented any commercial entity making progress. The outcomes will ensure building density and height is curtailed whilst ensuring a significant public realm contribution is achieved to link up existing pedestrian and cycle ways, opening up the river frontage and creating a new sense of place.

- **Firepool Re-Development**

As a part of the wider 2040 Garden Town Vision, the approved for Firepool Development and Infrastructure exceeds £2.2million. The Masterplan includes mixed residential, retail and office accommodation, whilst blending in a landmark boulevard with water gardens, an amphitheatre and dedicated cycle and pedestrian access in a high-quality environment. It also provides a highly sustainable solution that will be as close to zero carbon as practicable. The intention is that this supports the Town Centre by encouraging new and longer visits to the Town. It is a regeneration site that may also offer income earning opportunities. Whilst planning permission has been delayed due to the county-wide Phosphates issues, this has fortuitously allowed SWT to use a part of the site to accommodate a vaccination centre, successfully supporting the Somerset COVID vaccination programme.

- **Social Housing Development**

The HRA has four pre-approved social housing development schemes (North Taunton Regeneration Project, Seaward Way, Oxford Inn and Zero Carbon Pilot) supported by a government social housing financing scheme and its “1-4-1 Agreement”.

The current approved budget is £100m to be spent over the next 10 years. Under the programme 347 new low carbon affordable homes will be delivered between 2023 and 2031. All homes will provide significantly lower fuel bills to customers than with other similar sized homes.

- **North Taunton Woolaway Project**

With this major redevelopment scheme, the Council plans to transform the North Taunton Woolaway Project area and build quality, energy efficient new homes where people will want to live. Not only will the regeneration of North Taunton Woolaway bring more new homes, it aims to support growth within the local economy, offering health, environmental and employment opportunities. The project offers the Council the opportunity to maximise the social investment for the benefit of the community now and in the future. Comprising several building phases, including one refurbishment phase, the first home will be let in 2022.

- **Seaward Way, Minehead**

This is a zero carbon affordable housing scheme. The council has a contractor appointed who is currently working under a pre contract services agreement (PCSA). The PCSA will allow the council and contractor to agree a price for the scheme and move into start on site (estimated January 2022). The scheme and tenants will benefit from a high standard of insulation, photovoltaic panels, air source heat pumps and battery storage. The scheme is complex, typically because of issues involving flooding and drainage that make the scheme relatively expensive, particularly the common infrastructure necessary to mitigate these issues, and the engineering necessary in the ground to raise levels and provide retaining structures to the residential development where required. These challenges resulted in a lengthy planning approval process for the project.

Common to all development projects in the county of Somerset, there is a common risk for all regeneration activity relating to the actual and potential presence of phosphates in the ground. The Environment Agency has identified that current amounts indicate contamination and there needs to be mitigation going forward. The nature of the problem and mitigation needed are likely to cause elapsed time beyond the originally anticipated timetables, plus added costs. This issue forms a major part of consideration for all new development projects, each one taken on a case-by-case basis.



## External Context

The Council's external Treasury Management advisors, Arlingclose, provide a range of services to support the Treasury Management function. This includes specialist advice, economic and market data, guidance, technical material and training. They are also instrumental in providing commentary to support the Treasury Management Strategy, based on their own expert views. Naturally, global and domestic events, as well as the release of economic data, all influence markets and views will change and need updating. The views set out below are those of Arlingclose as at December 2021.

**Economic Background:** The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Authority's treasury management strategy for 2022/23.

The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme.

Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity the new variant presents, the Bank revised down its estimates for Q4 GDP growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with CPI likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4% compared to 4.5% forecast previously, however notes that Omicron could weaken the demand for labour.

UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% y/y from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%.

In October 2021, the headline 3-month average annual growth rate for wages were 4.9% for total pay and 4.3% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 1.7% while regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, where there has been a fall in the number and proportion of lower paid jobs.

Gross domestic product (GDP) grew by 1.3% in the third calendar quarter of 2021 according to the initial estimate, compared to a gain of 5.5% q/q in the previous quarter, with the annual rate slowing to 6.6% from 23.6%. The Q3 gain was modestly below the consensus forecast of a 1.5% q/q rise. During the quarter activity measures were boosted by sectors that reopened following pandemic restrictions, suggesting that wider spending was flat. Looking ahead, while monthly GDP readings suggest there had been some increase in momentum in the latter part of Q3, Q4 growth is expected to be soft.

GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.9% year-on-year in November, the fifth successive month of inflation. Core CPI inflation was 2.6% y/y in November, the fourth month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at an annualised rate of 2.1% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its December 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme earlier than previously stated and signalled they are in favour of tightening interest rates at a faster pace in 2022, with three 0.25% movements now expected.

**Credit outlook:** Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. However, the generally improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

**Interest rate forecast:** The Council's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced.

Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.65%, 0.90%, and 1.15% respectively. The risks around for short and medium-term yields are initially to the upside but shifts lower later, while for long-term yields the risk is to the upside. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

To complement the above economic background, Arlingclose has provided the following supplementary information:

### **Arlingclose Economic & Interest Rate Forecast – December 2021**

#### **Underlying assumptions:**

- The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.
- Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.
- The CPI inflation rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.
- These factors prompted the MPC to raise Bank Rate to 0.25% at the December meeting. Short term interest rate expectations remain elevated.
- The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – Q4 and Q1 activity could be weak at best.

- Longer-term government bond yields remain relatively low despite the more hawkish signals from the BoE and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.
- The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

**Forecast:**

- The MPC will want to build on the strong message it delivered this month by tightening policy despite Omicron uncertainty.
- Arlingclose therefore expects Bank Rate to rise to 0.50% in Q1 2022, but then remain there. Risks to the forecast are initially weighted to the upside, however becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.
- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.
- Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.
- The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
<b>Official Bank Rate</b>													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
<b>3-month money market rate</b>													
Upside risk	0.05	0.05	0.25	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.55	0.55	0.60	0.60	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
<b>5yr gilt yield</b>													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.50	0.50	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.75
Downside risk	-0.10	-0.20	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40
<b>10yr gilt yield</b>													
Upside risk	0.10	0.25	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.90	0.90	0.95	0.95
Downside risk	-0.10	-0.25	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
<b>20yr gilt yield</b>													
Upside risk	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.10	1.10	1.10	1.10	1.15	1.15	1.15	1.20	1.20	1.20	1.20
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45
<b>50yr gilt yield</b>													
Upside risk	0.25	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.05	1.10	1.10	1.15	1.15
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

# Minimum Revenue Provision (MRP) Statement

## 1 Policy Statement

- 1.1 Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the HM Treasury Guidance) most recently issued in 2018.
- 1.2 The broad aim of the Treasury Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
- 1.3 The Treasury Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.
- 1.4 The predecessor Councils (TDBC and WSC) both adopted an MRP calculation method which spread the total Capital Financing Requirement over the weighted average useful life of each Council's asset base on a straight line basis. The calculation took into consideration the materiality of each asset and its recorded remaining useful life. The weighted average was then applied to the class of asset then applied across the whole fixed asset base. That gave a robust basis to support the asset life applied to MRP calculations and be appropriate for audit scrutiny.
- 1.5 Following the creation of the Somerset West and Taunton Council on 1 April 2019, it was proposed to apply the same methodology for the opening balance General Fund CFR using the combined weighted average useful life of the consolidated asset base transferred to SWTC on 1 April. This is considered a prudent approach to charging for the legacy CFR transferred to SWTC from its predecessor Councils.
- 1.6 For capital expenditure incurred since 1 April 2021, the proposed methods for calculating MRP are as follows:

- For Property Plant and Equipment (PPE) assets, MRP will be calculated over the weighted average useful life of each Council's asset base at the start of each financial year on a straight line basis.
- For assets acquired by leases or the Private Finance, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- For capital grants and contributions to third parties MRP will be calculated on a straight-line basis over 25 years from the 1 April following the year in which the grants or contributions are incurred.
- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from the principal repayments to reduce the capital financing requirement in respect of those loans. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the Treasury Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.
- For Investment Properties, MRP will be calculated over 50 years, or over the professionally assessed useful life of the asset if lower than 50 years. MRP may be calculated using either annuity or straight-line basis as determined by the Assistant Director Finance (S151 Officer).

1.7 MRP is charged based on the opening balance CFR carried forward from the previous year. Therefore Capital expenditure incurred during 2022/23 will not be subject to a MRP charge until 2023/24.

## **2 Capital Financing Requirement and MRP Estimates**

2.1 Based on the Council's latest estimate of its capital financing requirement (CFR) on 31 March 2022, the budget estimate for MRP has been set as follows:

## **3 MRP Overpayments**

3.1 **Overpayments:** In earlier years, the Council has made no voluntary overpayments of MRP that are available to reduce the revenue charges in later years. It is not planned to make an overpayment in 2021/22 or 2022/23 for the General Fund, however the Assistant Director Finance (S151 Officer) may determine such an overpayment during the year and report this through the Outturn Report. Meanwhile, the MRP for 2022/23 is forecast as follows:

<b>Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP)</b>	<b>31-Mar-22 CFR (Revised) £000</b>	<b>2022/23 MRP Estimate £000</b>
General Fund	151,089	2,983

**NOTE to Table:** This table does not reflect the recommendation to be made to Full Council to apply £2million General Reserves to fund capital expenditure in 2021/22 and a proposal to apply a Voluntary Overprovision (VRP) of £1m. The impact of this would be to reduce the “CFR (Revised)” by £2m and to add £1m Voluntary Overpayment in addition to the MRP Estimate of £2.983m. These adjustments will be incorporated at the point of Full Council meeting on 24 February.

3.2 In 2022/23, a voluntary overpayment will be applied from the HRA, as shown below:

<b>Capital Financing Requirement (CFR) and Voluntary Overpayments</b>	<b>31-Mar-22 CFR (Revised) £000</b>	<b>2022/23 Voluntary Over- payments Estimate £000</b>
Housing Revenue Account	112,038	1,021



# **Somerset West and Taunton Council**

## **Audit and Governance Committee 14 March 2022**

### **Audit and Governance Committee Chair's Annual Report 2021/22**

**Report Author: Cllr Lee Baker, Chair of the Audit and Governance Committee**

#### **1. Introduction**

To provide Members of the Council with details of the work carried out by the Audit and Governance Committee (AGC) during the year ended 31 March 2022. The report also details how the AGC has fulfilled its terms of reference during this period.

This year, following a review and report from the Council Governance Arrangements Working Group it was resolved by Full Council at its Annual Council meeting on 4 May 2021 that the Audit Governance and Standards Committee be split into two separate committees. The two committees subsequently formed were the Audit and Governance Committee and the Standards Committee. The last meeting of the Audit Governance and Standards Committee was held on 12 April 2021. The first meeting of the Audit and Governance Committee, at which I was elected as Chair of the committee having previously been Chair of the Audit Governance and Standards, was held on 14 June 2021.

#### **2. Background**

The AGC function is to provide assurance of the adequacy of the risk management framework and associated control environment; provide scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weaknesses in the control environment and oversees the financial reporting processes. The Committee's specific powers are set out the Terms of Reference in the Constitution.

Audit Committees are a key component of a robust Corporate Governance framework and provide an important source of assurance about an organisation's arrangements and practices for managing risks, maintaining an effective control environment, together with reporting on financial and other performance.

In 2018, The Chartered Institute of Public Finance and Accountancy (CIPFA) issued guidance to local authorities to help ensure that AGC's operate effectively. The AGC has adopted the procedures set out in this guidance as best practice. The guidance also recommends that the AGC's report annually on how they have discharged their duties.

#### **3. Work Undertaken and Findings**

The AGC have met on five occasions in the year between April 2021 and the date of this report (2 March 2022) and is due to meet twice more before the

end of the financial year, on 14 March 2022 and 22 March 2022. The Audit Governance and Standards Committee, before it was dissolved, met once in the same period. The final meeting of the Audit Governance and Standards Committee was conducted virtually via 'Zoom', which is far from easy and never my preferred option. All five meetings of the AGC this year have been face to face meetings, which I enjoy more. There are currently five more scheduled AGC meetings for the remainder of the calendar year 2022, in March, June, September and December 2022. Looking forward, it is sad to note that the coming year will be the last year that the SWT Audit and Governance Committee will sit before handing over to the Audit and Governance function of the new Unitary Somerset Council.

It has, overall, been a busy and informative year from both a financial and a governance perspective. During this period, the AGC has assessed the adequacy and effectiveness of the Council's risk management controls and monitoring arrangements, together with the associated counter fraud systems. The AGC has reviewed various governance items including the Council's Local Code of Corporate Governance, Risk and Opportunity Management Strategy, 2020-21 Annual Governance Statement and proposed changes to the Council's constitution. We have begun to regularly receive updates on health and safety as well as reviewed Landlord Compliance, as a result of concerns raised by Internal Audit reports. In addition, the committee has monitored that audit recommendations are being actioned by officers, with regular progress reports coming before the AGC. Covid has continued to impact the Council, the auditors and the work of the committee, however, I hope that going forward into next year the impact of the pandemic on our work will lessen.

In September the AGC reviewed and approved the 2020-21 Annual Governance Statement and Statement of Accounts for SWT which were compiled and approved before the required deadline, one of only 9% of councils to have made this deadline which is a feat we can all be very proud of. Both internal auditors (SWAP), and Grant Thornton External Auditors along with I as Chair and the rest of the AGC, have all thoroughly discussed the audit process and all parties are very pleased with progress, despite the obstacles of COVID. A great deal of scrutiny and challenge was put into these topics by the committee, but I am overall very pleased with the resulting outcome. All parties mentioned are satisfied with progress in this regard and deem it a very good result and a reasonably healthy and assured future for moving to unitary with no major High-Risk issues to be highlighted at this stage.

I want to thank all the excellent members of the Audit and Governance Committee for their support throughout a challenging year, particularly the Vice-Chair Ed Firmin. I want to thank Paul Fitzgerald, John Dyson and all the finance team. I also want to thank our external auditors Grant Thornton and our internal auditors SWAP, special thanks to Jackson Murray of Grant Thornton and Alastair Woodland of SWAP for joining us at our meetings. I would like to thank the Governance Team for their continued support and our

new clerk Jess Kemmish who has kept me in tow (and believe me that's not easy!) and I very much look forward to working with the team next year.

#### **4. Financial Statements**

The 2020-21 Annual Governance Statement and Statement of Accounts for the Authority were, as I have mentioned above, produced on time. The Council's Statement of Accounts received an Auditor's unqualified opinion and in a new Auditor's Annual Report we have received assurance over value for money arrangements with only one key recommendation related to borrowing risk. The management response provided an extensive overview of our risk management arrangements in this regard, but we will keep the action plan under review.

#### **5. External Audit**

During 2021, Grant Thornton's audit plan updates were received regularly throughout the year, including:

- Audit Plan for 2020/21 Accounts
- Progress reports and Sector Updates
- Risk Assessment 2020/21 - ISA240 Inquiries of Management
- Audit Findings Report 2020/21
- Assessment of Going Concern for 2020/21 Accounts
- External Auditors Annual Report 2020/21

The 2022/23 external audit plan is scheduled to be considered by the Committee in March 2022.

#### **6. Internal Audit**

This function is provided by SWAP. It appears to be very effective. During the year, the AGC has received and considered various items highlighted by SWAP, together with SWAP's schedule of work to be performed over the financial year, including:

- SWAP Internal Audit – Outturn Report 2020/21
- SWAP Internal Audit – Annual Opinion Report 2020/21
- Internal Audit Plan progress updates (quarterly)
- Baseline Assessment of Maturity in relation to Fraud

I have not listed or catalogued all outstanding risk issues that are under discussions at the AGC, however, members can access the relevant information in the appropriate AGC minutes and agendas in Mod.Gov and either I, the AGC, Governance or the SWT Finance Team will be more than happy to answer any member or public queries if they arise. Suffice to say all relevant parties are in agreement that the SWTs governance process and audit procedures are generally fit for purpose going forward.

#### **7. Summary**

This year has still posed many challenges for the Audit and Governance Committee however, now that we have moved past the Transformation Period and the pandemic is having less of an impact on everyday life, I feel the business of the committee has settled into a good rhythm. I hope that this will continue into next year so that we may leave the dealings of the committee in good stead for the new unitary authority.

I am satisfied that SWT's Governance and Audit processes continue to remain good and fit for purpose and am reassured that this opinion is shared by the Internal and External Audit functions.

In my second year as Chair of the Committee I hope I have managed to interject some humour to the proceedings whilst we effectively conducted the business of the committee.

Councillor Lee Baker  
**Chair, Audit and Governance Committee**